METGASCO

2017 Annual Report

METGASCO

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EXCEUTIVE CHAIRMAN'S LETTER

I am pleased to present to you the 2017 Annual Report for Metgasco Ltd ("Metgasco" and the "Company"). The 2017 financial year (**FY2017**) was a year of further change for the Company, the most significant of which was the Company's investment into Byron Energy Limited ("Byron") (ASX:BYE).

Queensland Strategy - Cooper Basin PRL 2015-5-16 and PRL 2015-5-19

During the year we were awarded two exploration blocks in the Cooper Basin and we have been working through the necessary steps towards being granted those permits.

Applications for Environmental Authority licences were lodged and negotiations with the traditional land owners, the Wongkumara People, were commenced. The Board is confident that these negotiations will be concluded shortly. This will mark an important milestone in securing the permits for the exploration of both promising blocks.

Continuing with the Queensland strategy, the Company prepared and submitted a competitive tender for a hotly contested release by the Queensland Government. While we were not able to secure that release, we did receive very valuable feedback from the Queensland Government and we will continue to monitor the market for suitable new releases.

Byron Energy Limited

As detailed in the Executive Chairman's Letter set out in last's year's Annual Report, on 9 June 2016, Metgasco announced the execution of a binding Heads of Agreement with Byron in relation to the provision of a secured A$8.0m development funding facility and the acquisition of staged investment rights. The structure of the arrangement provided for strong short term returns on the cash deployed, attractive medium term farm-in rights, as well as long term opportunities to participate in future successes of Byron.

The highlights of the Byron investment are:

a) Metgasco has an indirect exposure over Byron's South Marsh Island Block 71 ("SM 71") oil project in the Gulf of Mexico, via a senior secured loan to Byron, for the purposes of development funding of the SM 71 oil 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 littoral Bivouac Peak Louisiana, USA oil and gas project (**Bivouac Peak**), 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 (in the event of exercise) 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 and executed the Participation Agreement on 22 September 2017. This project has the potential, on a success case, to be value transformative to Metgasco;

d) in consideration for Metgasco providing the Funding Facility, Byron 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) on 23 January 2017, the Company announced that it had subscribed to and Byron has issued to Metgasco an $8.0m Convertible Note ("Note"), which is repayable over the term to 21 July 2019. The Note is secured by a General Deed of Security and Priority over Byron's assets, a Negative Pledge from Byron and a registered interest over Byron's share of the SM 70/71 leases;

f) on 14 August 2017, Metgasco announced it had elected to exercise its priority right to take up a 10% participation (A$2.6m for 37.9m Byron shares) in a share placement announced by Byron, which was approved by Byron shareholders at a meeting held on 18 September 2017. Following settlement on 27 September 2017, Metgasco holds a 5.77% relevant interest in Byron; and

g) Metgasco and Byron have also agreed an additional option for Metgasco to farm-in to one of the new opportunities Byron recently acquired in the Gulf of Mexico.

I am very pleased how the relationship with Byron Energy has developed. The multiple forms our investments in Byron have taken, provides Metgasco with attractive and diversified participation in Byron and the promising assets it holds in the Gulf of Mexico.

Board Changes

In September 2016, we welcomed two new non-executive directors to the Board:

- 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; and
- 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 29 September 2016.

On 1 August 2017, Metgasco announced the resignation of non-executive director, Terry White. Terry was a very dedicated independent director. His industry experience and his technical analysis has been very valuable to the Company and on behalf of the Board, I thank Terry for his very valuable contribution to the Board and wish him well in his other activities.

Capital Management

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, an amount of $0.025 per share ("Return of Capital"). The Return of Capital was approved by shareholders at a General Meeting on 12 September 2016. On 21 December 2016, the ATO published its final Class Ruling (CR 2016/93) in relation to the Company's Return of Capital which was completed on 16 November 2016.

New Business

During FY2017, 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.

The opportunities reviewed range from potential farm-in into individual assets and multi asset deals to long term corporate partnerships and strategic equity investments.

The Board has been and continues to scan a broad range of opportunities. If and when promising prospects are identified the company undertakes detailed due diligence to ensure that the particular prospect will provide the adequate balance between risk and return.

The Board continues its intensive search and review of opportunities in the oil and gas sector and holds a very positive outlook for the Company.

As announced on 26 September 2017, the Company was able to farm-in to the Frey-1 exploration well within PEL93 in the Cooper Basin.

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
27 September 2017

DIRECTORS' REPORT

Your Directors present their report on Metgasco Ltd ("Metgasco" or the "Group") and the entities it controlled for the year ended 30 June 2017.

Principal Activities

The principal activities of the Group during the financial year were oil and gas exploration, appraisal, 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 commencement of the financial year saw Metgasco finalise its financial investment in Byron Energy Ltd's ("Byron") (ASX:BYE) South Marsh Island 71 Project, pursuant to which A$8m of convertible notes attracting an interest rate of 12% and a line fee of 2% were issued to Byron. Metgasco was in turn issued 10 million options over Byron securities with a term of three years and a strike of $0.25, along with various other rights including pre-emptive capital raising participation rights, as outlined in Metgasco's announcement "Execution of Convertible Note and Security Deeds" dated 22 July 2016. In August 2016, Metgasco was offered, but declined to participate, in Byron's equity raising at $0.13 per share. Subsequent to the record date, Metgasco has elected to take up its participation right in relation to Byron's recent $0.07 per share raising in the amount of A$2,652,790.

Byron fully drew down on the Metgasco Funding Facility on 20 January 2017 and issued Metgasco with an A$8.0m Convertible Note. The Convertible Note is secured by a General Deed of Security and Priority (over Byron's assets), a Negative Pledge from Byron and a registered interest over Byron's share of SM 70 and 71 leases.

In July 2016, the Company elected to exercise its option to farm-in to Byron's Bivouac Peak Littoral Louisiana oil & gas project. In September 2016, the Company announced that it had executed the Bivouac Peak Participation Agreement, which formalised the Company's position in the project. As at 30 June 2017, the Company held a 10% working interest (7.45% Net Revenue Interest) in the Bivouac Peak project which is expected to cost approximately US$1.3m (A$1.6m on current exchange rates). Metgasco has been advised by the Operator, Byron Energy, that approval processes are ongoing.

Metgasco is required under Australian Accounting Standards to value its options as at the date of grant (21 July 2016) and at balance date (30 June 2017). At 21 July 2016, the options were valued at $879,900 and at 30 June 2017, the options were valued at $267,400, the main drivers under the relevant Black-Scholes based calculation being, the Byron share price and volatility. Accordingly, under Australian Accounting Standards, a *non-cash* loss on the Company's Statement of Profit and & Loss and Other Comprehensive Income of $612,500 has been recorded. While it may seem counter-intuitive to recognise a loss given Metgasco started the financial year with no option asset and ended the financial year with an option asset valued at $267,400 (in addition to the face value of its Convertible Note), the recognition is in accordance with Australian Accounting Standards.

Metgasco continues to view its options over Byron securities to hold substantial intrinsic value. The carrying value of Metgasco's A$8m Convertible Note is recorded as $7,189,999. This a result of the facility being recorded using the effective interest rate method in accordance with Accounting Standards. The loan face value of $8 million is effectively reduced by the facility fee of $200,000, recognised as a deferred gain at inception and allocated against the asset, along with the fair value of the 10m options granted to the Company. Both of these amounts will be recognised in revenue over the life of the loan. As at 30 June 2017, the loan receivable gross balance remains $8 million. The secured Convertible Note and options have been independently valued in preparation of the financial report. The Metgasco Board has seen no reason to consider impairment of the convertible note asset and Byron remains in full compliance with all of its conditions.

On the 28 July 2016, Metgasco announced that it considered a partial capital return of $0.025 per share to be in the best interest of shareholders and that it intended to convene a meeting to seek shareholder approval for this. On 12 September 2016, shareholders approved the Return of Capital in an amount totalling $9,961,649. As advised to the market on 27 September 2016, the Return of Capital was dependent on the receipt of an appropriate Class Ruling from the ATO. The Company received the Class Ruling from the ATO on 7 November 2016 confirming that the Return of Capital would not be deemed to be a dividend in the hands of shareholders and the Return of Capital payments to shareholders made on 16 November 2016.

On 22 December 2016, the Company was successful in its bid for tender areas PLR 2015-5-16 and PLR 2015-5-19 which were offered under a competitive tender by the Queensland Government in the Cooper/Eromanga Basins. Metgasco's move into the Cooper Basin secures high quality exploration opportunities proximal to delivery infrastructure in mature producing basins. The permits will be granted after Native Title agreements and other environmental approvals have been finalised. Metgasco has engaged expert consultants to assist in timely and effective engagement with the Wongkumara community as well as with the application for an Environmental Authority licence.

In April 2017, Metgasco prepared and submitted a formal tender for an opportunity offered by an Australian State Government. The evaluation process is underway and the tender conditions prevent the company from disclosing any further details at this stage.

During the year, there was a significant change in the Company's top 20 shareholders with a new shareholder, M&A Advisory Pty Ltd, acquiring in late August 2016, a relevant interest of circa 19.2% in the Company's issued capital. M&A Advisory Pty Ltd nominated Andrew Purcell as a director and following the Company's director appointment process, as set out in the Company's Corporate Governance Statement, Mr Purcell was appointed as a director on 26 September 2016.

Another significant shareholder, Keybridge Capital Limited (ASX:KBC), with a relevant interest of circa 10.54% in the Company's issued capital, nominated John Patton as a director and following the Company's director appointment process, Mr Patton was appointed as a director on 19 September 2016.

Metgasco continued with its strategy of reviewing a number of opportunities in the Oil & Gas sector and each opportunity has been reviewed for its potential to deliver short term reliable returns, long term growth opportunities and an appropriate risk / reward balance.

During the last quarter of the year, the Board focused intensely on a material transaction which unfortunately could not be brought to a close. The Board remains confident of closing a favourable transaction (or transactions) although the timing of this is unable to be provided definitively as commercial-in-confidence negotiations continue.

Certified Reserves and Resources

The company has no certified reserves or resources at present.

Significant Changes in the State of Affairs

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

Likely Developments and Expected Results

Metgasco 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 loss after tax of the Group for the year ended 30 June 2017, which includes a non-cash Loss on Fair Value relating to options issued by BYE of $612,500, amounted to $1,054,819 (2016: Profit $23,052,034).

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 2017.

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.

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	Executive Chairman (appointed 8 February 2016)
Philip Amery	Non-Executive Director (appointed 23 December 2015)
Terry White	Non-Executive Director (appointed 8 February 2016) (resigned 31 July 2017)
John Patton	Non-Executive Director (appointed 19 September 2016)
Andrew Purcell	Non-Executive Director (appointed 26 September 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 a number of listed and unlisted companies. 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 and Chairman of the Nomination and Remuneration Committee.

Other directorships of listed companies: None

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

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: Member of the Audit and Risk Management Committee and a member of the New Business and Investment Committee.

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
Resigned: 31 July 2017

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: Member of the New Business and Investment Committee and a member of the Nomination and Remuneration Committee.

Other directorships in listed companies: None

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

John Patton
Non-Executive Director
Appointed: 19 September 2016

Mr Patton is a senior executive with extensive finance experience in the corporate and professional services sectors. John was previously a partner with Ernst & Young in the Transactions Advisory Services division. With over 25 years of professional services and industry experience, John has extensive corporate finance credentials, having been involved in over 150 corporate transactions, including mergers & acquisitions (lead advisory), structuring, debt and equity raisings, IPOs, management buy-outs, valuations (including Independent Expert Reports), due diligence, financial modelling, restructuring and corporate advisory.

In addition, John has held the positions of CFO, acting CEO and alternate director of Epic Energy Group, a major infrastructure owner of high-pressure gas transmission pipelines in Australia. This business was the core asset within the ASX-listed Hastings Diversified Utilities Fund. As a result, John has solid hands-on operational experience with, and a strong appreciation of regulatory, commercial, financial, capital structure and external stakeholder management issues and requirements associated with major assets within an ASX-listed environment in Australia.

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

Other directorships in listed companies: Keybridge Capital Limited

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

Andrew Purcell
Non-Executive Director
Appointed: 26 September 2016

Mr Purcell has a successful track record of managing distressed and underperforming companies to sustainable profitability. An engineer by background, Mr Purcell had a distinguished career in investment banking working with Macquarie Bank and Credit Suisse.

More recently, he founded Teknix Capital in Hong Kong, a company specialising in the development and management of projects in emerging markets across the heavy engineering, petrochemical, resources and infrastructure sectors. Mr Purcell also has experience across Asian markets, having been a Director of a number of public companies in the region, including Bangkok Mass Transit System PCL and PT Medco Energi Internasional Tbk.

He also has a deep knowledge of the unconventional gas industry and is involved in sourcing new supplies of such gas in Eastern Australia.

Special responsibilities: Chairman of the New Business and Investment Committee and a member of the Audit and Risk Management Committee.

Other directorships in listed companies: AJ Lucas Group Ltd and Melbana Energy Limited.

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

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

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

		Director's Meetings		**Meetings of committees**		
		Number of meetings held while a director	Number of meetings attended while a director	Audit & Risk Management	Nomination & Remuneration	New Business & Investment
Number of meetings held				1	-	-
A. Lang		33	33		-	
P. Amery		33	32	-		-
J. Patton		23	23	1	-	
A. Purcell		21	19	1		-
T. White		33	33		-	-

Committee membership

As at the date of this report, the Company had an audit & risk management committee, a nomination & remuneration committee, and a new business & investment committee of the board of directors.

Members acting on the committees of the board during the year were:

Audit & Risk Management	**Nomination & Remuneration**	**New Business & Investment**
J. Patton (chair)	A. Lang (chair)	A. Purcell (chair)
P. Amery	J. Patton	P. Amery
A. Purcell	T. White (resigned 31st July 2017)	T. White (resigned 31st July 2017)

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

Options
Details of unexpired options on issue are contained in Note 20.

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

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 2017 were $185,072.

Executive Team
The executive team are remunerated through:

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

Remuneration for the executive team is determined at market rates by conducting an annual benchmarking exercise against a pool of comparable companies. 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.

REMUNERATION REPORT (CONTINUED)

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 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) (resigned 31 July 2017)
- John Patton Non-Executive Director (appointed 19 September 2016)
- Andrew Purcell Non-Executive Director (appointed 26 September 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 2017 are as follows:

REMUNERATION REPORT (CONTINUED)

Remuneration 2017

	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	**$**	**$**	**$**	**$**	**$**	**$**		**$**	**$**	**$**	
A Lang	137,188	-	-	-	-	-	-	-	-	137,188	-
P Amery	61,320	-	-	-	5,825	-	-	-	-	67,145	-
T White	46,423	-	-	-	4,410	-	-	-	-	50,833	-
J Patton*	39,144	-	-	-	-	-	-	-	-	39,144	-
A Purcell**	38,185	-	-	-	-	-	-	-	-	38,185	-
Total	**322,260**	**-**	**-**	**-**	**10,235**	**-**	**-**	**-**	**-**	**332,495**	**N/A**

* Appointed 19 September 2016
** Appointed 26 September 2016

No shares were granted as remuneration for the reporting period ending 30 June 2017.

No incentives were granted to KMP in reporting period ending 30 June 2017.

REMUNERATION REPORT (CONTINUED)

Remuneration 2016

	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*	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 forfeiture of long term incentive rights granted to Mr Hooper in 2013 as a result of leaving the Company

No equity was granted as remuneration to directors 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)

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 20 and 21 of the Financial Statements.

At 30 June 2017, the direct and indirect interests of the Key Management Personnel in the ordinary shares of Metgasco are as follows:

Shares 2017	Opening Balance	Granted as Compensation	Received on Exercise of Options	Long term incentives forfeited	Shares Acquired	Closing Balance
Alexander Lang	-	-	-	-	-	-
Philip Amery	1,304,000	-	-	-	655,994	1,959,994
Terry White	-	-	-	-	-	-
J Patton*	550,000	-	-	-	-	550,000
A Purcell**	76,516,908	-	-	-	-	76,516,908

* Shares held at date of appointment 19 September 2016.
** Shares held at date of appointment 26 September 2016.

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 2017.

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 20 and 21 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.

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 at the Company's 2016 Annual General Meeting
The Remuneration Report for the financial year ended 30 June 2016 was adopted.

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	-	2,235,730
Terry White	-	-
John Patton	-	550,000
Andrew Purcell	-	76,516,908

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 $61,285.

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 30 August 2017. 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

Non-Executive Director, Terry White, resigned on 31 July 2017. The Board thanks Terry for his contribution and wishes him well for the future.

On 14 August 2017, the Company announced that in relation to the current capital raising undertaken by Byron Energy ("Byron"), the Board of Metgasco advises that, pursuant to its convertible note deed with Byron (see Metgasco announcement 9th June, 2016 "Staged Financial Investment into Byron Energy"), it has elected to exercise its priority right, taking up a 10% participation.

Metgasco's subscription of A$2,652,790 for 37,897,000 Byron securities, at an issue price of $0.07, is considered as an attractive exposure to the near term, high-impact development pathway at Byron's South Marsh Island 71 (SM71) project and Byron's other projects in the Gulf of Mexico. It will see Metgasco become a substantial shareholder of Byron, holding a 5.77% interest. Metgasco remains a secured creditor to Byron in relation to the SM71 project with amortization of its development funding facility commencing in the next quarter.

Byron and Metgasco have also agreed an additional option for Metgasco to farm into one of the new opportunities Byron recently acquired in the Gulf of Mexico.

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
31 August 2017

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 2017, 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, 31 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Note	**2017**	**2016**
		$	**$**
Revenue	*5 (a)*	**884,900**	**709,010**
Other Income	*5 (b)*	**357,194**	**25,416,848**
Expenses			
Finance costs	*6 (c)*	**(12,492)**	**(12,218)**
Accounting, compliance, legal & professional costs		**(432,722)**	**(219,817)**
Investor relations		**(140,080)**	**(259,585)**
Consulting fees		**(254,506)**	**(295,462)**
Depreciation	*6 (a)*	**-**	**(3,441)**
Impairment of inventory and other non-current assets	*6 (e)*	**-**	**(268,433)**
Directors fees		**(322,260)**	**(104,094)**
Exploration and rehabilitation activities expensed		**-**	**(384,157)**
Employee costs	*6 (d)*	**(273,611)**	**(1,217,556)**
Rent and occupancy	*6 (b)*	**(38,563)**	**(69,130)**
Travel & accommodation		**(19,994)**	**(44,295)**
Other administrative		**(190,185)**	**(195,636)**
Loss on fair value movement of derivative asset	*16*	**(612,500)**	**-**
(Loss)/Profit before income tax		**(1,054,819)**	**23,052,034**
Income tax expense	*7*	**-**	**-**
Net (Loss)/Profit for the year		**(1,054,819)**	**23,052,034**
Other comprehensive income		**-**	**-**
Total comprehensive (Loss)/Profit for the year		**(1,054,819)**	**23,052,034**
(Loss)/Profit attributable to owners of the parent		**(1,054,819)**	**23,052,034**
Earnings per share for profit from continuing operations			
Basic (loss)/profit per share (cents)	*27*	(0.3)	5.3
Diluted (loss)/profit per share (cents)	*27*	(0.3)	5.3

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Note	2017	2016
		$	**$**
ASSETS			
Current			
Cash and cash equivalents	*8*	**10,197,415**	**17,741,979**
Short term investments	*9*	**-**	**10,907,399**
Trade and other receivables	*10*	**96,891**	**346,179**
Secured convertible note – amortised cost	*15*	**2,757,234**	**-**
Current assets		**13,051,540**	**28,995,557**
Non-current			
Exploration and evaluation expenditure	*11*	**121,477**	**-**
Plant and equipment	*12*	**2,503**	**-**
Other receivables	*13*	**24,000**	**11,000**
Secured convertible note – amortised cost	*15*	**4,432,765**	**-**
Financial assets	*16*	**267,400**	**-**
Non-current assets		**4,848,145**	**11,000**
TOTAL ASSETS		**17,899,685**	**29,006,557**
LIABILITIES			
Current			
Trade and other payables	*17*	**166,889**	**259,841**
Current liabilities		**166,889**	**259,841**
Non-current			
Provisions	*18*	**9,879**	**7,331**
Total non-current		**9,879**	**7,331**
TOTAL LIABILITIES		**176,768**	**267,172**
NET ASSETS		**17,722,917**	**28,739,385**
EQUITY			
Share capital	*19*	**111,562,703**	**121,524,352**
Share option reserve	*20*	**-**	**8,652**
Accumulated losses		**(93,839,786)**	**(92,793,619)**
TOTAL EQUITY		**17,722,917**	**28,739,385**

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 2017

	Share capital	*Accumulated losses*	*Share option reserve (Note 20)*	*Total equity*
	$	**$**	**$**	**$**
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**
Loss for the year	-	(1,054,819)	-	(1,054,819)
Other comprehensive income	-	-	-	-
Total comprehensive profit for the year	-	**(1,054,819)**	-	**(1,054,819)**
Transactions with owners in their capacity as owners				
Transfer share option reserve to accumulated losses	-	8,652	(8,652)	-
Return of Capital	(9,961,649)	-	-	(9,961,649)
At 30 June 2017	**111,562,703**	**(93,839,786)**	**-**	**17,722,917**

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 2017

	Note	2017	2016
		$	**$**
Operating activities			
Payments to suppliers and employees (inclusive of goods and service taxes)		**(1,796,511)**	**(2,565,909)**
Interest and rebates received		**1,451,669**	**407,167**
Finance costs paid		**(12,492)**	**(12,218)**
Net cash flow used in operating activities	*26*	**(357,334)**	**(2,170,970)**
Investing activities			
Expenditure on exploration, evaluation and decommissioning		**(121,477)**	**(551,767)**
Sale/(Purchase) of short term investments		**10,907,399**	**(10,907,399)**
Security Bond (advanced)/received		**(24,000)**	**635,000**
Secured convertible note facility		**(8,000,000)**	**-**
Proceeds from the sale of exploration assets		**-**	**25,250,000**
Proceeds on disposal of property, plant and equipment		**15,000**	**327,626**
Purchase of property, plant and equipment		**(2,503)**	**-**
Net cash flow from investing activities		**2,774,419**	**14,753,460**
Financing activities			
Repayments of borrowings		**-**	**(17,039)**
Share Buyback		**-**	**(2,466,615)**
Return of capital		**(9,961,649)**	**-**
Net cash flow used in financing activities		**(9,961,649)**	**(2,483,654)**
Net (decrease)/increase in cash and cash equivalents held		**(7,544,564)**	**10,086,618**
Cash and cash equivalents at the beginning of year		**17,741,979**	**7,655,361**
Cash and cash equivalents, end of year	*8*	**10,197,415**	**17,741,979**

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 2017

1. Corporate Information

a) Nature of operations

Metgasco Ltd ("Metgasco") 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 is a for-profit entity for the purpose of preparing the financial statements.

Metgasco is the Group's ultimate parent company. Metgasco is a public company incorporated and domiciled in Australia. The address of its registered office is Level 12, 680 George Street, Sydney NSW 2000 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 2017 were approved and authorised for issue by the board of directors on 30 August 2017.

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.

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.

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 2017.

Fair Value of financial instruments

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available.

2. Summary of Significant Accounting Policies (continued)

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 2017.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or as rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

At 30 June 2017, Metgasco controlled 100% of Richmond Valley Power 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.

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) Revenue and expenses

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest revenue is recognised as interest accrued using the effective interest method. Expenses are recognised on an accruals basis.

2. Summary of Significant Accounting Policies (continued)

f) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Maker ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

g) 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.

h) 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.

i) Exploration expenditure and petroleum tenement leases

In accordance with AASB 6, exploration expenditure is carried forward as an asset provided that the rights to the area of interest are current and 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 capitalised.

j) Convertible Note

The component of the convertible note that exhibits characteristics of an asset is recognised as an asset in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the asset component is determined using a market rate and this amount is carried as an asset on the amortised cost basis until extinguished on conversion or redemption. The increase in the asset due to the passage of time, is recognised as a finance income.

2. Summary of Significant Accounting Policies (continued)

k) 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.

l) 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.

m) 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.

n) 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).

o) 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.

p) 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.

2. Summary of Significant Accounting Policies (continued)

q) 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 high quality corporate 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.

(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.

r) 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.

s) 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.

t) 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.

2. Summary of Significant Accounting Policies (continued)

u) 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.

v) Financial assets

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 at 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.

w) Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

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 2016. Information on these new standards is presented below.

AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations

The amendments to AASB 11 Joint Arrangements 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 re-measured) 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.

AASB 2014-3 is applicable to annual reporting periods beginning on or after 1 January 2016.

The adoption of these amendments has not had a material impact on the Group.

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB’s Disclosure Initiative project.

The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information;
- clarify that AASB 101’s specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated;

2. Summary of Significant Accounting Policies (continued)

- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position;
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order; and
- remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy.

AASB 2015-2 is applicable to annual reporting periods beginning on or after 1 January 2016.

The adoption of these amendments 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 2017 reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below.

New/revised pronouncement	Nature of change	Likely impact on initial application
AASB 9 *Financial Instruments (December 2014) which supersedes AASB 139 Financial Instruments: Recognition and Measurement* *Effective date: 1 January 2018*	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: • classification and measurement of financial liabilities; and • derecognition 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.	*The Group is yet to undertake a detailed assessment of the impact of AASB 9.*

New/revised pronouncement	Nature of change	Likely impact on initial application
	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 15 Revenue from Contracts with Customers *Effective date:* *1 January 2018*	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.	*The Group is yet to undertake a detailed assessment of the impact of AASB 15.*
AASB 16 Leases which supersedes AASB 117 Leases *Effective date:* 1 January 2019	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 - largely retains the existing lessor accounting requirements in AASB 117 - requires new and different disclosures about leases.	*The Group is yet to undertake a detailed assessment of the impact of AASB 16.*

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	
	2017	**2016**
	$	**$**
Cash and cash equivalents	**10,197,415**	**17,741,979**
Secured convertible note	**7,189,999**	**-**
Financial assets - derivative	**267,400**	**-**
Short term investments	**-**	**10,907,399**
Loans and receivables	**35,000**	**11,000**
Financial liabilities at amortised cost	**163,829**	**242,276**

Cash and cash equivalents are detailed in Note 8 whilst the amount for loans and receivables represents amounts pledged as security for well rehabilitation, rental bonds, corporate credit cards and trade receivables. See Notes 10, 13 and 24 accompanying the financial statements.

3. Financial Risk Management (continued)

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 were 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 made purchases of well casing and other items that were denominated in US dollars. Due to the infrequency of such purchases, no foreign currency hedging was undertaken, however any material changes to the value of our commitments to be settled in foreign currency are communicated to senior management and budgeted for.

ii) *Interest rate risk and equity securities or other financial securities price risk.*
The Group has no exposure to interest rate risk other than reductions/increases in interest earned should the rates decrease/increase respectively. As an indication of possible sensitivity to changes in interest rates a 1% movement in interest rates, assuming a mean cash balance of $10,197,415 would increase/decrease the annual amount of interest received by $101,974.

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 Note 17.

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.

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 is comprised of the Executive Chairman.

Hydrocarbon exploration and development
This segment comprised the exploration, evaluation and development of petroleum.

No segment revenue is disclosed because no discrete information is provided to the executive management team as all activities were in their exploration phase. This activity was not generating revenue and all exploration and evaluation expenditure was capitalised.

Total asset amounts provided to the executive management team and the Board in internal reports are not broken down by segment.

5. Revenue and Other Income

		Consolidated	
		2017	2016
		$	$
(a)	**Revenue**		
	Interest received from financial institutions and other parties	**884,900**	**709,010**
	Total revenue	**884,900**	**709,010**
(b)	**Other income**		
	Gain on disposal of assets	**15,000**	**102,626**
	Unrealised gain/(loss) on listed investments	**-**	**(3,202)**
	Gain on disposal of exploration licences	**-**	**25,250,000**
	Miscellaneous income	**342,194**	**67,424**
	Total other income	**357,194**	**25,416,848**

6. Expenses

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

		Consolidated	
		2017	**2016**
		$	**$**
(a)	**Depreciation**		
	Plant and equipment	**-**	**3,441**
	Total depreciation	**-**	**3,441**
(b)	**Rent and occupancy**		
	Rent under operating lease - Sydney	**38,563**	**109,223**
	Occupancy costs	**-**	**(40,093)**
	Total rent and occupancy	**38,563**	**69,130**
(c)	**Finance cost - external**		
	Loss on sale of short term investments	**10,302**	**-**
	Bank charges	**2,190**	**12,218**
	Total Finance Cost	**12,492**	**12,218**
(d)	**Employee costs**		
	Superannuation	**33,264**	**68,952**
	Wages and salaries	**230,449**	**1,349,489**
	Insurance	**14,390**	**8,337**
	Payroll tax	**-**	**(19,666)**
	Share based payments write back	**-**	**(68,779)**
	Fringe benefits	**(4,492)**	**-**
	Miscellaneous / movement in employee provisions	**-**	**(120,777)**
	Total employee costs	**273,611**	**1,217,556**
(e)	Impairment		
	Inventory	**-**	**137,131**
	Property, Plant and Equipment	**-**	**131,302**
	Total impairment	**-**	**268,433**

Depreciation charged on assets employed directly in the Group's exploration activities for the year was $Nil (2016: $32,390) and expensed with the exploration activities. Depreciation charged on assets not in the above category was $Nil (2016: $3,441) for the year and is charged directly to the statement of profit or loss.

7. Income Tax

		Consolidated 2017 $	2016 $
(a)	**Income tax expense**		
	(Loss)/Profit before income tax expense	**(1,054,819)**	**23,052,034**
	Prima facie tax benefit on (loss)/profit at 27.5% (2016: 30%)	**(290,075)**	**6,915,610**
	Tax effect of amounts which are not deductible in calculating taxable income:		
	Share based payments	**-**	**(20,634)**
		(290,075)	**6,894,976**
	Movements in unrecognised temporary differences	**(3,288)**	**(49,262)**
	Tax effect of current year tax losses for which no deferred tax asset has been recognised	**293,363**	**-**
	Utilisation of unused tax losses	**-**	**6,845,714**
	Income tax expense	**-**	**-**
(b)	**Unrecognised deferred tax assets and liabilities**		
	Capital raising costs	**975,085**	**1,063,729**
	Accruals and provision for employee's benefits	**3,558**	**7,469**
	Carry forward tax losses:		
	– Operating	**2,844,269**	**2,788,808**
	– Exploration and evaluation expenditure	**22,961,673**	**25,049,097**
	Deferred tax liability - taxable temporary differences	**(22,961,673)**	**(25,049,097)**
	Net unrecognised deferred tax asset	**3,822,912**	**3,860,006**

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 2017 $	2016 $
Cash at bank and on hand	**4,049,139**	**356,152**
Term deposits	**6,148,276**	**17,385,827**
Total	**10,197,415**	**17,741,979**

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 attracted rates of interest ranging from 1.75% to 2.95% (2016: 2.35% to 3.15%). The maturity dates of the various term deposits ranged 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	
	2017	**2016**
	$	**$**
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

All short term investments were realised during the year.

10. Trade and Other Receivables (Current)

	Consolidated	
	2017	**2016**
	$	**$**
GST receivable	**26,047**	**-**
Accrued Income	**7,369**	**301,843**
Rent deposits	**3,182**	**3,182**
Prepayments	**47,498**	**41,154**
Security bonds - current	**11,000**	**-**
Other	**1,795**	**-**
Total	**96,891**	**346,179**

No receivables are past due.

11. Exploration and Evaluation Expenditure

	Consolidated	
	2017	**2016**
	$	**$**
Expenditure for the entities operations		
Movement during the financial period (at cost):		
Opening balance	**-**	**-**
Capitalised exploration expenditure	**121,477**	**-**
Carrying amount at end of year	**121,477**	**-**

12. Plant and Equipment

	Consolidated	
	2017	2016
	$	$
Computer equipment		
At cost	**2,503**	**59,870**
Accumulated depreciation and impairment	**-**	**(59,870)**
Net carrying amount	**2,503**	**-**

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:

Computer equipment		
Carrying amount at beginning of financial year	**-**	**16,641**
Additions	**2,503**	**-**
Impairment	**-**	**(9,388)**
Depreciation	**-**	**(7,253)**
Carrying amount at end of financial year	**2,503**	**-**
Total plant and equipment		
Carrying amount at beginning of financial year	**-**	**362,133**
Additions	**2,503**	**-**
Disposals	**-**	**(195,000)**
Impairment	**-**	**(131,302)**
Depreciation	**-**	**(35,831)**
Carrying amount at end of financial year	**2,503**	**-**

Impairment loss

At 30 June 2017, 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(n)).

The recoverable amounts of plant and equipment were also formerly reassessed, and no impairment was required during 2017 financial year (2016: $131,302).

13. Other Receivables (Non-current)

	Consolidated	
	2017	2016
	$	$
Security bonds non-current	**24,000**	**11,000**
Total	**24,000**	**11,000**

Security bonds are held in favour of the NSW Department of Industry and Investment and the QLD Department of Natural Resources and Mines.

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.

14. Other Financial Assets

The statement of financial position incorporates the assets, liabilities and results of the subsidiary in accordance with the policy described in Note 2(b).

Name of entity	Country of incorporation	Class of Shares	Equity holding			
			2017	2016	**2017**	2016
			%	**%**	**$**	$
Richmond Valley Power Pty Ltd	Australia	Ordinary	100	100	100	100
Clarence-Moreton No. 1 Pty Ltd	Australia	Ordinary	-	100	-	2
The Lions Way Pipeline Pty Ltd	Australia	Ordinary	-	100	-	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.

15. Secured Convertible Note

	Consolidated	
	2017	**2016**
	$	**$**
Current		
Secured convertible note	**3,000,000**	**-**
Accrued interest income	**189,370**	**-**
Deferred gain	**(432,136)**	**-**
	2,757,234	**-**
Non-current		
Secured convertible note	**5,000,000**	**-**
Deferred gain	**(567,235)**	**-**
	4,432,765	**-**
Total		
Secured convertible note	**8,000,000**	**-**
Accrued interest income	**189,370**	**-**
Deferred gain	**(999,371)**	**-**
	7,189,999	**-**

The secured convertible note advance was provided to Byron Energy Ltd (ASX: BYE) on terms as detailed in announcements to the ASX. The terms include a Facility Fee of 2.5%, a Line Fee of 2% and a coupon of 12% payable quarterly in arrears. The note is convertible by the Company at its election after eighteen months from initial drawdown.

16. Financial Assets

The derivate asset relates to 10 million options granted by Byron Energy Limited to the Company on 21 July 2016 which are recorded at fair value based on an independent valuation. They are to be revalued at each reporting period with any change being recorded in the profit and loss. The options are non-transferable unlisted options with an exercise price of $0.25 per share and a three year expiry. The assumptions used in the valuation are the following:

	At Grant Date	**At Balance Date**
Grant date	21 July 2016	21 July 2016
Vesting period ends	21 July 2019	21 July 2019
Share price at date of grant	$0.17	$0.10
Volatility	95%	95%
Option life	3 years	3 years
Dividend yield	0%	0%
Risk free investment rate	1.49%	1.74%
Fair value at grant date	$879,900	-
Fair value at balance date	-	$267,400
Exercise price at date of grant	$0.25	$0.25
Exercisable from	20 Jul 2018	20 Jul 2018
Exercisable to	21 July 2019	21 July 2019
Weighted average remaining contractual life	3.0 years	2.1 years

	Consolidated	
	2017	**2016**
	$	**$**
Fair value at grant date	**879,900**	**-**
Loss on fair value movement of derivative asset	**(612,500)**	**-**
Total	**267,400**	**-**

17. Trade and Other payables (Current)

	Consolidated	
	2017	**2016**
	$	**$**
Trade payables	**69,824**	**63,147**
Accrued charges and expenses	**94,005**	**179,129**
Employee benefits	**3,060**	**17,565**
Total	**166,889**	**259,841**

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

18. Provisions (Non-current)

	Consolidated	
	2017	**2016**
	$	**$**
Long service leave	**9,879**	**7,331**
Provision for long service leave		
Opening balance	**7,331**	**42,673**
Amounts provided	**2,548**	**(35,342)**
Closing balance for long service leave	**9,879**	**7,331**

19. Share Capital

	Parent Entity		Parent Entity	
	No of Shares	No of shares	**$**	$
	2017	2016	**2017**	2016
(a) Share Capital				
Ordinary Shares - Fully Paid	**398,464,823**	401,108,520	**111,562,703**	121,524,352

(b) Movements in Ordinary Share Capital

	Date	No of Shares	Value $	Issue Price $
Balance at 30 June 2016		**401,108,520**	**121,524,352**	
Shares cancelled during the year	28 September 2016	**(2,643,697)**	-	-
Return of Capital	16 November 2016	**-**	**(9,961,649)**	-
Balance at 30 June 2017		**398,464,823**	**111,562,703**	

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

At the end of the reporting period there were 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 2017.

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, the use of various gearing ratios is not employed.

20. Share Based Payments

The Metgasco 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	
	2017	**2016**
	$	**$**
Opening balance	**8,652**	**389,423**
Cost of securities issued under EOEP	**-**	**(68,779)**
Transferred to accumulated losses	**(8,652)**	**(311,992)**
Closing balance of reserve	**-**	**8,652**

20 Share Based Payments (continued)

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

Consolidated and Parent Entity 2017

There were no options outstanding or issued during the year.

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(q) for details of accounting policy on share based payments.

21. Key Management Personnel

	Consolidated	
	2017	**2016**
	$	**$**
Short-term employee benefits	**322,260**	**720,302**
Post-employment employee benefits	**10,235**	**551,546**
Share based payments	**-**	**(128,359)**
Total compensation	**332,495**	**1,143,489**

22. Auditor's Remuneration

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

	Consolidated	
	2017	**2016**
	$	**$**
During the year, fees paid/payable to the Company's auditors were:		
For audit and review – Grant Thornton Audit Pty Ltd	**61,285**	**47,000**

23. 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.

24. Contingent Liabilities and Assets

	Consolidated	
	2017	**2016**
	$	**$**
Security Bonds to State governments	**35,000**	**11,000**

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 $50,000 is unused as at 30 June 2017.

25. Commitments

The exploration expenditure relates to the farm-in commitments for Bivouac Peak.

	Consolidated	
	2017	**2016**
	$	**$**
Minimum Exploration & Evaluation expenditure for exploration Tenements within one year	**108,000**	**-**
Total	**108,000**	**-**
Office Rent		
Within one year	**39,709**	**-**
Later than one year but not later than five years	**-**	**-**
Total	**39,709**	**-**

26. Statement of Cash Flows Reconciliation

		Consolidated 2017 $	Consolidated 2016 $
(a)	**Reconciliation of net loss after tax to net cash flows from operations**		
	Net (loss)/profit for the year	**(1,054,819)**	**23,052,034**
	Adjustments for:		
	Depreciation	**-**	**35,831**
	Impairment of inventory and other non-current assets	**-**	**268,433**
	Loss on fair value movement of derivative asset	**612,500**	**-**
	Gain on disposal of exploration assets as investing activities	**-**	**(25,250,000)**
	Net profit on disposal of property, plant and equipment	**(15,000)**	**(102,626)**
	Finance cost classified as financing activities	**-**	**12,218**
	Share based payment expense	**-**	**(68,779)**
	Exploration costs classified as investing activities	**-**	**351,767**
	Changes in assets and liabilities:		
	Decrease/(Increase) in trade and other receivables	**190,389**	**(257,400)**
	Decrease in trade and other payables	**(92,952)**	**(147,106)**
	Increase/(Decrease) in provisions	**2,548**	**(65,342)**
	Net cash flows used in operating activities	**(357,334)**	**(2,170,970)**

(b) Non cash financing and investing activities

$Nil (2016: $Nil)

27. Earnings Per Share

	Consolidated 2017 $	Consolidated 2016 $
Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
(Loss)/profit attributable to owners of Metgasco Ltd used to calculate basic earnings per share	**(1,054,819)**	**23,052,034**
Diluted earnings per share		
(Loss)/profit attributable to owners of Metgasco Ltd used to calculate diluted earnings per share	**(1,054,819)**	**23,052,034**
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	**399,109,450**	**431,213,540**
(Loss)/profit per share (cents)	**(0.3)**	**5.3**

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

28. 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 2017 and 30 June 2016:

30 June 2017	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Exchange Traded Bonds	-	-	-	-
Unlisted credit fund	-	-	-	-
Derivative asset	-	-	267,400	267,400
Total assets	-	-	267,400	267,400
Net fair value	-	-	267,400	267,400

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

29. Financial Facilities

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

30. Parent Entity Disclosures

	Consolidated	
	2017	**2016**
	$	**$**
Current assets	**13,051,540**	**28,995,557**
Non-current assets	**4,848,145**	**11,000**
Total assets	**17,899,685**	**29,006,557**
Current liabilities	**166,889**	**259,841**
Non-current liabilities	**9,879**	**7,331**
Total liabilities	**176,768**	**267,172**
Contributed equity	**111,562,703**	**121,524,352**
Accumulated losses	**(93,839,786)**	**(92,793,619)**
Share option reserve	**-**	**8,652**
Total equity	**17,722,917**	**28,739,385**
(Loss)/Profit for the year	**(1,054,819)**	**23,052,034**
Other comprehensive income for the year	**-**	**-**
Total comprehensive (loss)/income for the year	**(1,054,819)**	**23,052,034**

30. Parent Entity Disclosures (continued)

Commitments

The parent entity has an exploration commitment in relation to the farm-in for Bivouac Peak as per the following:

	Consolidated	
	2017	2016
	$	$
Minimum Exploration & Evaluation expenditure for exploration Tenements		
within one year	108,000	-
Total	**108,000**	**-**
Office Rent		
Within one year	39,709	-
Later than one year but not later than five years	-	-
Total	**39,709**	**-**

Contingent Liabilities

	2017	2016
	$	$
Security deposits to state governments	35,000	11,000

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.

31. Events After the Reporting Period

Non-Executive Director, Terry White resigned on 31 July 2017.

On 14 August 2017 the Company announced that in relation to the current capital raising undertaken by Byron Energy ("Byron"), the Board of Metgasco advised that, pursuant to its convertible note deed with Byron (see Metgasco announcement 9th June, 2016 "Staged Financial Investment into Byron Energy"), it has elected to exercise its priority right, taking up a 10% participation.

Metgasco's subscription of A$2,652,790 for 37,897,000 Byron securities, at an issue price of $0.07, is considered as an attractive exposure to the near term, high-impact development pathway at Byron's South Marsh Island 71 (SM71) project and Byron's other projects in the Gulf of Mexico. It will see Metgasco become a substantial shareholder of Byron, holding a 5.77% interest. Metgasco remains a secured creditor to Byron in relation to the SM71 project with amortization of its development funding facility commencing in the next quarter.

Byron and Metgasco have also agreed an additional option for Metgasco to farm in to the new opportunities Byron recently acquired in the Gulf of Mexico.

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 Ltd:

   (a) the consolidated financial statements and notes of Metgasco Ltd are in accordance with the Corporations Act 2001, including:

      i) giving a true and fair view of its financial position as at 30 June 2017 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 Ltd 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 2017.

3. Note 1 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, 31 August 2017

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Sydney NSW 2000

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Independent Auditor's Report to the Members of Metgasco Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Metgasco Limited (the Company) and its subsidiary (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, 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, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and

b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Financial assets ***Note 16***	
The Group recognises financial instruments in accordance with AASB 139 *Financial Instruments*. During the financial year, the company was issued 10 million unlisted options by Byron Energy Limited with an exercise price of $0.25 and a three year expiry date. The company appointed an independent professionally qualified expert to assess the fair value of this asset at inception date and as at 30 June 2017. This is a key audit matter due to the judgement involved in assessing the fair value of the options.	Our audit procedures included, amongst others: • Auditing the valuation of the options, the methodology and the key assumptions used in the valuation; • Consulting with our valuation specialists to ensure the basis of the valuation and the methodology was reasonable; • Assessing the competence, capabilities and objectivity of management's expert; and • Assessing the appropriateness of the related disclosures in the financial statements.
Secured convertible note amortised cost ***Note 15***	
The Group recognises financial instruments in accordance with AASB 139 *Financial Instruments*. During the financial year, Metgasco Limited provided a facility of $8 million to Byron Energy Limited with a three year term and an option to convert this facility into shares in Byron Energy. The facility was fully drawn down during the year by Byron Energy. The accounting treatment and valuation of the convertible note is complex due to the degree of management judgement involved in identifying the relevant inputs to the fair value calculations of the embedded derivatives, including the volatility of the share price. The engagement team identified this area as a significant risk due to the significant judgement involved in the identification and valuation of the embedded derivative and receivable components of the convertible note.	Our audit procedures included, amongst others: • Reading the agreement and obtaining an understanding of the key terms and conditions of the convertible note; • Auditing the methodology and the assumptions used by management's expert to ensure the convertible note has been correctly recorded at amortised cost using the effective interest method; • Assessing the competence, capabilities and objectivity of management's expert engaged to perform the valuation; and • Assessing the appropriateness of the related disclosures in the financial statements.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 12 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Metgasco Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

P J Woodley
Partner - Audit & Assurance

Sydney, 31 August 2017

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 22 September 2017.

Distribution of Ordinary Shares:

Analysis of ordinary shareholders by size of shareholding:

Number of Shares	Ordinary Shares Held	No. of Shareholders	% of Issued Shares
1 - 1,000[1]	17,909	125	0.00%
1,001 - 5,000	375,869	125	0.09%
5,001 - 10,000	3,148,220	345	0.79%
10,001 - 100,000	55,049,786	1,464	13.82%
100,001 - and over	339,873,039	453	85.30%
Total	**398,464,823**	**2,512**	**100.00%**

[1] 150 shareholders held less than a marketable parcel of Metgasco shares as at 22 September 2017

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 <PURCELL FAMILY A/C>	76,516,908	19.20%
2	KEYBRIDGE CAPITAL LIMITED	24,886,813	6.25%
3	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	21,275,675	5.34%
4	ZETETIC INVESTMENTS PTY LIMITED	17,056,164	4.28%
5	AURORA FUNDS MANAGEMENT LIMITED <HHY FUND A/C>	11,544,118	2.90%
6	PW AND VJ COOPER PTY LIMITED <P W & V J COOPER S/F A/C>	7,358,552	1.85%
7	FAST FREEZE INTERNATIONAL LIMITED	6,251,286	1.57%
8	CITICORP NOMINEES PTY LIMITED	5,925,356	1.49%
9	SAXON ACQUISITIONS PTY LTD <DON'T PANIC DISC A/C>	4,782,270	1.20%
10	MONEX BOOM SECURITIES (HK) LTD <CLIENTS ACCOUNT>	3,588,258	0.90%
11	MR PETER JOHN GRAY	3,435,821	0.86%
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,338,662	0.84%
13	AURORA FUNDS MANAGEMENT LIMITED <HHY A/C>	3,261,718	0.82%
14	GYTON PTY LTD <GYTON P/L SUPER FUND A/C>	3,207,129	0.80%
15	NAMBIA PTY LTD <ANTHON FAMILY S/F A/C>	3,192,153	0.80%
16	HUSH HUSH PTY LTD	3,000,000	0.75%
17	COLOWELL PTY LIMITED <DAVID DAGG FAMILY A/C>	2,654,867	0.67%
18	TRIBAL N Z TRADERS LIMITED	2,545,686	0.64%
19	MAEANDER HOLDINGS PTY LTD	2,354,777	0.59%
20	J P MORGAN NOMINEES AUSTRALIA LIMITED	2,189,978	0.55%
	Totals	**208,366,191**	**52.30%**

Substantial Holders

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

Shareholders	Ordinary Shares Held	% of Issued Shares
Aurora Funds Management Limited as responsible entity of the Aurora Fortitude Absolute Return Fund ARSN 145 894 800; Aurora Global Income Trust ARSN 127 692 406 and HHY Fund ARSN 112 579 129; Seventh Orion Pty Ltd as trustee of the Aurora Investments Unit Trust	27,454,031	6.89%
Lawndale Group Pty Ltd, M&A Advisory Pty Ltd, Amanda Purcell and Andrew Purcell	76,516,908	19.02%

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
Company Secretary	Phil Mackey
Registered Office	Metgasco Ltd ABN 24 088 196 383 Level 12, 680 George Street Sydney NSW 2000 Telephone: +61 2 9923 9100 Facsimile: +61 2 9923 9199 Email: info@metgasco.com.au www.metgasco.com.au
2016 Annual General Meeting	The 2017 Annual General Meeting of Metgasco Ltd will be held on: Date: Thursday, 9 November 2017 Time: 11:00am Venue: The Executive Centre Level 26, 1 Bligh Street, Sydney, NSW, 2000
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

An electronic copy of this Annual Report is available at http://www.metgasco.com.au/annual-reports