METGASCO

2013 ANNUAL REPORT

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DIRECTORS' REPORT

Your Directors present their report on Metgasco Limited (Metgasco or the Group) and the entities it controlled for the year ended 30 June 2013.

Principal Activities

The principal activities of the Group during the financial year were gas exploration, appraisal, and development and investment in and development of associated energy infrastructure. There has been no change in the nature of these activities during the year.

Company Information

Metgasco is a company limited by shares, which is incorporated and domiciled in Australia. Metgasco was incorporated on 22 June 1999 and converted to a public company on 28 June 2002. On 23 December 2004 Metgasco became a publicly traded company on the Australian Securities Exchange.

Review of Operations

Metgasco holds a 100% interest in three Petroleum Exploration Licenses ("PEL's") covering approximately 4,556 km2 in the Clarence-Moreton Basin (CMB) in northern New South Wales. These interests are Petroleum Exploration Licence (PEL) 13, PEL 16 and PEL 426. During the year, Metgasco continued with the exploration, appraisal and development of its coal seam gas ("CSG") and conventional gas interests. In March, Metgasco made the decision to suspend its field operations in the CMB. Its decision was made in response to the announcement of proposed new and unexpected NSW government regulations. Field operations will recommence when the regulatory and business environment is suitable. In the meantime the company is reviewing energy investment opportunities in areas outside NSW.

Exploration and Appraisal
The year started positively with the announcement in September of a new range of policies by the NSW Government. These policies were intended to give the general community more confidence that the industry was safe and regulated. Metgasco and the industry in general considered that it had been given the green light to proceed. For the eighteen month period before this the industry had been subject to an effective moratorium.

Metgasco responded to the Government's announcement by raising additional funds and initiating activities to acquire more seismic and drill three core wells, three pilot wells and a conventional well. It also initiated the studies and planning for a new production assessment lease, production licence and pipeline facilities to allow gas sales to the Richmond Dairies and for a compressed natural gas business.

The MET10 seismic survey over PEL 13 and 16 commenced in November and was completed in December: 32 kilometres was recorded and processed during the report period. The data recorded was designed to improve the understanding of the greater Mackellar structure in PEL 16, provide a seismic tie to the Kingfisher E01 gas discovery well (KE01) and to identify a suitable location for the proposed Rosella E01 well to the north east of Casino.

Interpretation of the new seismic data has been completed, with the new mapping confirming that KE01 is located towards the southern end of the greater Mackellar structure, a large structural high feature that shallows towards the north. On the basis of the new information it is proposed that the Rosella E01 conventional well be drilled to test the Ripley Road Sandstone primary objective at a location some 350m higher than the level intersected in the KE01 gas discovery.

Two exploration wells were also drilled to investigate the Walloon Coal Measures and satisfy the work commitments in PEL's 426 and 13. Thornbill E04 (TE04) was drilled in PEL 426 at a location southeast of Grafton. The well was drilled in January 2013 to a total depth of 749.5m and intersected the Walloon objective at the predicted depth. Following wireline logging the well was plugged and abandoned in accordance with the drilling programme. In February 2013, Bowerbird E04 (BE04) was drilled at a location northwest of Casino in PEL 13. The well was cored from 156m MD to a total depth of 495m and 34 coal samples were collected for further analysis. The well was plugged and abandoned, as planned, following wireline log evaluation.

The results of TE04 confirmed a thickening of the Walloon Coal Measure towards the axis of the Grafton Trough with 11m of coal and carbonaceous shale intersected over the interval 495 to 700m. The Bowerbird E04 well, which is located 4 kilometres north of the Bowerbird E02 well (BE02) on the Eden Creek Trend, intersected 40m of coal and carbonaceous shale over the interval 198 to 479m. This result was similar to the 43m intersected in BE02.

In parallel with the field work above, Metgasco made considerable progress developing the material and plans necessary to seek a Petroleum Assessment ("PAL") Lease for the North West Casino Natural Gas Project. This is seen as the next stage towards a full Petroleum Production Lease ("PPL"). The PAL is intended to leverage the three planned lateral CSG wells by utilisation of the produced natural gas for local industry. This will avoid flaring of the natural gas from these wells with resulting environmental benefits. The three new wells (with up to five permitted under a single PAL), are to be connected by a small gathering system to a central point and produce less than 1PJ pa. Initially the natural gas will be compressed on site and transferred to Compressed Natural Gas cylinders. The cylinders will then be transported by truck and trailers to local industry, displacing imported LPG and diesel. It is proposed that a pipeline would also supply some of the larger industrial customers including Richmond Dairies. Metgasco completed all the environmental studies and prepared the PAL early in 2013. These are ready to be submitted to the regulator when it is decided that production activities will recommence in the Clarence Moreton Basin.

It is planned that the five-well PAL would be superseded by the PPL as soon as possible after the PAL is approved. The PPL will involve up to 90 CSG wells drilled over a 20 year period covering a larger area than the PAL, supplying 5 to 10 PJ pa. Metgasco commenced regulatory and environmental work on the PPL area.

In March this year, Metgasco announced that it would suspend its Clarence Moreton Basin field activities, including the work on the PAL and PPL required for local gas supplies. The decision to suspend activities was in recognition of the damage being done to the CSG industry by statements and decisions made in the lead up to the imminent federal election and the instability created by the NSW Government's announcement of further regulatory changes. In this environment of uncertainty and further costly delays to our field work, future fund raising and the attraction of quality farm-in partners would be difficult. The company's decision to suspend has since been mirrored by other energy companies suspending or modifying their CSG operations in NSW. The industry faces a business environment characterised by delays in approvals, uncertainties over policies and the imposition of new regulations at a federal level which do no more than duplicate existing state regulation and review processes.

As part of its suspension decision, Metgasco sought and was successful in gaining approval for reduced work programs in its three exploration licences in order to secure the value of the CSG and conventional gas potential it has established to date. Metgasco then started to implement cost reduction steps consistent with the smaller work programs. Unfortunately, this required the release of 21 of our 27 staff. The loss of the skills and experience developed by these people was most unfortunate, but not avoidable in the circumstances.

As part of the suspension decision, it was decided to decommission all wells that were not required for long term production and to decommission redundant water storage ponds. The well decommissioning and site rehabilitation program commenced in late May. Well decommissioning was completed by mid-September. As at the date of this report only site rehabilitation work remains.

A significant amount of work has also been devoted to the best approach to decommission the water ponds used to support pilot testing activities. Discussions have been held with various government departments. A final plan has been approved by government and work has commenced.

Several regional studies designed to further define the geology and petroleum potential of the basin were also conducted during the period. These studies included an assessment of the aquifer properties of both the Walloon Coal Measures and the overlying strata providing a geological framework for further basin assessment and future water management activities. A paper was presented on some aspects of this study at the Eastern Australian Basins Symposium held in Brisbane in September, 2012.

Certified Reserves
The Company recognises the following gas reserves and resources in its tenement areas.

Independently certified gas reserves – Petajoules (PJ) All reserves are 100% owned by Metgasco			
Reserve Category	**PEL 13**	**PEL 16**	**Total**
1P (Proven)		2.7	2.7
2P (Proven + Probable)	31	307	338
3P (Proven + Probable + Possible)	437	1,618	2,055
2C Contingent Resource	1,199	1,174	2,373

The estimates of gas reserves have been prepared by Mr Tim Hower, and staff under his supervision, of MHA Petroleum Consultants (Denver). Mr Hower is chairman of MHA and has over 25 years of petroleum engineering experience and is a qualified person as defined under the ASX listing rule 5.11. Reserves have been developed within the guidelines of the SPE. MHA has consented to the use of this information.

The reserve figures above represent a downward revision of 21% for 2P reserves and 23% for 3P reserves, largely associated with the Company's assessment of the NSW Government's proposed 2 kilometre CSG drilling exclusion zone, announced in February 2013. Legislation pertaining to this has yet to be enacted. Should the proposed exclusion zone not be adopted or local councils be given the right to opt out of the exclusion zone and choose to take this action, the reserve reductions will not be required. The following table reconciles previously stated reserves and the figures above, reflecting the exclusion zone reductions and the increase associated with the Bowerbird E04 well.

Reconciliation of Reserve Movements

Reserve Category – Petajoules (PJ)				
	1P (Proven)	2P (Proven + Probable)	3P (Proven + Probable + Possible)	2C Contingent Resource
Reserves & resources 1 July 2012	2.7	428	2,542	2,512
Additions from drilling Bowerbird E04	-	-	135	(139)
Estimated reductions from proposed 2 kilometre CSG drilling exclusion zone	-	(90)	(622)	-
Reserves & resources 30 June 2013	2.7	338	2,055	2,373

Commercialisation Strategy
There is a plethora of industry data and reports to show that the eastern coast of Australia and NSW in particular, face gas shortages over the next 5 years.

If east coast gas demand is to be satisfied, near and long term gas supplies will need to be secured from new conventional exploration discoveries, development of CSG reserves, and exploration for and development of shale and tight gas potential. This creates an excellent opportunity for Metgasco's CSG reserves and conventional/tight gas potential.

During 2012/2013 Metgasco's primary focus was on local sales in the Northern Rivers region via pipeline to Casino and compressed natural gas supplies to the broader area. These sales will be pursued and field activities recommenced when the regulatory and business environment in NSW is suitable for our continued investment.

Corporate
On 21 September 2012, Metgasco announced that it had raised $10.2 million in new capital through a placement of 51,000,000 ordinary shares to existing and new shareholders via a placement at $0.20 per share.

On 30 October 2012, Metgasco announced that it had raised $10.4 million in new capital through a placement of 52,082,500 ordinary shares to existing shareholders via a share purchase plan at $0.20 per share.

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

Expenditure to support further exploration and development activity of Metgasco's CMB assets is likely to increase when the regulatory and business environment for coal seam and natural gas business becomes more attractive. In the meantime, Metgasco has an active community engagement program underway in the Casino area and is reviewing energy opportunities in states outside NSW.

In September 2013, the newly elected Federal Government expressed its support for re-establishing the development of coal seam gas in New South Wales. In late September 2013, the NSW state government will host a summit of key stakeholders to address the critical issue of energy security. Shareholders are invited to regularly visit the Metgasco website to stay abreast of developments in the coming year.

Operating Results for the Year

The consolidated net loss after tax of the Group for the year ended 30 June 2013 amounted to $7,210,352 (2012: $5,136,147)

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 2013.

Proceedings on Behalf of the Group

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under Section 237 of the *Corporations Act* 2001.

Environmental Regulation and Performance

Exploration and development activities are subject to State and Federal laws, principally the Petroleum (Onshore) Act and Environmental Protection Act and associated regulations in NSW. Metgasco has a policy of complying with its environmental performance obligations. Metgasco relies upon the timely receipt of approvals from Government in order to efficiently execute its work program.

Directors

The following persons were Directors of Metgasco during the whole of the financial year (except where otherwise noted) and up to the date of this financial report are as follows:

Nicholas Heath	Non-Executive Director
Peter Henderson	Managing Director and Chief Executive Officer
Steven Koroknay	Non-Executive Director (Deceased 6 June, 2013)
Leonard Gill	Non-Executive Director
Gregory Short	Non-Executive Director (appointed 6 August, 2013)

Nicholas John Victor Geddes and Sean Hooper were the Company Secretaries during the 2013 financial year.

Nicholas Geddes – FCA, FCIS Company Secretary
Mr Geddes is the principal of Australian Company Secretaries, a company secretarial practice that he formed in 1993. Mr Geddes is a past President of Chartered Secretaries Australia and a former Chairman of the NSW Council of that Institute. His previous experience, as a Chartered Accountant and Company Secretary, includes investment banking and development and venture capital in Europe, Africa, the Middle East and Asia.

Qualifications: Chartered Accountant (Fellow of Institute of Chartered Accountants in England & Wales) and Fellow of the Institute of Chartered Secretaries (Chartered Secretaries Australia).

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

Mr Heath has over 35 years' experience in the petroleum industry in technical, operational and commercial roles with the ExxonMobil group of companies. From 1993 he was director of Esso Australia Pty Ltd later ExxonMobil Australia Pty Ltd, with functional responsibility for Gas & Power Marketing.

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

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

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

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

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

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

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

Special responsibilities: Managing Director and Chief Executive Officer.

Other directorships: None

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

Steven Koroknay – B. Eng (Hons) – Civil Eng (Sydney), FAICD, FIEA
Independent Non-Executive Director
Appointed: 19 January 2010
Deceased: 6 June 2013

Mr Koroknay's career encompassed 30 years in the international oil and gas industry commencing with Esso Australia Limited. During 15 years with Esso Australia, he served in senior management positions, namely Head of Operations and Technical Manager, Bass Strait fields as well as assignments in the United States.

Mr Koroknay then spent 10 years at Bridge Oil becoming Executive Director and COO. Mr Koroknay was the founder of Anzon Energy and Anzon Australia. He was formally a councillor of Australian Petroleum Production and Exploration Association (APPEA) and Chairman of the Advisory Board for the School of Petroleum Engineering at University of New South Wales.

Special responsibilities: Chairman of the Audit and Risk Management Committee, Member of the Nomination and Remuneration Committee (deceased 6 June 2013).

Other directorships: Non-Executive Chairman Galilee Energy Limited and Non-Executive Director Cue Energy Resources Limited (Deceased 6 June 2013).

Previous directorships of listed companies during the last three years: Non-Executive Director of Eastern Corporation Limited (Retired 2010), Non-Executive Director Innamincka Petroleum Limited (Retired 2011).

Leonard Gill – B. Eng (Hons), MAICD
Independent Non-Executive Director
Appointed: 16 June 2010

Mr Gill has over 30 years' experience in the Australian energy industry, with a focus on power generation, energy trading and risk management and energy retailing to large customers. He was previously Chief Executive Officer of TXU Australia (now TRUenergy) and led their wholesale energy division for five years, with responsibilities including power generation, gas storage and gas and electricity contracting and trading.

Special responsibilities: Member of the Audit and Risk Management Committee (appointed Chair on 17 June 2013), Member of the Nomination and Remuneration Committee.

Other directorships: Non-Executive Director of WDS Limited

Previous directorships of listed companies during the last three years: Non-Executive Chairman of Alinta Energy, renamed Redbank Energy March 2012 (Retired 2011).

Gregory Short – B.Sc (Geology) (Hons), Graduate of AICD
Independent Non-Executive Director
Appointed: 6 August 2013

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

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

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

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

Meetings of Directors

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

Director	Number of meetings attended while a Director	Number of meetings held while a Director
Nicholas Heath	13	13
Peter Henderson	13	13
Steven Koroknay	12	12
Leonard Gill	13	13

Audit & Risk Management Committee Meetings
Steven Koroknay was the Chairman of the Audit & Risk Management Committee until his death on 6 June 2013 and Nicholas Heath and Leonard Gill were members of this committee. Leonard Gill was appointed Chair on 17 June 2013. This committee met twice during the year with all members in attendance.

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

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

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

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

Out of 2,296,481 options that lapsed during the year, a total of 231,481 were a result of resignations. Full details of options outstanding can be found in note 20 to these accounts.

All shares issued by the Group as a result of the exercising of options are fully paid ordinary shares. A detailed table showing full particulars of all options outstanding can be seen at note 20 to the Financial Statements.

Remuneration Report (Audited)

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

Use of Remuneration Consultants
Metgasco's Nomination and Remuneration Committee had obtained from Godfrey Remuneration Group, extensive data relating to remuneration in the Australian oil and gas sector for the year ended 30 June 2012. The levels of base pay as well as short term and long term incentives being awarded to employees of companies with a similar size (by market capitalisation) to Metgasco have been used to assist in setting appropriate remuneration levels for Metgasco employees for the year ended 30 June 2013.

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

Non-Executive Directors
Remuneration for non-executive directors is determined at market rates by conducting an annual benchmarking exercise against a pool of comparable companies. Industry remuneration data is obtained by the Nomination and Remuneration committee for this purpose from Godfrey Remuneration Group.

Remuneration is determined by the Board with reference to these benchmarks and takes into consideration Directors' time commitments and responsibilities to the Company and the need to obtain appropriately qualified independent Directors.

The structure of remuneration for Non-Executive Directors comprises a Base Fee inclusive of superannuation plus, where applicable, Committee Fees for participation as a member of a Board Committee. Fees to Non-Executive Directors are approved by the Board and set in aggregate within the maximum amount approved by the shareholders. The maximum amount of fees approved to be paid to Non-Executive Directors by Shareholders on 16 November 2010 was $500,000. Fees paid to Non-Executive Directors during the year to 30 June 2013 were $210,408.

In addition, Directors are awarded equity incentives as deferred shares or options to acquire a share. This approach attempts to strike a balance between preserving cash and ensuring sustained service to the Company.

Consistent with the March decision to suspend field operations, Directors decided on a 20% cut in Non-Executive Director fees from April 2013.

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-financial 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 a share.

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

The use of deferred shares or options as a long term incentive attempts to provide employees with a strong incentive to grow the value of the Company and ensure a degree of staff retention. All LTIs issued are subject to a three year trading lock and are forfeited if the employee leaves the company, unless the Board decides otherwise. In addition, the vesting of LTIs is subject to the Company's share price achieving a volume weighted average price above the issue price of the deferred shares.

In the case of options, once they are granted, the conditions required to ensure vesting are a service condition and a volume weighted share price condition. Future performance of an individual is therefore not a condition affecting the vesting of options granted in past periods.

The Executive and Non-Executive Directors of the Group during the reporting period are as follows:

- Nicholas Heath, Non-Executive Director
- Peter Henderson, Managing Director & CEO
- Steven Koroknay, Non-Executive Director, Deceased 6 June 2013
- Leonard Gill, Non-Executive Director
- Gregory Short, Non-executive Director, Appointed 6 August 2013

Details of Remuneration

Details of the nature and amount of each element of remuneration of each Director and Key Management Personnel of the Group for the year ended 30 June 2013 are as follows:

Total equity compensation granted in the reporting period

Directors and Key Management Personnel	Total no. of shares granted for no consideration Short term incentives	Total no. of shares granted for no consideration Long term incentives (1)
Peter Henderson	368,727	983,273

(1) Unless otherwise described, trading lock for 3 years. Share price must reach $0.35.
No options were issued during the year. These were issued in respect of the 2011/12 financial year. No short term incentives were issued to any employees in respect of the 2012/13 financial year.

Remuneration 2013

	Short Term Employment Benefits			Post-Employment Benefits		Long Term Benefits	Share Based Payments				
Name	Cash Salary & fees	Other benefits	Short term 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	440,964	4,297	-	-	28,688	-	1,352,000	290,619	-	764,568	38%
N. Heath	83,617	-	-	-	7,526	-	-	-	-	91,143	-
S. Koroknay*	54,782	-	-	-	5,203	-	-	-	-	59,985	-
L. Gill	54,385	-	-	-	4,895	-	-	-	-	59,280	-
Total	**633,748**	**4,297**	**-**	**-**	**46,312**	**-**	**1,352,000**	**290,619**	**-**	**974,976**	**30%**

* Deceased 6 June, 2013

Details of shares granted as remuneration for the reporting period ending 30 June 2013

Name	No. of deferred shares granted	Fair value at grant date	Date granted	Date vesting
Directors		**$**		
P. Henderson	368,727	73,745	13/11/2012	13/11/2012
P. Henderson	983,273	196,655	13/11/2012	24/08/2015
Total	**1,352,000**	**270,400**	**-**	**-**

The recipients of the above deferred shares paid no consideration towards them. Deferred shares granted in the reporting period are subject to the condition that those in receipt of the deferred shares remain in employment with the Group through to the date of vesting and VWAP must be greater than $0.35 for 30 days prior to vesting.

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	75	25	100	-	38

Remuneration 2012

	Short Term Employment Benefits			Post-Employment Benefits		Long Term Benefits	Share Based Payments				
Name	Cash Salary & fees	Other benefits	Termination payments	Short term incentives	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	389,285	18,815	-	50,000	39,536	-	645,161	102,694	-	600,330	17.1
N. Heath	87,736	-	-	-	7,896	-	-	-	-	95,632	-
G. McLoughlin*	262,826	-	-	77,250	30,607	-	596,774	-	-	370,683	-
S. Koroknay	56,850	-	-	-	10,750	-	-	-	-	67,600	-
L. Gill	57,248	-	-	-	5,152	-	-	-	-	62,400	-
Total	**853,945**	**18,815**	**-**	**127,250**	**93,941**	**-**	**1,241,935**	**102,694**	**-**	**1,196,645**	**8.6**

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

Name	No. of deferred shares granted	Fair value of share at grant date	Date granted	Date vesting
Directors		**$**		
P. Henderson	645,161	361,290	15/11/2011	1/09/2014
G. McLoughlin*	596,774	334,193	15/11/2011	1/09/2014
Total	**1,241,935**	**695,483**	**-**	**-**

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

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

Details of Employment Agreements

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

Peter Henderson - Managing Director & Chief Executive Officer
Mr Henderson provides services under an employment contract whereby the base remuneration for the year ended 30 June 2013, inclusive of superannuation, under the contract is $458,598. Mr Henderson's remuneration level is subject to an annual review which references remuneration levels at a pool of comparable companies. Remuneration is determined by the Board with reference to those benchmarks. Mr Henderson is eligible to receive up to 25% of his base salary by way of short term incentives and up to 50% of his base salary by way of long term incentives.

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

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

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

Voting and comments made at the Company's 2012 Annual General Meeting
Metgasco Limited received a majority of 'yes' votes on its Remuneration Report for the financial year ended 30 June 2012. The company received no specific feedback on its Remuneration Report at the Annual General Meeting.

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 in the securities of Metgasco are as follows:

	Options	Ordinary Shares
Nicholas Heath	-	783,590
Peter Henderson (1)	-	6,898,561
Steven Koroknay (2)	-	385,386
Leonard Gill	-	445,386

(1) Includes shares resolved to be issued but subject to shareholder approval at the Annual General Meeting.

(2) Shareholding was current at 6 June 2013 which was the date of resignation.

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

Equity based remuneration following the end of the reporting period and up to the date of this report
At a Board meeting on July 23, 2013, consideration was given to STI and LTI awards based on 2012/2013 performance. Given the sharp deterioration of the Company’s share price following suspension of field activities in March 2013, the Company made no STI awards to any staff in 2012/2013.

21 out of a total of 27 staff were made redundant following the suspension of field activities in March, 2013. With a need to ensure that the remaining staff members were incentivised to continue in their employment, the Company implemented its normal LTI award program as an important component of its retention plan. The share price hurdles were established to align the interests of shareholders and the need to retain critical senior staff. At the time of the award, the Company’s shares had been trading at about $0.05.

The following shares are proposed to be issued to Directors, subject to shareholder approval at the Group’s Annual General Meeting to be held on 29 October 2013. They do not constitute part of the Group’s shares currently on issue.

	Ordinary shares issued as short term incentive	Ordinary shares issued as long term incentive	Total
Peter Henderson	Nil	4,326,400	4,326,400

Shares issued by way of long term incentive

The terms of the grant are:

- trading in 2013 long term incentive award shares is restricted until 23 July 2016 (End of Restricted Period);
- 2013 LTI award shares will be forfeited if the employee leaves the company between the date of issue and the End of Restricted Period;
- the shares will be forfeited if the employee is terminated between the date of grant and the End of Restricted period (subject to Board discretion);
- the Company’s share price must exceed different levels for the shares to vest:
  - 1/3 of the shares will vest if a volume weighted average price (VWAP) of $0.14 or more was reached during any period of 30 days commencing immediately after the date of grant and the End of the Restricted period;
  - A further 1/3 of the shares will vest if a volume weighted average price (VWAP) of $0.17 or more was reached during any period of 30 days commencing immediately after the date of grant and the End of the Restricted period;

  - The final 1/3 of the shares will vest if a volume weighted average price (VWAP) of $0.20 or more was reached during any period of 30 days commencing immediately after the date of grant and the End of the Restricted period;

- those shares that do not satisfy the conditions above will not vest;
- in the event that the Company is subject to a change of control then the shares shall become unrestricted in accordance with the approved resolution 6 approved at the 2011 AGM.

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 24.

Audit Services

During the year, audit and review fees payable to Grant Thornton Audit Pty Ltd amounted to $84,000.

Non Audit Services

Metgasco may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important. During the current financial year, the auditor, Grant Thornton Audit Pty Ltd, did not provide any non-audit services to the Group.

All non-audit services would be reviewed by the Audit 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

In recognising the need for the highest standard of corporate behaviour and accountability, the Directors of Metgasco support, and have adhered to, the principles of sound corporate governance. The Group's Corporate Governance Statement follows this report.

Significant Events after End of Reporting Period

No 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.

L. F. Gill

Leonard Gill
Chairman Audit and Risk Management Committee
25 September 2013

CORPORATE GOVERNANCE STATEMENT

Metgasco and its Board of Directors are committed to maintaining and promoting good corporate governance practices within the Group for the benefit of stakeholders and the broader community.

Corporate Governance is the framework of rules, relationships, systems and processes within which and by which authority is exercised and controlled in corporations. The Board of Directors of Metgasco is responsible for the corporate governance of the group and has taken into account its size and activities in the development of the framework.

Metgasco provides its Corporate Governance Statement with reference to the Second Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Principle 1: Lay solid foundations for management and oversight

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

The Board of Directors operates in accordance with its Charter and the Group's Constitution. The Board takes responsibility for the performance of the Group and for developing and implementing corporate governance practices.

The Board has established a Board Charter, which describes the role of the Board and the role of management. The Charter sets out the composition, role and responsibilities of the Board. The minimum number of Directors is three and the maximum is nine. Appointments to the Board are based on merit, skills, expertise and experience.

The Board accepts that it is responsible for:

a) Reviewing and approving Metgasco's Strategic Plans and performance objectives and the underlying assumptions and rationale;

b) Reviewing and approving the risk management monitoring systems and systems of internal control;

c) Reviewing and approving the Group's financial objectives and ensuring that the necessary financial and human resources are in place for the Group to meet its objectives;

d) Ensuring that the performance of management is regularly assessed and monitored;

e) Setting the Group's values and standards of conduct and ensuring that these are adhered to;

f) Appointing and approving the terms and conditions of the appointment of the Managing Director and reviewing and providing feedback on the performance of the Managing Director and other officers and senior management;

g) Reviewing the performance of the Board, individual Directors and board committees;

h) Endorsing the terms and conditions of senior executives through the Nomination and Remuneration committee;

i) Monitoring compliance with legal and regulatory obligations and ethical standards including reviewing and ratifying codes of conduct and compliance systems;

j) Approving and monitoring the annual budget and business plan, major operating and capital expenditure, capital management and material variations;

k) Authorising expenditure approval limits for the executive officers of the Group and authorising expenditure in excess of these discretionary limits;

l) Approving all mergers, acquisitions and disposals of projects and businesses;

m) Authorising the issue of securities and instruments of the Group;

n) Ensuring that the Group conducts all its activities in an environmentally responsible and sustainable way by planning and managing all activities to ensure minimum environmental impact;

o) Determining and implementing policies and procedures to ensure that the ASX is promptly and adequately informed of all matters considered to be material, in accordance with the Group's continuous disclosure obligations; and

p) Reviewing and recommending to shareholders the appointment, or if appropriate, the termination of the external auditor.

Senior management is responsible for managing the Group and operates under direction and delegation from the Board. The day to day management of the Group is delegated to the Managing Director.

The Board has established two committees:

- Audit and Risk Management Committee; and
- Nomination and Remuneration Committee.

Each Committee has its own charter describing its composition, structure and membership requirements. The committee charters are reviewed on an annual basis.

The timetables for Board and Committee meetings are agreed annually to ensure that the Board and individual Directors dedicate sufficient and appropriate time to reviewing and overseeing Metgasco's business.

All Directors operate under a letter of appointment and are parties to a Deed of Access and Indemnity with the Group.

Directors are appointed by the Board subject to election by shareholders at the next Annual General Meeting with one-third of the board being subject to re-election at each subsequent Annual General Meeting. The Chairman is elected by the Board. The performance of Directors is reviewed on an ongoing basis.

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.

All senior executives have formal position descriptions and each year their key performance measures are established in line with the Group's objectives and their roles and responsibilities.

All newly appointed senior executives receive formal letters of appointment describing their terms of appointment, duties, rights and responsibilities.

Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.

The Board charter is available on the Company's website at www.metgasco.com.au.

Principle 2: Structure the Board to add value

Recommendation 2.1: A majority of the Board should be independent Directors.

The Board considers that an independent Director is one who:

- Is not a member of management;
- Is not a substantial shareholder of the Group or associated with a substantial shareholder of the Group;
- Within the last three years has not been employed in an executive capacity by the Group or been a Director;
- Within the last three years has not been a principle of a material professional advisor or a material consultant;
- Is not a material supplier or customer of the Group or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- Has no material contractual relationship with the Group;

- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Directors' ability to act in the best interests of the Group; and
- Is free from any business interest that could, or could reasonably be perceived to, materially interfere with the Directors' ability to act in the best interest of the Group.

The independence of Directors is assessed regularly. Currently the Board is comprised of four Directors, of which three are considered to be independent; Mr Nicholas Heath, Mr Leonard Gill and Mr Gregory Short are considered to be independent Directors.

Recommendation 2.2: The Chair should be an independent Director

The Board maintains an independent Chairman, Mr Nicholas Heath.

Recommendation 2.3: The roles of Chair and Chief Executive Officer should not be exercised by the same individual.

The roles of the Chairman and Managing Director are exercised by different individuals.

Recommendation 2.4: The Board should establish a Nomination Committee

The Board has established a Nomination and Remuneration Committee which is chaired by an independent Director, Mr Nicholas Heath. The Nomination and Remuneration Committee has held one meeting during the reporting period. The Nomination and Remuneration Committee operates under a Charter which describes its role, responsibilities, composition, structure and membership requirements.

The Board comprises Directors with an appropriate range of skills, experience and qualifications. The names and skills, experience and expertise of the Directors and the tenure and independence status of each Director is described in the Director's report. Directors have the right, in connection with their duties and responsibility as Directors, to seek independent professional advice at the Group's expense. Prior approval of the Chairman is required which will not be unreasonably withheld.

The composition of the Board is determined in accordance with the Group's Constitution which requires that the minimum number of Directors is three and the maximum number of Directors is nine. The names of the members of the Nomination and Remuneration Committee and the Audit and Risk Management Committee and their attendance record are provided in the Directors' report.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.

The Board undertakes ongoing self-assessment and review of its performance and of the performance of the Chairman, individual Directors and Board Committees.

The performance review process conducted in 2013 included the completion of a structured questionnaire and interviews with Directors and the Chairman. These reviews were wide ranging and included each Director's contribution to Board discussions.

Recommendation 2.6: Companies should provide the information indicated in the guide to reporting on Principle 2.

The Charter for the Nomination and Remuneration Committee can be found on the Group's website at www.metgasco.com.au. Detailed information on the skills, experience and expertise of each Director is provided in the Annual Report.

Principal 3: Promote ethical and responsible decision making

Recommendation 3.1: Companies should establish a Code of Conduct and disclose the code or a summary of the code.

The Board has adopted a Code of Conduct which requires that all Metgasco Directors, officers, employees, and contractors must perform their business in accordance with all relevant laws and regulations and in accordance with the Group's policies and procedures.

The Code of Conduct requires that all Directors, officers, employees and contractors are expected to avoid "conflicts of interest" with regard to the Group's interests. Directors and Officers are required to advise the Company Secretary of any perceived conflict of interest. Where related party or conflict of interest matters arise, the Chairman may require the removal of the relevant Director or Officer from any decision made in relation to the perceived conflict of interest or related party matter.

The Board is committed to ensuring a safe workplace. All operations are planned and managed to ensure that employees are working under safe conditions. Directors and employees are required to comply with all legislative requirements relating to workplace safety and to establish effective safety management practices. Employees are encouraged to suggest improvements to workplace safety.

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

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

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

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

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

The proportion of women represented at these levels in Metgasco as at the date of this report is as follows:

- Women represented on the Board: 0%
- Women represented in Senior Executive Positions: 0%
- Women represented in the Whole Organisation: 11%

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

A copy of the Company's Code of Conduct and Diversity Policy is available from the Company's website at [www.metgasco.com.au.](http://www.metgasco.com.au)

Principal 4: Safeguard integrity in financial reporting

Recommendation 4.1: The Board should establish an audit committee.

To assist it in carrying out its duties, the Board has established an Audit and Risk Management Committee. The primary function of the Committee is to assist the Board in fulfilling its responsibilities to provide shareholders with timely and reliable financial reports.

Recommendation 4.2: The audit committee should be structured so that it: consists only of Non-Executive Directors; consists of a majority of Independent Directors; is chaired by an Independent Director who is not chair of the Board; and has at least three members.

The Audit and Risk Management Committee is chaired by Mr Leonard Gill an independent Director. The Audit and Risk Management Committee met twice during the year to deal with audit and audit review matters and to ensure that the accounting and financial policies and controls, risk management systems and compliance with regulatory and statutory requirements are in place, adequate and effective. The Audit and Risk Management Committee is comprised of three independent Non-Executive Directors.

Recommendation 4.3: The audit committee should have a formal charter.

The Audit and Risk Management Committee operates under a formal charter. The Board appoints independent external auditors under a letter of appointment which includes a scope and plan. Full access to the Group's records, personnel and support are provided. Open communications with the auditors and management are maintained.

Recommendation 4.4: Provide the information indicated in Guide to Reporting on Principle 4.

The charter for the Audit and Risk Management Committee is available on the Company's website at www.metgasco.com.au.

Principal 5: Make timely and balanced disclosure

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Metgasco communicates with shareholders in accordance with the Corporations Act and the Listing Rules of the ASX. All ASX announcements, media releases and other relevant material are retained on the Metgasco website for a minimum of three years. The Board has adopted a Continuous Disclosure Policy to ensure all investors have equal and timely access to material information concerning the Group, including its financial position, performance, ownership and governance. The policy outlines procedures to ensure that Directors and senior executives of the Group comply with its continuous disclosure obligations. The Board has delegated the function of continuous disclosure to the Company Secretary and Managing Director.

Recommendation 5.2: Companies should provide the information indicated in Guide to reporting on Principle 5.

The Company's Continuous Disclosure Policy is available on the Company's website at www.metgasco.com.au.

Principal 6: Respect the rights of shareholders

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Board has endorsed a communications strategy which is designed to promote effective communication with shareholders and encourage effective participation at general meetings. The strategy includes the publication of:

- The Annual Report;
- The Half-Yearly Report;
- Quarterly Cash Flow and Activities Reports;
- The Annual General Meeting and other meetings called to obtain approval for Board action as appropriate;
- The Group's website at www.metgasco.com.au; and
- Continuous disclosure of material information.

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

At the Annual General Meeting, the Chairman encourages questions and comments from shareholders and seeks to ensure the Meeting is managed to give shareholders an opportunity to participate. Shareholders can ask questions about or comment on the operations of the Group and the performance of the Board and management. The external auditor is requested to attend the Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.

The Company's Shareholders Communications Policy is available on the Company's website at www.metgasco.com.au.

Principal 7: Recognise and manage risk

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The Board takes a proactive approach to management of the wide range of risks that Metgasco faces. The Board is responsible for oversight of the processes whereby the risks, and also opportunities, are identified on a timely basis and that the Group's strategies and activities are aligned with the risks and opportunities identified by the Board. The Risk Management approach is supported by the Risk Management Policy which has been endorsed by the Board on the recommendation of the CEO and the Audit and Risk Management Committee.

Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

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

The external auditor reports findings on relevant risk and control issues to the Audit and Risk Management Committee and to the Board after the half year review and the annual audit.

Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent*) and the Chief Financial Officer (or* equivalent*) that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.*

The Chief Executive Officer and Chief Financial Officer have provided the Board with written assurances that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.

The Company's Risk Management Policy is available on the Company's website at www.metgasco.com.au.

Principal 8: Remunerate fairly and responsibly

Recommendation 8.1: The board should establish a remuneration committee.

The Board has established a Nomination and Remuneration Committee, the majority of members being independent and which is chaired by an Independent Director. The Board has adopted a formal charter for the Nomination and Remuneration committee which describes its role, responsibilities, composition, structure and membership.

Recommendation 8.2: The remuneration committee should be structured so that it: consists of a majority of independent directors, is chaired by an independent chair, has at least three members.

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

Recommendation 8.3: Companies should clearly distinguish the structure of Non-Executive Director's remuneration from that of Executive Directors and senior executives.

The structure of Non-Executive Director's remuneration is described in the Remuneration Report of this Annual Report.

Recommendation 8.4: Provide the information indicated in the Guide to reporting on Principle 8.

All equity based executive remuneration is made in accordance with the Group's Employee Share Equity Plan, which has been approved by shareholders. All equity based executive remuneration to executive and non-executive Directors is approved by shareholders. Remuneration policies and the names of members of the Nomination and Remuneration Committee are provided in the Remuneration Report in this Annual Report.

Metgasco has no departures from ASX Corporate Governance Guidelines

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 2013, 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

Iain Kemp

I S Kemp
Partner - Audit & Assurance

Sydney, 25 September 2013

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Note	**2013**	2012
		$	$
Revenue	*5 (a)*	**878,821**	949,146
Other Income	*5 (b)*	**20,386**	20,689
Expenses			
Finance costs	*6 (c)*	**(22,214)**	(22,711)
Accounting, compliance, legal & professional		**(378,593)**	(447,162)
Investor Relations		**(358,100)**	(388,582)
Consulting fees		**(84,318)**	(384,005)
Depreciation	*6 (a)*	**(27,733)**	(51,889)
Impairment of inventory and other non-current assets		**(3,591,236)**	-
Directors fees		**(191,667)**	(205,673)
Employee costs	*6 (d)*	**(2,640,878)**	(3,689,593)
Rent and occupancy	*6 (b)*	**(366,320)**	(319,359)
Travel &accommodation		**(142,950)**	(239,307)
Other administrative		**(305,550)**	(357,701)
Loss before income tax		**(7,210,352)**	(5,136,147)
Income tax expense	*7*	**-**	-
Net loss for the year		**(7,210,352)**	(5,136,147)
Other comprehensive income		**-**	-
Total comprehensive loss for the year		**(7,210,352)**	(5,136,147)
Loss attributable to owners of the parent		**(7,210,352)**	(5,136,147)
Earnings per share for loss from continuing operations			
Basic loss per share (cents)	*27*	(1.7)	(1.5)
Diluted loss per share (cents)	*27*	(1.7)	(1.5)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	2013	2012
		$	$
ASSETS			
Current			
Cash and cash equivalents	*8*	**20,855,975**	12,220,672
Inventory	*9*	**1,312,082**	1,822,763
Trade and other receivables	*10*	**518,289**	1,340,840
Current assets		**22,686,346**	15,384,275
Non-current			
Exploration and evaluation expenditure	*11*	**77,778,821**	67,086,667
Plant and equipment	*12*	**968,613**	4,416,963
Other receivables	*13*	**885,497**	856,736
Non-current assets		**79,632,931**	72,360,366
TOTAL ASSETS		**102,319,277**	87,744,641
LIABILITIES			
Current			
Trade and other payables	*15*	**2,055,692**	1,208,476
Provisions	*16*	**2,555,189**	453,700
Borrowings	*17*	**119,656**	125,454
Current liabilities		**4,730,537**	1,787,630
Non-current			
Provisions	*18*	**95,265**	1,307,158
Borrowings	*17*	**-**	145,955
Total non-current		**95,265**	1,453,113
TOTAL LIABILITIES		**4,825,802**	3,240,743
NET ASSETS		**97,493,475**	84,503,898
EQUITY			
Share capital	*19*	**123,990,967**	104,116,311
Share option reserve	*20*	**5,240,882**	4,915,609
Accumulated losses		**(31,738,374)**	(24,528,022)
TOTAL EQUITY		**97,493,475**	84,503,898

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 2013

	Share capital	*Accumulated losses*	*Share option reserve (note 20)*	*Total equity*
	$	**$**	**$**	**$**
At 1 July 2011	89,106,562	(19,391,875)	4,281,907	73,996,594
Loss for the year	-	(5,136,147)	-	(5,136,147)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	**-**	**(5,136,147)**	-	**(5,136,147)**
Transactions with owners in their capacity as owners				
Issue of share capital	15,357,867	-	-	15,357,867
Cost of share issues	(348,118)	-	-	(348,118)
Share based expense	-	-	633,702	633,702
At 30 June 2012	104,116,311	(24,528,022)	4,915,609	84,503,898
Loss for the year	-	(7,210,352)	-	(7,210,352)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	**(7,210,352)**	-	**(7,210,352)**
Transactions with owners in their capacity as owners				
Issue of share capital	20,616,500	-	-	20,616,500
Cost of share issues	(741,844)	-	-	(741,844)
Share based expense	-	-	325,273	325,273
At 30 June 2013	**123,990,967**	**(31,738,374)**	**5,240,882**	**97,493,475**

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 2013

	Note	2013	2012
		$	$
Operating activities			
Payments to suppliers and employees (inclusive of goods and service taxes)		**(3,935,453)**	(6,203,301)
Interest received		**769,170**	949,146
Other income		**3,393**	-
Net cash flow from operating activities	26	**(3,162,890)**	(5,254,155)
Investing activities			
Expenditure on exploration and evaluation		**(9,143,809)**	(6,044,112)
R&D grant received		**1,242,665**	346,128
Bond refund		**89,488**	-
Disposal of property, plant and equipment		**78,635**	34,410
Purchase of property, plant and equipment		**(122,638)**	(619,664)
Net cash flow from investing activities		**(7,855,659)**	(6,283,238)
Financing activities			
Net proceeds from Issue of shares	19	**19,874,656**	15,009,749
Repayments of borrowings		**(198,590)**	(107,766)
Finance costs paid		**(22,214)**	(22,711)
Net cash flow from financing activities		**19,653,852**	14,879,272
Net increase/(decrease) in cash and cash equivalents held		**8,635,303**	3,341,879
Cash and cash equivalents at the beginning of year		**12,220,672**	8,878,793
Cash and cash equivalents, end of year	8	**20,855,975**	12,220,672

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 2013

1. Corporate Information

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

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

Metgasco Limited is the Group's ultimate parent company. Metgasco Limited is a public company incorporated and domiciled in Australia. The address of its registered office and its principal place of business is Level 11, 2 Elizabeth Plaza, North Sydney NSW 2060.

The consolidated financial statements for the year ended 30 June 2013 were approved and authorised for issue by the board of directors on 25 September 2013.

2. Summary of Significant Accounting Policies

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

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

Assessment of impairment indicators
On 19 February 2013, the New South Wales Government announced its intention to amend the State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007 (Mining SEPP) and subsequently issued a Planning White Paper calling for submissions by 28 June 2013. At the date of finalisation of these consolidated financial statements, the NSW Government is still to release a final amended Mining SEPP.

The proposed changes include exclusion zones for coal seam gas exploration and development within two kilometres of residential areas.

On 13 March 2013 the Group announced the suspension of its Clarence Moreton Basin exploration and development program in response to changes and uncertainty in government policy.

2. Summary of Significant Accounting Policies (continued)

Assessment of impairment indicators (continued)
The directors and management believe that in their judgement, the potential impact of these proposed amendments triggers the requirement for an assessment of impairment under Australian accounting standards. Accordingly the company has assessed the carrying value of its capitalised exploration and evaluation expenditure, property, plant and equipment and inventory for impairment. As result of this assessment, the carrying value of inventory (refer note 9) and property plant and equipment (refer note 12) have been impaired by $470,433 and $3,120,803 respectively.

The Group has formally assessed the recoverable amount of its capitalised exploration and evaluation expenditure using a “value in use calculation”, which included amongst other assumptions, an updated reserve statement obtained from an external consultant which assumed the announced, but not yet legislated, regulation by the NSW Government for exclusion zones had been enacted. Using recent CSG transactions as a proxy, the Group also compared the carrying value of is exploration and evaluation expenditures to an expected fair value less cost to sell. As a result of this assessment, no impairment has been recognised in respect of the Group’s capitalised exploration and evaluation expenditure.

While the Group believes it has taken the NSW Government’s announced proposed changes into account in their assessment, these potential changes are still subject to consultation and have not yet been enacted; as such management is not in a definitive position to determine the ultimate effect, if any, on the Group’s future operations.

Drilling and associated expenses
The application of accounting judgments is manifested in the Group’s approach to the classification of its drilling and associated expenses. It is at this stage, a matter of judgment as to the commerciality of the project which is the overriding consideration governing the continuing capitalisation of exploration costs.

Deferred tax assets
The application of accounting judgments is manifested in the Group’s approach to the recognition of deferred tax assets arising from operating losses. Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

Provision for site restoration
The Group estimates the future restoration costs of wells at the time of installation. In most instances removal of these assets occurs many years into the future. The calculation of this provision requires management to make assumptions regarding removal date, application of environmental legislation, the extent of restoration activities required and available technologies.

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 2013. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

At 30 June 2013, Metgasco controlled 100% of Richmond Valley Power Pty Ltd, Clarence-Moreton No.1 Pty Ltd and The Lions Way Pipeline Pty Ltd. The financial statements of the subsidiaries have been prepared for the same reporting date as the parent company, using consistent accounting policies. The purchase method of accounting has been used to account for the acquisition of the subsidiary by the Group. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless cost cannot be recovered. The subsidiaries are accounted for in the parent entity at cost.

c) Income tax

Income tax expense is based on the result for the year adjusted for any non-assessable or disallowed items based on the notional income tax rates for each jurisdiction. No deferred income tax is recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax is calculated at the tax rate that is expected to apply to the period when the asset is realised or liability is settled. Deferred tax is debited or credited to profit or loss except where it relates to items that are debited or credited directly to equity or other comprehensive income, in which case the deferred tax is adjusted directly against equity or items of other comprehensive income. Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse changes will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law. The Group has not formed a consolidated tax group.

d) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. Leases in which the risks and rewards of ownership are transferred to the lessee are classified as finance leases. Finance leases are capitalised at the lease’s inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges are included in current and non-current liabilities in their respective amounts.

Property plant and equipment acquired under finance leases is depreciated over the shorter of the assets useful life or the term of the lease.

e) Business undertakings

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

f) Joint ventures

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

g) Revenue and expenses

Interest revenue is recognised as interest accrued using the effective interest method. Expenses are recognised on an accruals basis. Revenue from the hiring of equipment is recognised in the period in which the hirer of that equipment enjoys the use and possession of it. All revenue and expenses are stated at the net amount after adjustment for applicable goods and services tax (GST).

2. Summary of Significant Accounting Policies (continued)

h) Foreign currency translation

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of transaction. At the end of the reporting period, amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date, with the resulting foreign exchange gains or losses being recognised in the profit of loss.

i) Earnings per share

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

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

j) Exploration expenditure and petroleum tenement leases

The Group is actively involved in hydrocarbon exploration and evaluation activities in relation to coal seam gas and conventional hydrocarbons on PEL 13, 16 & 426. In accordance with AASB 6, exploration expenditure is carried forward as an asset provided that the rights to the area of interest are current and one of the following conditions is met:

- Such expenditure is expected to be recouped by:
  - Successful development of the area of interest; or
  - By sale of the area of interest.

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

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

k) Inventory

Inventories comprise of drill hole casing and other consumable items and are recorded at weighted average cost.

l) Receivables

Receivables are recognised at their original invoice value less an allowance for any amounts deemed uncollectible. The terms for all receivables are 30days. 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 paymentsordebtsmorethan60daysoverdue.

2. Summary of Significant Accounting Policies (continued)

m) Property, plant and equipment

Each class of property, plant and equipment is carried at historic cost less accumulated depreciation and impairment losses, where applicable. Plant and equipment is measured on the historic cost basis less depreciation and impairment losses.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. The cost of assets constructed within the Group includes the cost of materials, direct labour, borrowing costs, and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the carrying value of the asset or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred.

The carried value of an asset is written down immediately to its recoverable amount if the asset's carried value is greater than its estimated recoverable value. Gains and losses on disposals are determined by comparing proceeds with the carried value. These gains and losses are included in the profit or loss.

n) Depreciation

All fixed assets are depreciated on a straight line basis over their useful lives to the Group. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Plant and equipment is depreciated at rates from 10–40%. The asset's residual values and useful lives are reviewed and adjusted, if appropriate, at the end of the reporting period. Depreciation charged on assets which are employed exclusively in the Group's exploration activities is capitalised. This is consistent with the treatment of other exploration related expenses.

o) Impairment of assets

Assets that are not subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

p) Restoration and rehabilitation

Estimates of the cost of restoration and rehabilitation represent the anticipated cost to decommission the Company's existing wells. Site restoration costs include: the dismantling and removal of infrastructure, removal of residual materials and remediation of disturbed areas. Such costs are determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group, prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

r) Employee benefits

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

2. Summary of Significant Accounting Policies (continued)

(i) Long service leave

The non-current liability for long service leave is recognised in the provision for employee benefits and estimated as future cash outflows to be made by Metgasco resulting from employees' services provided up to the reporting date. Consideration is given to expected future wages and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(ii) Share based payments

Share based compensation benefits are provided to employees via the Metgasco Employee and Officer's Equity Plan. Metgasco has issued options and share rights to Directors and employees as part of their remuneration.

- The fair value of options and share rights granted under The Employee and Officer's Equity Plan is recognised as an Employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options and share rights.

- The fair value at grant date is determined by using a Black-Scholes option pricing model that takes into account the share price at grant date, exercise price, expected volatility, option life, expected dividends, the risk free rate, vesting and performance criteria, the impact of dilution and the fact that the options and share rights are not tradable.

(iii) Superannuation

The Group contributes to the personal superannuation funds of employees in accordance with the prevailing Federal legislation. Contributions of superannuation are recognised as expenses when they become payable. The cost of superannuation for employees employed exclusively in exploration and evaluation activities are carried forward in the statement of financial position.

s) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that such an outflow can be reliably measured.

t) Cash and cash equivalents

Cash and cash equivalents include: cash on hand and short, fixed term deposits with banks. Bank overdrafts are shown within short-term borrowings in current liabilities on the consolidated statement of financial position. For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which is disclosed as operating cash flows.

v) Government grants

Grants from Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with conditions attaching to those grants. Government grants shall be recognised as a credit to carry forward exploration costs whilst the treatment of exploration costs continue to comply with AASB 6. Grants will be recognised only to the extent of the expenditure so far incurred for which the grants are intended to cover.

2. Summary of Significant Accounting Policies (continued)
w) New accounting standards and interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

- *AASB 1054 Australian Additional Disclosures effective 1 July 2012*
  The requirement to disclose each class of capital commitment and expenditure commitment contracted for at the end of the reporting period is removed. Although this standard is adopted for the first time for the year ended 30 June 2012, the financial statements will continue to disclose capital expenditure and exploration expenditure commitments.

- *AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (Applies annual reporting periods beginning on or after 1 July 2012)*

  AASB 2011-9 requires entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently, and changes the title of 'statement of comprehensive income' to 'statement of profit or loss and other comprehensive income'.

  The adoption of the new and revised Australian Accounting Standards and Interpretations has had no significant impact on the Group's accounting policies or the amounts reported during the reporting period. The adoption of AASB 2011-9 has resulted in changes to the Group's presentation of its financial statements.

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

Certain new accounting standards and interpretations have been published that are for 30 June 2013 reporting period. A brief description of the new accounting standards and the effect, where applicable, on the Financial Statements or the results of the Group, is as follows.

- *AASB 9 financial instruments* specifies the requirements for classification and measurement of financial assets for period beginning on or after January 1, 2015. Due to adoption only being mandatory for 30 June 2016 year end, the Group has not yet made an assessment of the impact of these amendments.

- *AASB 10 Consolidated Financial Statements effective 1 January 2013*
  When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity does not have any special purpose entities.

- *AASB 11 Joint Arrangements effective 1 January 2013*
  When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity has not entered into any joint arrangements.

- *AASB 2012-9 Presentation of Items of Other Comprehensive Income effective 1 January 2013*
  When this standard is first adopted for the year ended 30 June 2014, there will be no impact on amounts recognised for transactions and balances for 30 June 2014 (and comparatives). However, the statement of comprehensive income will include name changes and include subtotals for items of OCI that can subsequently be reclassified to profit or loss in future (e.g. foreign currency translation reserves) and those that cannot subsequently be reclassified (e.g. fixed asset revaluation surpluses).

2. Summary of Significant Accounting Policies (continued)

- *AASB 119 Employee benefits effective 1 January 2013*
  The entity currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to IAS 19 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement.

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

- *AASB 12 Disclosure of Interests in Other Entities*
  This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

  The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgments and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

- *AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement*
  These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

- *AASB 13 Fair Value Measurement*
  AASB 13 provides guidance on how to determine fair value when fair value is required or permitted by other Standards. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

  The entity is yet to undertake a detailed analysis of the differences between the current fair valuation methodologies used and those required by AASB 13. However, when this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 January 2013.

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	
	2013	2012
	$	$
Cash and cash equivalents	**20,855,975**	12,220,672
Loans and receivables	**902,248**	991,736
Financial liabilities at amortised cost	**(2,053,003)**	(1,206,122)

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.

Of the financial liabilities disclosed above, the sum of $119,656 (2012: $271,409) represents amounts due on finance leases and the maturity analysis can be seen in note 17 to the accounts. The remainder represents trade payables and various accrued amounts that are expected to be settled within 30 to 60 days from the reporting date as disclosed in note 15 to the accounts.

a) Market risk

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

i) Foreign exchange risk

Small components of the Group's purchases of well materials are denominated in US dollars ("USD"). At the end of the reporting period however the amount of trade payables denominated in USD was nil. Subsequent variations in the USD/AUD exchange rate therefore would have no impact on the future results of the Group. From time to time throughout the reporting period, the Group has made purchases of well casing and other items that are denominated in US dollars. Due to the infrequency of such purchases, no foreign currency hedging is undertaken, however any material changes to the value of our commitments to be settled in foreign currency are communicated to senior management and budgeted for.

ii) Interest rate risk and equity securities or other financial securities price risk.

The Group has no exposure to interest rate risk other than reductions/increases in interest earned should the rates decrease/increase respectively. As an indication of possible sensitivity to changes in interest rates a 1% movement in interest rates, assuming a mean cash balance of $20,855,975 would increase/decrease the annual amount of interest received by $208,559.

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 is currently in the exploration and appraisal stage of development and has not entered into any sales contracts and is therefore not exposed to counterparty credit risk.

3. Financial Risk Management (continued)

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet commitments. The Group ensures that sufficient cash reserves are available to carry out its committed program of works. The Group is reliant upon continued support from shareholders to maintain the liquidity of the Group. The Directors have not presented a detailed maturity analysis because the Group has sufficient cash reserves to meet all short term and long term financial liabilities as disclosed in notes 15 and 17.

4. Segment Information

The operations of the Group are conducted wholly within Australia.

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

This has resulted in two reportable segments with those being hydrocarbon exploration and the development of the Richmond Valley Power Station project.

Description of segments

Management has determined the operating segments based on reports reviewed by the executive management team for making strategic decisions. The executive management team comprises the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and the General Manager Exploration.

i) *Hydrocarbon exploration and development*

This segment comprises the exploration, evaluation and development of principally coal seam gas and also conventional gas, in the Clarence-Moreton Basin in northern NSW.

ii) *Richmond Valley Power Station*

This segment comprises the development of a 30 megawatt gas fired power station located outside the township of Casino. Metgasco retains its development approval for the Casino Gas Project / Richmond Valley Power Station. The project is currently on hold. Apart from the NSW CSG regulatory environment, changes in the eastern coast electricity market have questioned the timing for new base load power stations. Metgasco will continue to review options, which include the building of a peak load power station rather than a base load power station. The carrying amount of this asset was impaired to the land value of the site, as determined by an independent valuer. Refer note 12.

No segment revenue is disclosed because no discrete information is provided to the executive management team as both activities are still in their exploration and start up phase. Neither activity is generating revenue or operating expense with all costs to date being capitalised.

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

5. Revenue and Other Income

		Consolidated	
		2013	2012
		$	$
(a)	**Revenue**		
	Interest received from financial institutions	**878,821**	949,146
	Total revenue	**878,821**	949,146
(b)	**Other income**		
	Gain on disposal of assets	**16,993**	20,689
	Miscellaneous income	**3,393**	-
	Total other income	**20,386**	20,689

6. Expenses

Loss before income tax includes the following specific expenses:

		Consolidated	
		2013	2012
		$	$
(a)	**Depreciation**		
	Plant and equipment	**27,733**	51,889
	Total depreciation	**27,733**	51,889
(b)	**Rent and occupancy**		
	Rent under operating lease - Sydney	**280,151**	241,989
	Occupancy costs	**86,169**	77,370
	Total rent and occupancy	**366,320**	319,359
(c)	**Finance cost - external**		
	Interest expense	**877**	3,647
	Bank charges	**21,337**	19,064
	Total Finance Cost	**22,214**	22,711
(d)	**Employee costs**		
	Superannuation	**143,388**	205,969
	Wages and salaries	**1,568,322**	2,559,180
	Workers compensation	**51,361**	(76,123)
	Payroll tax	**184,064**	147,738
	Fringe benefits tax	**-**	10,743
	Share based payments	**325,273**	633,702
	Recruitment and consultants	**102,175**	170,859
	Provision for redundancy	**204,764**	-
	Miscellaneous others	**61,531**	37,525
	Total employee costs	**2,640,878**	3,689,593

Depreciation charged on assets employed directly in the Group's exploration activities for the year was $436,268 (2012: $481,342) and is charged to exploration assets. Depreciation charged on assets not in the above category was $27,733 (2012: $51,889) for the year and is charged directly to the profit or loss.

7. Income Tax

		Consolidated	
		2013	2012
		$	$
(a)	**Income tax expense**		
	Loss before income tax expense	**(7,210,352)**	(5,136,147)
	Prima facie tax benefit on loss at 30% (2012: 30%)	**(2,163,106)**	(1,540,844)
	Tax effect of amounts which are not deductible in calculating taxable income		
	Share based payments	**97,582**	190,111
		(2,065,524)	(1,350,733)
	Movements in unrecognised temporary differences	**(30,020)**	(26,031)
	Tax effect of current year tax losses for which no deferred tax asset has been recognised	**(2,095,544)**	(1,376,764)
	Income tax expense	**-**	-
(b)	**Unrecognised deferred tax assets and liabilities**		
	Capital raising costs	**882,186**	621,613
	Accruals and provision for employees benefits	**49,212**	79,232
	Carry forward tax losses:		
	– Operating	**9,521,512**	7,358,407
	– Exploration and evaluation expenditure	**23,333,648**	20,126,000
	Deferred tax liability - taxable temporary differences	**(23,333,648)**	(20,126,000)
	Net unrecognised deferred tax asset	**10,452,910**	8,059,252

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	
	2013	2012
	$	$
Cash at bank and on hand	**1,100,485**	136,620
Term deposits	**19,755,490**	12,084,052
Total	**20,855,975**	12,220,672

a) Cash at bank and on hand

Amounts held in the Group's cheque account attract variable interest rates commensurate with a business cheque account.

8 Cash and Cash Equivalents (continued)

b) Term deposits

Term deposits attract rates of interest ranging from 2.85% to 4.27% (2012: 3.6% to 5.0%). The maturity dates of the various term deposits range from 1 day to 180 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. Inventory

	Consolidated	
	2013	2012
	$	$
Materials, consumables and equipment	**1,312,082**	1,822,763
Total	**1,312,082**	1,822,763

The cost of inventories recognised as an expense in 2013 and 2012 was nil. Inventory is valued at the lower of costs and net realisable value. The assessment of the allowance for inventory obsolescence requires a degree of estimation and judgment. The level of the allowance is assessed by taking into account the ageing of inventories, the expected amount to be recovered through disposals and other factors that affect inventory obsolescence. During the period the carrying value of inventory was written down by $470,433 to its expected recoverable value upon disposal of surplus inventory. Inventory items consist predominantly of materials used in the construction of coal seam and conventional gas wells. Inventory items are periodically assessed for impairment indicators. Such an indicator might be that an item of inventory is no longer able to be used safely or effectively in the manner in which it was intended to be used.

10. Trade and Other Receivables (Current)

	Consolidated	
	2013	2012
	$	$
Security bonds-Current	**-**	135,000
GST receivable	**304,882**	160,493
Rent deposits	**16,751**	-
Prepayments	**196,656**	203,365
R&D grant receivables	**-**	841,982
Total	**518,289**	1,340,840

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

11. Exploration and Evaluation Expenditure

	Consolidated	
	2013	2012
	$	$
Expenditure for the entities operations		
Movement during the financial period (at cost):		
Opening balance	**67,086,667**	62,150,836
Capitalised exploration expenditure	**11,092,837**	6,123,941
R & D grant	**(400,683)**	(1,188,110)
Carrying amount at end of year	**77,778,821**	67,086,667

11 Exploration and Evaluation Expenditure (continued)

Salaries and all other expenses of personnel based in Casino are recognised as a cost of exploration and evaluation given those costs are directly related to operational activities. A proportion of employment costs of the head office staff are considered to be directly related to exploration activities. The proportion of salary and other expense attributable to exploration is based upon time allocation and the nature of their work activities. The carrying forward of capitalised exploration and evaluation costs is dependent on the successful recoupment of these costs through commercial exploitation, or alternatively, the sale of the Group's area of interest.

At 30 June 2013, the Group reviewed the carrying amount of its exploration and evaluation assets for indicators of impairment in accordance with the Group's accounting policy (refer note 2(o)). As a result, the recoverable amounts of the exploration and evaluation assets were formally reassessed (refer to note 2(a)). Estimates of recoverable amounts of exploration and evaluation assets were based the assets fair value less cost to sell and their value in use.

The review resulted in no impairment loss being recognised.

12. Plant and Equipment

	Consolidated	
	2013	2012
	$	$
Office equipment		
At cost	**177,686**	165,140
Accumulated impairment	**(31,222)**	-
Accumulated depreciation	**(111,207)**	(104,014)
Net carrying amount	**35,257**	61,126
Computer equipment		
At cost	**508,146**	471,662
Accumulated impairment	**(16,260)**	-
Accumulated depreciation	**(448,917)**	(406,303)
Net carrying amount	**42,969**	65,359
Motor vehicles		
At cost	**86,956**	118,574
Accumulated depreciation	**(50,211)**	(51,953)
Net carrying amount	**36,745**	66,621
Motor vehicles under finance lease at cost		
At cost	**556,258**	623,640
Accumulated depreciation	**(398,628)**	(346,724)
Net carrying amount	**157,630**	276,916
Improvements		
At cost	**306,572**	203,827
Accumulated impairment	**(95,851)**	-
Accumulated depreciation	**(104,416)**	(83,400)
Net carrying amount	**106,305**	120,427

12 Plant and Equipment (continued)

	Consolidated	
	2013	2012
	$	$
Plant and equipment		
At cost	**1,641,275**	1,730,461
Accumulated impairment	**(28,218)**	-
Accumulated depreciation	**(1,218,350)**	(1,048,199)
Net carrying amount	**394,707**	682,262
Richmond Valley Power Station – development costs		
At cost	**3,144,252**	3,144,252
Accumulated impairment	**(2,949,252)**	-
Net carrying amount	**195,000**	3,144,252
Total plant and equipment		
At cost	**6,421,145**	6,457,556
Accumulated impairment	**(3,120,803)**	-
Accumulated depreciation	**(2,331,729)**	(2,040,593)
Net carrying amount	**968,613**	4,416,963

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

Office and equipment		
Carrying amount at beginning of financial year	**61,126**	69,893
Additions	**12,546**	14,345
Disposals	**-**	(767)
Impairment	**(31,222)**	-
Depreciation	**(7,193)**	(22,345)
Carrying amount at end of financial year	**35,257**	61,126
Computer equipment		
Carrying amount at beginning of financial year	**65,359**	109,681
Additions	**36,484**	36,281
Disposals	**-**	(1,788)
Impairment	**(16,260)**	-
Depreciation	**(42,614)**	(78,815)
Carrying amount at end of financial year	**42,969**	65,359
Motor vehicles		
Carrying amount at beginning of financial year	**66,621**	34,999
Additions	**-**	52,865
Disposals	**(12,048)**	-
Depreciation	**(17,828)**	(21,243)
Carrying amount at end of financial year	**36,745**	66,621

12 Plant and Equipment (continued)

	Consolidated	
	2013	2012
	$	$
Motor vehicles under finance lease at cost		
Carrying amount at beginning of financial year	**276,916**	322,858
Additions	**45,459**	90,388
Disposals	**(49,594)**	(10,713)
Depreciation	**(115,151)**	(125,617)
Carrying amount at end of financial year	**157,630**	276,916
Improvements		
Carrying amount at beginning of financial year	**120,427**	140,850
Additions	**102,745**	-
Impairment	**(95,851)**	-
Depreciation	**(21,016)**	(20,423)
Carrying amount at end of financial year	**106,305**	120,427
Plant and equipment		
Carrying amount at beginning of financial year	**682,262**	485,832
Additions	**-**	461,218
Disposals	**(5,870)**	-
Impairment	**(28,218)**	-
Depreciation	**(253,467)**	(264,788)
Carrying amount at end of financial year	**394,707**	682,262
Richmond Valley Power Station – development costs		
Carrying amount at beginning of financial year	**3,144,252**	3,126,777
Additions	**-**	17,475
Impairment	**(2,949,252)**	
Carrying amount at end of financial year	**195,000**	3,144,252
Total plant and equipment		
Carrying amount at beginning of financial year	**4,416,963**	4,290,890
Additions	**197,234**	672,572
Disposals	**(67,512)**	(13,268)
Impairment	**(3,120,803)**	-
Depreciation	**(457,269)**	(533,231)
Carrying amount at end of financial year	**968,613**	4,416,963

Impairment loss

At 30 June 2013, the Group reviewed the carrying amount of its plant and equipment for indicators of impairment in accordance with Group’s accounting policy (refer Note 2(m)).

Based on an external valuation of the land value only, an impairment loss of $2,949,252 was recognised on the Richmond Valley Power Station project. This project is currently on hold. Apart from the NSW CSG regulatory environment (refer note 2(a)), changes in the eastern coast electricity market have questioned the timing for new base load power stations. Metgasco will continue to review options, which include the building of a peak load power station rather than a base load power station. The impairment loss of $2,949,252 has been recorded against plant and equipment.

12 Plant and Equipment (continued)
The recoverable amounts of other plant and equipment were also formerly reassessed. The review led to the recognition of an impairment loss of $171,551 resulting from the suspension of field activities in March, 2013 and 21 out of a total of 27 staff being made redundant.

The impairment loss above of $3,120,803 is included in the "Impairment of inventory and other non-current assets" line item in the consolidated statement of profit or loss and other comprehensive income.

13. Other Receivables (Non-current)

	Consolidated	
	2013	2012
	$	$
Security bonds non-current	**885,497**	856,736
Total	**885,497**	856,736

Security bonds are comprised of term deposits which are held in favour of the NSW Department of Industry and Investment and the Group's landlord (being rental bond). The term deposits attract market interest rates. Receivables are not due until such time as the Group has satisfied certain conditions such as the rehabilitation of well sites or the satisfactory handing back of leased offices to the Group's landlord. The fair value of this asset approximates its carrying value.

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			
			2013	2012	**2013**	2012
			%	%	**$**	$
Richmond Valley Power Pty Ltd	Australia	Ordinary	100	100	100	100
Clarence-Moreton No. 1 Pty Ltd	Australia	Ordinary	100	100	2	2
The Lions Way Pipeline Pty Ltd	Australia	Ordinary	100	100	2	2

The proportion of ownership interest is equal to the proportion of voting power held for all the above subsidiaries. The subsidiaries Clarence-Moreton No. 1 and The Lions Way Pipeline were registered on 5 January 2009.

15. Trade and Other payables (Current)

	Consolidated	
	2013	2012
	$	$
Trade payables	**1,612,783**	594,553
Accrued charges and expenses	**320,564**	340,160
Employee benefits	**122,345**	273,763
Total	**2,055,692**	1,208,476

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

16. Provisions (Current)

	Consolidated	
	2013	2012
	$	$
Provision for redundancy	**204,764**	-
Provision for site rehabilitation		
Opening balance	**453,700**	524,200
Amounts transferred from non-current	**1,223,136**	443,700
Amounts provided	**2,536,967**	-
Rehabilitation work	**(1,863,378)**	(514,200)
Closing balance for site rehabilitation	**2,350,425**	453,700
Total	**2,555,189**	453,700

The Group recognises the costs of site rehabilitation for the wells at the time of drilling. Provisions for wells sites expected to be rehabilitated within 12 months are classed as current and therefore the associated cash flows are not subject to discounting.

17. Borrowings

	Consolidated	
	2013	2012
	$	$
Current	**119,656**	125,454
Finance lease liability	**119,656**	125,454
Non-Current	**-**	145,955
Finance lease liability	**-**	145,955

The Group has borrowings in the form of finance leases. The rate of interest charged across the leases held varies from 6.0% to 10.3%. The fair value of the above financial liabilities approximate their carrying value. The lease liability is secured by motor vehicles which have a book value of $159,250 at the end of the reporting period.

Full details of the lease commitments are as follows:

Finance Lease Commitments

Within one year	**127,297**	144,700
Later than one year but not later than 5 years	**-**	152,984
Minimum lease payments	**127,297**	297,684
Future finance charges	**(7,641)**	(26,275)
Recognised as a liability	**119,656**	271,409

18. Provisions (Non-current)

	Consolidated	
	2013	2012
	$	$
Long service leave	**65,265**	84,022
Lease make good	**30,000**	-
Provision for site rehabilitation		
Opening balance	**1,223,136**	1,553,700
Amounts provided	**-**	143,136
Expensed during the year	**-**	(30,000)
Transferred to rehabilitation provision - current	**(1,223,136)**	(443,700)
Closing balance for site rehabilitation	**-**	1,223,136
Total	**95,265**	1,307,158

Provision is made for the future estimated cost of well site rehabilitation at the time of drilling. The estimated costs of well site rehabilitation, where such costs are not expected to be incurred within 12 months of the end of the reporting period, are classed as non-current and therefore discounted accordingly.

19. Share Capital

	Parent Entity		Parent Entity	
	No of Shares	No of shares	**$**	$
	2013	2012	**2013**	2012
(a) Share Capital				
Ordinary Shares -Fully Paid	**445,158,802**	337,414,140	**123,990,967**	104,116,311

(b) Movements in Ordinary Share Capital

	Date	No of Shares	Value $	Issue Price $
Balance at 30 June 2011		**276,213,792**	**89,106,562**	
Shares issued during the year	05/08/11	58,723,231	15,268,040	0.26
Share rights issued during the year	15/08/11	549,432	-	-
	15/11/11	2,025,044	-	-
	15/11/11	1,241,935	-	-
	15/11/11	200,000	-	-
	15/11/11	120,000	-	-
Shares cancelled during the year	15/08/11	(115,278)	-	-
	31/01/12	(635,484)	-	-
	19/03/12	(1,178,532)	-	-
Share options exercised by:				
employees	03/01/12	270,000	89,827	-
Share issue costs	-	-	(20,584)	-
Other share costs	-	-	(327,534)	-

19 Share Capital (continued)

	Parent Entity		Parent Entity	
	No of Shares	No of Shares	**$**	$
	2013	2012	**2013**	2012

	Date	No of Shares	Value $	Issue Price $
Balance at 30 June 2012		**337,414,140**	**104,116,311**	
Shares issued during the year	17/09/12	51,000,000	10,200,000	0.20
	30/10/12	52,082,500	10,416,500	0.20
Share rights issued during the year				
	23/08/12	4,238,712	-	-
	14/11/12	1,352,000	-	-
Shares cancelled during the year	01/07/12	(21,809)	-	-
	06/07/12	(11,003)	-	-
	14/08/12	(886,738)	-	-
	29/08/12	(9,000)	-	-
Share issue costs	-	-	(143,036)	-
Other share costs	-	-	(598,808)	-
Balance at 30 June 2013		**445,158,802**	**123,990,967**	

During the year 3,574,161 shares that were issued to former employees lapsed under the Company's Employee and Officers' Equity Plan. It is proposed to cancel these shares at the 2013 annual general meeting.

	No of Options	No of Options
	2013	2012
Options (not quoted on ASX)		
Opening balance	**5,580,624**	8,171,954
Exercised by employees	**-**	(270,000)
Lapsed	**(2,296,481)**	(2,321,330)
Closing balance	**3,284,143**	5,580,624

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 3,284,143 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 2013. The Company options are not quoted on the ASX.

Capital risk management

The Group considers its capital to comprise its ordinary shares. In managing its capital, the Group's primary objective is to effectively utilise its capital resources to deliver on its operational objectives and deliver returns to shareholders. The issue of new shares is one of the Group's means of achieving its long term operational and strategic objectives. As the Group is involved in exploration and has no debt apart from finance leases disclosed in note 17 the use of various gearing ratios is not employed.

20. Share Based Payments

The Metgasco Limited Employees and Officers Equity Plan ("EOEP") was approved in November 2004. A summary of the rules of the EOEP is set out below.

The allocation of options or shares to each employee, officer or consultant is at the discretion of the Board. Each option or share is to subscribe for one fully paid ordinary share in the Parent Company. Options will expire five years from their date of issue. An option or share is exercisable at any time from its date of vesting. Options or shares are issued free and the exercise price of options is determined by the Board, subject to a minimum price equal to the market value of the Parent Company's shares at the time the Board resolves to offer those options.

	Consolidated	
	2013	2012
	$	$
Opening balance	**4,915,609**	4,281,907
Cost of securities issued under EOEP	**325,273**	633,702
Closing balance of reserve	**5,240,882**	4,915,609

The entire movement in the share option reserve in the current year is attributable to options granted to Group employees and as such has been expensed to the profit or loss.

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 2013

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable Spot Price	Balance at beginning of year	Granted during year	Lapsed / forfeited during year	Exercised during year	Balance at end of year	Fair Value
			$	$	Number	Number	Number	Number	Number	$
21/11/2007	21/11/2007	21/11/2012	0.82	0.900	500,000	-	(500,000)	-	-	
21/11/2007	4/02/2008	21/11/2012	0.82	0.900	500,000	-	(500,000)	-	-	
4/02/2008	4/02/2009	4/02/2013	0.90	0.940	100,000	-	(100,000)	-	-	
4/02/2008	4/02/2010	4/02/2013	0.90	0.940	100,000	-	(100,000)	-	-	
4/02/2008	4/02/2009	4/02/2013	1.00	0.940	65,000	-	(65,000)	-	-	
14/02/2008	14/02/2009	14/02/2013	1.00	0.820	50,000	-	(50,000)	-	-	
21/02/2008	21/02/2008	21/02/2013	1.00	0.830	375,000	-	(375,000)	-	-	
21/05/2008	21/05/2008	21/05/2013	1.00	1.100	375,000	-	(375,000)	-	-	
1/07/2008	1/07/2008	1/07/2013	1.20	1.050	289,486	-	-	-	289,486	184,903
1/07/2008	1/07/2009	1/07/2013	1.20	1.050	310,375	-	-	-	310,375	198,247
1/07/2008	1/07/2009	1/07/2013	1.20	1.050	241,283	-	-	-	241,283	162,882
1/07/2008	1/07/2010	1/07/2013	1.40	1.050	100,000	-	-	-	100,000	60,442
1/07/2008	1/07/2010	1/07/2013	1.60	1.050	390,777	-	-	-	390,777	224,325
21/08/2008	21/08/2008	21/08/2013	1.00	0.720	375,000	-	-	-	375,000	150,014
21/11/2008	21/11/2008	21/11/2013	1.00	0.380	375,000	-	-	-	375,000	62,286
1/09/2009	1/09/2012	1/09/2014	0.50	0.445	912,222	-	-	-	912,222	300,067
1/09/2009	1/09/2012	1/09/2014	0.50	0.445	521,481	-	(231,481)	-	290,000	95,393
Total					**5,580,624**	-	**(2,296,481)**	-	**3,284,143**	**1,438,559**
Weighted average exercise price					**0.93**				**0.95**	

20 Share Based Payments (continued)

Share Based Payments – Deferred Share Awards to Employees

Grant Date	Vesting Date	Issue Price	Balance at Beginning of year	Granted during year	Vested / Forfeited during year	Balance at end of year	Fair Value
		$	Number	Number	Number	Number	$
13/08/2010	13/08/2013	0.45	920,721	-	652,721	268,000	120,600
12/09/2011	01/09/2014	0.31	1,519,787	-	1,061,035	458,752	142,213
15/11/2011	01/09/2014	0.31	645,161	-	-	645,161	200,000
15/11/2011	04/04/2014	0.525	200,000	-	-	200,000	105,000
15/11/2011	18/07/2014	0.26	60,000	-	30,000	30,000	7,800
23/08/2012	24/08/2015	0.22	-	3,150,920	1,860,403	1,290,517	283,914
29/08/2012	01/02/2015	0.40	-	30,000	30,000	-	-
29/08/2012	30/07/2015	0.26	-	75,000	-	75,000	19,500
14/11/2012	24/08/2015	0.20	-	983,272	-	983,272	196,654
Total			**3,345,669**	**4,239,192**	**3,634,159**	**3,950,702**	**1,075,681**

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

20 Share Based Payments (continued)

Consolidated and Parent Entity 2012

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable Spot Price	Balance at beginning of year	Granted during year	Lapsed / forfeited during year	Exercised during year	Balance at end of year	Fair Value
			$	$	Number	Number	Number	Number	Number	$
3/10/2006	3/10/2006	1/01/2012	0.30	0.255	100,000	-	-	(100,000)	-	-
3/10/2006	3/10/2006	1/01/2012	0.50	0.255	150,000	-	(150,000)	-	-	-
29/11/2006	29/11/2006	1/01/2012	0.35	0.350	30,000	-	(30,000)	-	-	-
29/11/2006	29/11/2006	1/01/2012	0.40	0.350	30,000	-	(30,000)	-	-	-
29/11/2006	29/11/2007	1/01/2012	0.50	0.350	40,000	-	(40,000)	-	-	-
29/11/2006	29/11/2007	1/01/2012	0.40	0.350	50,000	-	(50,000)	-	-	-
29/11/2006	29/11/2007	1/01/2012	0.35	0.350	30,000	-	(30,000)	-	-	-
29/11/2006	29/11/2006	1/01/2012	0.35	0.350	140,000	-	(70,000)	(70,000)	-	-
29/11/2006	29/11/2006	1/01/2012	0.40	0.350	216,000	-	(146,000)	(70,000)	-	-
29/11/2006	29/11/2006	1/01/2012	0.50	0.350	370,000	-	(370,000)	-	-	-
29/11/2006	29/11/2006	1/01/2012	0.30	0.350	30,000	-	-	(30,000)	-	-
21/11/2007	21/11/2007	21/11/2012	0.82	0.900	500,000	-	-	-	500,000	286,070
21/11/2007	4/02/2008	21/11/2012	0.82	0.900	500,000	-	-	-	500,000	286,070
21/11/2007	21/11/2007	30/06/2012	0.90	0.900	236,710	-	(236,710)	-	-	-
21/11/2007	30/06/2008	30/06/2012	0.90	0.900	75,669	-	(75,669)	-	-	-
21/11/2007	30/06/2008	30/06/2012	1.00	0.900	164,759	-	(164,759)	-	-	-
21/11/2007	30/06/2009	30/06/2012	1.10	0.900	250,304	-	(250,304)	-	-	-
21/11/2007	30/06/2007	30/06/2012	0.90	0.900	114,884	-	(114,884)	-	-	-
21/11/2007	30/06/2008	30/06/2012	0.90	0.900	72,263	-	(72,263)	-	-	-
21/11/2007	14/09/2008	30/06/2012	0.90	0.900	100,000	-	(100,000)	-	-	-
4/02/2008	4/02/2009	4/02/2013	0.90	0.940	100,000	-	-	-	100,000	68,256
4/02/2008	4/02/2010	4/02/2013	0.90	0.940	100,000	-	-	-	100,000	68,256
4/02/2008	4/02/2009	4/02/2013	1.00	0.940	65,000	-	-	-	65,000	43,384
14/02/2008	14/02/2009	14/02/2013	1.00	0.820	50,000	-	-	-	50,000	28,638
21/02/2008	21/02/2008	21/02/2013	1.00	0.830	375,000	-	-	-	375,000	206,603
21/05/2008	21/05/2008	21/05/2013	1.00	1.100	375,000	-	-	-	375,000	313,844

20 Share Based Payments (continued)

Consolidated and Parent Entity 2012 (continued)

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable Spot Price	Balance at beginning of year	Granted during year	Lapsed during year	Exercised during year	Balance at end of year	Fair Value
			$	$	Number	Number	Number	Number	Number	$
1/07/2008	1/07/2008	1/07/2013	1.20	1.050	289,486	-	-	-	289,486	184,903
1/07/2008	1/07/2009	1/07/2013	1.20	1.050	310,375	-	-	-	310,375	198,247
1/07/2008	1/07/2009	1/07/2013	1.20	1.050	241,283	-	-	-	241,283	162,882
1/07/2008	1/07/2010	1/07/2013	1.40	1.050	100,000	-	-	-	100,000	60,442
1/07/2008	1/07/2010	1/07/2013	1.60	1.050	390,777	-	-	-	390,777	224,325
21/08/2008	21/08/2008	21/08/2013	1.00	0.720	375,000	-	-	-	375,000	150,014
21/11/2008	21/11/2008	21/11/2013	1.00	0.380	375,000	-	-	-	375,000	62,286
1/09/2009	1/09/2011	1/09/2014	0.50	0.445	912,222	-	-	-	912,222	300,067
1/09/2009	1/09/2012	1/09/2014	0.50	0.445	912,222	-	(390,741)	-	521,481	171,536
Total					**8,171,954**	**-**	**(2,321,330)**	**(270,000)**	**5,580,624**	**2,815,823**
Weighted average exercise price					**0.83**				**0.93**	

21. Key Management Personnel

	Consolidated 2013	2012
	$	$
Short-term employee benefits	**638,045**	1,000,010
Post-employment employee benefits	**46,312**	93,941
Other long-term employee benefits	**-**	-
Share based payments	**290,619**	102,694
Termination benefits	**-**	-
Total compensation	**974,976**	1,196,645

There were no payments received or receivable by key management personnel of the Group or related parties of the Group other than that which are disclosed in the remuneration section of the Directors' Report and Note 23 of the Financial Statements.

At 30 June 2013, the direct and indirect interests of the Key Management Personnel in the securities of Metgasco are as follows:

Shares 2013	Opening Balance	Granted as Compensation	Received on Exercise of Options	Other Changes	Shares Disposed	Closing Balance
Nicholas Heath	633,590	-	-	150,000	-	783,590
Peter Henderson	1,145,161	1,352,000	-	75,000	-	2,572,161
Steven Koroknay*	235,386	-	-	150,000	-	385,386
Leonard Gill	295,386	-	-	150,000	-	445,386

* Shareholding was current at 6 June 2013 which was the date of resignation

No options were held directly or indirectly by key management personnel during the year ended 30 June 2013.

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

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

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

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

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

21 Key Management Personnel (continued)
Other key remuneration disclosures
During the year there were no transactions of any kind between the Group and Directors, Key Management Personnel or parties related to these groups other than what has been disclosed in the remuneration reports and Note 23 of the financial statements. This includes loans, dividends, and consulting services. Any shares issued to Directors or Key Management Personnel throughout the year were issued as a component of disclosed remuneration through a rights issue, on-market transactions or through the exercise of options.

There were no payments received or receivable by Key Management Personnel of the Group or related parties of the Group other than as disclosed in the Remuneration section of the Directors' Report in this document.

22. Auditors' Remuneration
Total amounts provided for remuneration for assurance services provided to the Group by the auditor are:

	Consolidated	
	2013	2012
	$	$
During the year, fees paid/payable to the Company's auditors were:		
For audit and review – Grant Thornton Audit Pty Ltd	**84,000**	77,217

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

23. Related Party Disclosures
Directors and Director-related entities share and option holdings at the end of the reporting period are disclosed in note 20 to the financial statements. There are no further related party transactions to disclose.

24. Contingencies Liabilities

	Consolidated	
	2013	2012
	$	$
Bank guarantees Department of Primary Industry	**855,497**	855,497
Rental bond / corporate credit card	**46,751**	136,239

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

25. Commitments
The Group is committed to a minimum program of works in the coming years involving exploration and evaluation activities in PEL 13, 16 & 426. The minimum expenditure for this is set out below. The Group also has the following operating lease commitments.

	Consolidated	
	2013	2012
	$	$
Minimum Exploration & Evaluation expenditure for exploration Tenements within one year	**600,000**	1,170,000
Total	**600,000**	1,170,000
Office Rent		
Within one year	**156,285**	232,074
Later than one year but not later than five years	**217,811**	7,485
Total	**374,096**	239,559

25 Commitments (continued)

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

26. Statement of Cash Flows Reconciliation

		Consolidated	
		2013	2012
		$	$
(a)	**Reconciliation of net loss after tax to net cash flows from operations**		
	Net loss for the year	**(7,210,352)**	(5,136,147)
	Adjustments for:		
	Depreciation	**27,733**	51,889
	Impairments	**3,591,236**	-
	Net profit on disposal of property, plant and equipment	**(16,993)**	(20,689)
	Finance cost classified as financing activities	**22,214**	22,711
	Share based payment expense	**325,273**	633,702
	Changes in assets and liabilities:		
	(Increase)/Decrease in trade and other receivables	**(137,379)**	55,020
	(Increase)/Decrease in inventory	**40,248**	(359,497)
	(Decrease)/Increase in trade and other payables	**426**	(280,793)
	(Decrease)/Increase in provisions	**194,704**	(220,351)
	Net cash flows used in operating activities	**(3,162,890)**	(5,254,155)

(b) Non cash financing and investing activities

Note that part of the increase in fixed assets is attributable to entering in to finance leases. The increase for the current year is $46,820 (2012: $90,388).

27. Earnings Per Share

	Consolidated	
	2013	2012
	$	$
Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
Loss attributable to owners of Metgasco Ltd used to calculate basic earnings per share	**7,210,352**	5,136,147
Diluted earnings per share		
Loss attributable to owners of Metgasco Ltd used to calculate diluted earnings per share	**7,210,352**	5,136,147
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	**416,010,054**	331,625,345
Loss per share (cents)	**(1.7)**	(1.5)

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

28. Financial Facilities

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

29. Government Grants

There have been no grants of any type received or that are receivable during the year ended 30 June 2013.

30. Parent Entity Disclosures

	Consolidated	
	2013	2012
	$	$
Current assets	**22,686,346**	15,384,275
Non-current assets	**79,632,931**	72,360,366
Total assets	**102,319,277**	87,744,641
Current liabilities	**4,730,537**	1,787,630
Non-current liabilities	**95,265**	1,453,113
Total liabilities	**4,825,802**	3,240,743
Contributed equity	**123,990,967**	104,116,311
Accumulated losses	**(31,738,374)**	(24,528,022)
Share option reserve	**5,240,882**	4,915,609
Total equity	**97,493,475**	84,503,898
Loss for the year	**(7,210,352)**	(5,136,147)
Other comprehensive income for the year	**-**	-
Total comprehensive loss for the year	**(7,210,352)**	(5,136,147)

Included in the non-current assets of the parent is an amount receivable from the wholly owned subsidiary, Richmond Valley Power Pty Ltd for $195,000 (2012: $3,144,252). The amount receivable by the parent entity from wholly owned subsidiaries is for funds advanced for the purpose of the development of the Richmond Valley Power Station. The parent expects that the subsidiary will have sufficient cash reserves at the end of the project to repay this loan.

Commitments

The parent entity is committed to a minimum program of works in the coming years involving exploration and evaluation activities in PEL 13, 16 & 426. The minimum expenditure for this is set out below. The Group also has the following operating lease commitments.

	Consolidated	
	2013	2012
	$	$
Minimum Exploration & Evaluation expenditure for exploration Tenements within one year	**600,000**	1,170,000
Total	**600,000**	1,170,000
Office Rent		
Within one year	**156,285**	232,074
Later than one year but not later than five years	**217,811**	7,485
Total	**374,096**	239,559

Contingent Liabilities

	2013	2012
	$	$
Bank guarantees Department of Primary Industry	**855,497**	855,497
Rental bond / corporate credit card	**46,751**	136,239

30 Parent Entity Disclosures (Continued)
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
No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Metgasco Limited:

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

      i) giving a true and fair view of its financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and

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

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

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2013.

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

Signed in accordance with a resolution of the directors:

Peter J Henderson
Managing Director and CEO

Leonard Gill
Chairman Audit and Risk Management Committee

Sydney, 25 September 2013

Grant Thornton

Grant Thornton Audit Pty Ltd
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Independent Auditor's Report
To the Members of Metgasco Limited

Report on the financial report

We have audited the accompanying financial report of Metgasco Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

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

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Emphasis of Matter regarding the carrying value of the exploration and evaluation expenditure

Without qualifying our opinion, we draw attention to Note 2 a) in the financial report which indicates that on 19 February 2013, the New South Wales Government announced its intention to amend the State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007 (Mining SEPP) and subsequently issued a Planning White Paper calling for submissions by 28 June 2013. At the date of this report, the NSW Government is still to release a final amended Mining SEPP. On 13 March 2013, the Company announced the suspension of its Clarence Moreton Basin exploration and development program in response to changes and uncertainty in government policy.

The details of these proposed changes are subject to consultation and not yet enacted, as such the effect, if any, on Metgasco Limited's future operations and therefore on the carrying value of its exploration and evaluation expenditure is uncertain.

Report on the remuneration report

We have audited the remuneration report included in pages 9 to 14 of the directors' report for the year ended 30 June 2013. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Metgasco Limited for the year ended 30 June 2013, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

I S Kemp
Partner - Audit & Assurance

Sydney, 25 September 2013

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 17 September 2013.

The Issued Capital consisted of 451,348,141 fully paid ordinary shares.

There were 5,136 holders of these ordinary shares.

There were 1,655 holders of less than a marketable parcel of 8,065 ordinary shares.

The distribution of holders was:

Number of Fully Paid Ordinary Shares Held	Shareholders	%
1 – 1000	440	0.04
1,001 – 5,000	894	0.60
5,001 – 10,000	726	1.33
10,001 – 100,000	2,300	20.32
100,001 and above	776	77.71
Total	5,136	100

20 Largest Shareholders

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

Name	Number held	% of Issued Shares
ERM POWER LIMITED	36,300,000	8.04
ERM POWER LIMITED	20,822,009	4.61
DALEFORD WAY PTY LTD	8,600,000	1.91
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,194,989	1.59
CITICORP NOMINEES PTY LIMITED	6,805,922	1.51
KALSIE HOLDINGS PTY LTD <IYER SUPER FUND A/C>	6,532,693	1.45
FAST FREEZE INTERNATIONAL LIMITED	6,251,286	1.39
DANSAR PTY LTD <J&A VAUGHAN SUPER FUND A/C>	5,212,774	1.15
KALSIE HOLDINGS PTY LTD <IYER SUPER FUND A/C>	5,000,000	1.11
MR DAVID JOHNSON	4,924,907	1.09
MR PETER STANMORE	4,803,542	1.06
MAGNIM PTY LTD <COX INVESTMENT A/C>	4,684,733	1.04
LITWICK ENTERPRISES PTY LTD	4,000,000	0.89
MR SIN MONG WONG + MS SENG BEE TEOH	3,933,000	0.87
SHARON HOOPER <THE HOOPER FAMILY A/C>	3,163,268	0.70
MR JAMES GARDINER	3,000,000	0.66
MS GLENDA MCLOUGHLIN	2,845,000	0.63
MR PETER JOHN HENDERSON <PJJT HENDERSON DISC A/C>	2,572,161	0.57
MAXA PTY LTD	2,352,043	0.52
ST BAKER INVESTMENTS PTY LTD <ST BAKER A/C>	2,343,141	0.52
Total of top 20 holders of fully paid ordinary shares		**31.32**

Substantial Holders

Shareholder	Date Notice Received	Form	No. Shares per Notice Received	% Total Shares *
ERM Power Limited (ACN 122 259 223) Energy Resource Managers Holdings Pty Ltd (ACN 010 165 554) and Trevor St Baker	24/04/2013	Form 604	57,122,009	12.83%

* These percentages were calculated at the time the notice was given.

On Market Buy-Back
There is no on market 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.

Interests in Mining Tenements*

The Group's relevant interests in exploration tenements as at 30 June 2013 is as follows.

Tenement	Resource Type	30 June 2012	30 June 2012
PEL 13	Coal seam gas	100%	100%
PEL 13	Conventional	100%	100%
PEL 16	Coal seam gas	100%	100%
PEL 16	Conventional	100%	100%
PEL 426	Coal seam gas	100%	100%
PEL 426	Conventional	100%	100%

*The above tenements are all located in the Clarence-Moreton Basin in Northern NSW.

GLOSSARY OF TERMS

Adsorption	The attraction exerted by the surface of coal for a liquid on gas with which there is contact
Ash	In coal, the inorganic residue after burning
ASX	Australian Stock Exchange Limited
Basin	A segment of the earth's crust that has down-warped and in which sediments have accumulated
Bcf	Billion cubic feet (109 cubic feet)
Bituminous	Coal that contains between 15% and 20% volatile matter
Cleat	A joint or system of joints along coal fractures
CO^2	Carbon Dioxide
Core	A cylindrical piece of rock taken as a sample
CSG	Coal Seam Gas. Also known as coal seam methane (CSM) and coal bed methane (CBM). Natural Gas contained within coals
Clarence–Moreton Basin	A sedimentary basin containing early Triassic and mid to late Jurassic sediments
Daf	Dry ash free
Desorption	The process of the loss of gas previously adsorbed on coal
Fracture	Any break in a rock caused by mechanical stress
Gas-in-Place or GIP	A technical estimate of potential gas volumes contained within a defined area
GJ	Gigajoule (109 joules)
Hydrostatic	Pressure exerted by a fluid at rest
Isotherm	A graph derived from measurements taken over a time at a constant temperature
Joule	A unit of energy
Jurassic	A period of geological time approximately195 to 135 million years ago
Km	Kilometre
Km2	Square kilometre
Mcf	Thousand cubic feet (103 cubic feet)
Metgasco or the Group	Metgasco Ltd ACN 088 196 383
Md	Millidarcy (unit measurement of permeability)
MMcf	Million cubic feet (105 cubic feet)
MW or Megawatt	One million watts of power
MWh	Megawatt hour
PEL	Petroleum Exploration Licence
Petroleum Act	Petroleum (Onshore) Act 1991 (NSW) and Petroleum (Onshore) Regulations 2002 (NSW)
Permeability	The capacity of a rock (coal) to transmit fluid
PJ	Petajoule (1015 joules)
Rank	A classification of coal based on the degree of heating and pressure undergone

Reserves

1P	**(Proven oil/gas reserves)** are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.
2P	**Probable Reserves** are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
3P	**Possible Reserves** are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) Reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
2C	Best estimate of those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.
Resource	The volume of gas stored in coal
Scfd	Standard cubic feet per day
Seismic	The gathering of data on the subsurface by a particular geophysical method which uses shock waves
Tcf	Trillion Cubic Feet
Tenement	Title to explore for and/or produce petroleum granted pursuant to the Petroleum Act
TJ	Terajoule (1012 joules)
Walloon Coal Measures	A formation in the Clarence–Moreton Basin which contains coal and is of middle Jurassic Age

Standard Metric Prefixes

Kilo	10^3 (thousand)
Mega	10^6 (million)
Giga	10^9 (1000 million)
Tera	10^{12}
Peta	10^{15}

Conventional Conversions

1 mcf	= 1. 1 Gigajoule
1 mmcf	= 1. 1 Terajoule
1 bcf	= 1. 1 Petajoule

CORPORATE DIRECTORY

Directors	Nicholas Heath (Chairman) Peter Henderson Steven Koroknay (Deceased 6 June 2013) Leonard Gill Gregory Short
Principal and Registered Office	Level 11, 2 Elizabeth Plaza North Sydney, NSW 2060
Mailing Address	PO Box 517 North Sydney, NSW 2059
Company Secretaries	Sean Hooper Nicholas Geddes
Notice of Annual General Meeting	The Annual General Meeting of Metgasco will be held: Date: 29 October 2013 Time: 11:00am Venue: Christie Corporate Mozambique Room, Level 4 100 Walker Street, North Sydney
Home Stock Exchange	Australian Securities Exchange (ASX) 4 Bridge Street Sydney, NSW 2000
ASX Symbol	MEL
Auditor	Grant Thornton Audit Pty Ltd Level 19, 2 Market Street Sydney, NSW 2000
Solicitors	Piper Alderman Level 23, Grosvenor Macquarie Tower 1 Farrer Place Sydney, NSW 2000
Share Registry	Computershare Investor Services Pty Limited GPO Box 7115 Sydney, NSW 2001
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