

METGASCO

2014 ANNUAL REPORT

TABLE OF CONTENTS

CHAIRMAN'S AND MANAGING DIRECTOR'S LETTER.....	3
DIRECTORS' REPORT	6
CORPORATE GOVERNANCE STATEMENT.....	22
AUDITOR'S INDEPENDENCE DECLARATION	29
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	30
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	31
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	32
CONSOLIDATED STATEMENT OF CASH FLOWS.....	33
NOTES TO THE FINANCIAL STATEMENTS	34
DIRECTORS' DECLARATION.....	63
INDEPENDENT AUDITOR'S REPORT	64
SHAREHOLDER INFORMATION.....	67
GLOSSARY OF TERMS.....	69
CORPORATE DIRECTORY	71

CHAIRMAN'S AND MANAGING DIRECTOR'S LETTER

Dear Shareholders

The 2014 financial year was a very challenging and disappointing year for Metgasco and its shareholders.

In May 2014, the NSW Government unexpectedly prevented your Company from drilling its conventional and tight gas exploration well, Rosella. The government suspended Metgasco's approval to drill the well without notice and only a few days from commencement of drilling activity. This caused your company significant losses and delayed the carefully planned drilling program indefinitely. Not only did the NSW government's decision cost the company financially, it also generated major losses to shareholders, causing a 40% drop in the company's share price.

The general investment climate for gas exploration and development in NSW also showed little improvement. The NSW Government continues to send out mixed messages. This is despite a growing awareness of the need for new gas supplies to limit gas price increases and to maintain employment in NSW.

The Government's Rosella suspension decision was made on the advice of the Office of Coal Seam Gas on the alleged basis that Metgasco had failed to adequately consult with the local community, an assertion that has been thoroughly rejected. The suspension decision was made without honouring the legislated notice requirements, without any prior warning or indication that Metgasco's consultation program was anything less than satisfactory and only days before the drilling rig was to mobilise. The company immediately sought to have the suspension lifted but was unsuccessful in its attempt.

The company wrote to the Premier seeking an independent review of the decision but was referred back to the Office of Coal Seam Gas, whose review, unsurprisingly, affirmed its earlier decision.

Unable to get an acceptable response from the NSW Government, Metgasco had no choice but to commence legal action in the NSW Supreme Court to have the suspension decision overturned. This action could also provide the basis for a damages claim against the government. The decision to commence legal action was not taken lightly.

Our request to expedite the case has been successful and the Supreme Court hearing is scheduled for 20 and 21 October, with the judgment due some time afterwards. Metgasco has confirmed media reports that it has had negotiations with NSW Government to conclude an out-of-court settlement of its suspension dispute. Metgasco would prefer this approach, providing of course that the terms are in the interest of shareholders. At the time of writing, no such agreement has been achieved.

We cannot report on the year's performance without commenting on the background and efforts to drill the Rosella well. The well had been planned for some time. We had what we considered to be an ideal site for the well, on an unused gravel quarry. We also had very enthusiastic landholders, Robbie and Peter Graham. We spent a considerable time working with the local council to plan the well, ensuring that we had sufficient security and that the public using the road on which the gravel quarry is located would have minimal inconvenience. We undertook a consultation program that was substantially greater than any of the previous 50 wells drilled by Metgasco.

The environmental submission that formed the basis of the NSW Government approval to drill had been submitted in March 2013. Metgasco announced its plans to drill the well in September 2013. Disappointingly, it took until February 2014 for the NSW Government to approve the drilling plan. Once Government approval had been received, Metgasco immediately contracted a drilling rig and related services to drill the well, intending to start field operations in the April/May period.

Protestors started gathering at the drilling site from January and increased in number through March, April and May. These protestors repeatedly broke the law and intimidated the farmer, interfering with his rights to enter his own property. It is apparent that many anti-gas protestors want farmers to have the right to say "no" to drilling on their land, but they refuse to allow the landholder to say "yes".

A few days before the drilling rig was to mobilise to site, and following months of planning with police and statements from NSW Government Ministers confirming that Metgasco had the right to drill and that law and order would be enforced, the Government suspended Metgasco's drilling approval on 14 May, leaving the company with substantial cancellation costs for the rig, no ability to drill in the immediate term and an

indeterminate period of delay. The company had no choice but to commence legal action in the NSW Supreme Court to protect its lawful rights and the interests of its shareholders generally.

The company's board would like to express its appreciation to the Rosella landholder for agreeing to let Metgasco drill on this land, and to standing up to the intimidation from the anti-gas group. We would also like to thank the local NSW Police and local government officials who provided their professional support and recognised Metgasco's legal right to drill.

There are some clear messages from the Rosella experience. The NSW Government must respect the rights of companies to whom it gives exploration licences and who have worked hard to respect their licence obligations. The government and their agencies must play a strong and ongoing role in communicating the benefits of a NSW gas production industry and explaining that it is safe and appropriately regulated. They also need to play a strong role in responding to the misinformation that is spread by the anti-gas lobby. They must also be prepared to ensure the lawful rights of landholders and resource companies are protected. If the NSW Government is not prepared to do this, companies will not invest in the state and development of the state's resources will stall.

Given the events of the past year, Metgasco focused on its decommissioning program and cost cutting. All wells other than two CSG wells that have been suspended for future production have now been decommissioned fully and the sites rehabilitated. All but two of these rehabilitated wells have had associated paperwork approved by Government. The paperwork for the remaining two has been submitted and is expected to be approved shortly. Some of the bonds held by the NSW Government as security for the company's wells have been returned, and the bulk of the remaining bonds are expected to be returned shortly.

Metgasco also completed its pond rehabilitation program. Two of the ponds used to store CSG produced water were handed over to the landholders for future use. Following extensive reviews, including a veterinarian study and the involvement of numerous government departments, Government approval was given for the untreated coal seam gas water remaining in the ponds to be used for stock watering. This is a clear demonstration that the CSG water in Metgasco's licence areas is not toxic, just more salty than normal drinking water.

During the year the company considered a number of oil and gas business opportunities outside NSW that could complement its Clarence Moreton exploration assets, to which Metgasco remains firmly committed. To date, none of the opportunities reviewed have been sufficiently attractive to pursue. The board will, however, continue to review opportunities as they arise. The ongoing delay with development of the Clarence Moreton basin resources has increased the incentive to find exploration and development / production opportunities elsewhere that complement Metgasco's Clarence Moreton resource.

Last year has been a very challenging year for the directors, management and staff of Metgasco and we would like to acknowledge their commitment. Metgasco has been running a particularly lean team since the March 2013 suspension of field activity. There have been periods, particularly in the period following the drilling suspension, when very long work hours were called on from all employees and the non-executive directors.

We were fortunate during the year to be able to attract Greg Short and Peter Berry to join the company's Board as non-executive directors, broadening your Board's skill and experience base. Greg brings 40 years of international geo-science experience to the Board and Peter brings 30 years of finance and legal experience. We would like to recognise the significant contribution made by Nick Heath to Metgasco over a period of 8 years including 4 years as Chairman. Nick retired from the Board on 30 September this year. Metgasco has no plans to increase the size of its Board beyond the current four members.

We would also like to recognise the efforts of Metgasco's Casino based employees and contractors and the landholders that gave the company approval to drill on their land, Robbie and Peter Graham. While many in the community treated them with the respect we all normally expect, they were subject to some appalling behaviour from a small element of the community and the anti-gas protestors.

Metgasco and the NSW industry have some challenges ahead.

There is a clearly a strong market for gas, and Metgasco has the gas resources to make a positive impact on NSW supply. The NSW Chief Scientist has just released a report (Sept 2014) that reaffirmed that an appropriately regulated gas industry is safe to proceed. However many in the community continue to hold a

jaundiced view of the industry as a result of the anti-gas smear campaign. The Chief Scientist recognised that the NSW Government and its agencies will need to play a stronger role, together with the industry, to counter this fear campaign. The response of the NSW Government to the report is yet to be issued.

The industry also has work ahead to convince the NSW Government that it needs to provide timely development approvals and sensible regulations if costs are to be managed and investment encouraged. We will continue to urge the Government to make use of "smart" regulations, those that sensibly manage risks.

In summary, Metgasco has identified substantial gas resources in NSW to which we remain committed to developing and commercialising, albeit this will be over a longer timeframe than previously envisaged. The NSW market needs more gas and prices will rise substantially. Some are predicting supply rationing on peak demand days. These conditions are likely to drive increased Government and community support for the industry in time and a change in attitude among the general community, reflecting greater understanding of the science and an appreciation of the value our industry can make.

While Metgasco is keen to pursue the potential it has established in the Clarence Moreton Basin, resumption of field activities will depend to a large degree on the results of the Supreme Court action to lift the Rosella drilling suspension and discussions with Government.

The Company will also continue to pursue opportunities to find exploration and development / production opportunities elsewhere that complement Metgasco's Clarence Moreton resource.

We thank shareholders for remaining supportive throughout a very challenging and difficult year. Metgasco will continue to progress what is right for its shareholders, and in the knowledge that development of the Clarence Moreton gas resources can provide substantial benefits to the Northern Rivers community and the state of NSW more generally.

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 2014.

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 Licences ("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. ¹

The earlier and middle parts of the financial year were spent preparing to drill the Rosella E01 conventional well. After Metgasco had completed the preparations and received all the Government approvals necessary to drill the Rosella gas exploration well, the NSW Government suspended Metgasco's approval to drill the well.

The suspension decision was made without any prior consultation with Metgasco, and was based on the premise that Metgasco had not complied with the Government's community consultation guidelines. The suspension notice was made despite repeated assurances from NSW Government Ministers in the days and weeks before the notice that Metgasco had the NSW Government's full support for the well.

Given the NSW Government's suspension action Metgasco was forced to cancel its drilling program and work with contractors to minimise cancellation costs.

During the period from 1 July 2013 to the date of this report the Group completed its well and storage pond rehabilitation program, leaving two CSG wells suspended and available for return to production when CSG activities recommence and gas sales start.

Metgasco adheres to all normal operating and safety procedures and places a high priority on safety and risk management. Unfortunately, despite this a safety incident occurred in July 2013 while decommissioning the Kingfisher E01 conventional gas well. No injuries were sustained and equipment damage was minimal. Metgasco's Board and management consider the event to be a serious incident. A thorough incident investigation was carried out, identifying the cause of the incident and means to prevent a reoccurrence. NSW Government inspectors from the Office of Coal Seam Gas reviewed the incident and Metgasco's investigation report. Another investigation was initiated by the NSW Government's Mine Safety Investigation Unit.

Metgasco has devoted considerable resources to community consultation in its exploration licence areas over the past three years. It believes it has a solid degree of support for its business in the licence areas, despite an active anti-gas campaign that has been waged against Metgasco and the broader fossil fuel industry in eastern Australia. Indeed, it has had little opposition in the 10 years that it has operated in the area, with more than 300 voluntary land access agreements and 50 wells drilled.

Metgasco is aware that the anti-gas campaign conducted against it includes smears and baseless claims made by opponents. These have led to unnecessary concerns over gas industry related safety, environment and health issues in the general community. Metgasco is also aware that: 1) some of the community groups outside its licence areas but within the broader Northern Rivers region are quite strongly anti-gas, for reasons which are often ideological; and 2) some members of a protest group are prepared to break the law

¹ Government renewal of PEL 426, which was due February 2014, has not yet been received.

and infringe on Metgasco's rights as well as the rights of farmers who say "yes" to drilling on their properties. Metgasco is aware of the need to improve and increase its focus on community relations to help manage this situation, although there are some members of the community who do not wish to be consulted and are not prepared to modify their opposition to the industry. The NSW Government is now signalling its desire to provide more support in terms of public awareness and community relations. When the dispute over the Rosella drilling approval suspension is resolved Metgasco intends to work closely with Government and industry bodies to provide more information to its local community, with the expectation that the bulk of the community will support an industry that is safe, environmentally responsible and important for job creation and energy security.

The Board formally assessed the amount of capitalised exploration and evaluation expenditure and has determined as a matter of prudent judgement that this amount should be impaired to nil and its gas reserves be reclassified as resources.

The decisions taken by the Board reflect the immediate business environment in New South Wales. There is a strong market for gas on the East Coast of Australia with high prices and possible shortages looming. However, the actions of the NSW Government over the last three years have been contradictory and damaging to the energy industry. On one hand, there have been strong statements by NSW Government Ministers that recognise the need for a NSW gas industry and energy supply security. On the other hand, the actions of the NSW Government have consistently hurt the industry, with repeated delays to licence renewals, a range of arbitrary new regulations, and a confusing series of bureaucratic changes.

More recently, in May this year, the NSW Government suspended Metgasco's drilling approval for a conventional and tight gas well, only days before the drill rig was to be mobilised. This action, without warning of any kind, was taken by the NSW Government on the basis that Metgasco had not met its obligations to consult with the community. Metgasco believes this was completely without foundation as Metgasco had conducted its consultation program in accordance with the NSW Government's guidelines. Metgasco also believes the suspension action was not within the NSW Government's rights and that, even if it had been, the proper process was not observed. The suspension caused Metgasco to incur considerable costs and reduced the Company's share price by 40%.

Metgasco has commenced legal action in the NSW Supreme Court to have the situation corrected. It has also entered into direct discussions with the NSW Government to resolve the matter.

Metgasco's depressed share price is a clear indication that the investment community is not confident in the NSW Government's resolve to support gas exploration in the state. Under these circumstances and with court action underway against the NSW Government, Metgasco's Board concluded that there is significant uncertainty as to the timing of development of its gas resources in the Northern Rivers region.

Although there remains a degree of uncertainty regarding the timing of recommencement of exploration activity in the Group's exploration licence areas, Metgasco remains committed to its plans to evaluate the potential of the conventional and tight gas resource at Rosella and to progress the appraisal and commercialisation of its discovered CSG resources elsewhere in the area.

Exploration and Appraisal

During the year the Group announced plans to drill the Rosella E01 exploration well to test the Greater Mackellar structure. The well is designed to reach a total depth of 2,100m on a site 12 km to the northeast of Casino. The well is considered to be a commercially high risk test of the non-CSG, conventional and tight gas potential of the structure. The prospect is interpreted to cover an area of 260 km² and could have a large recoverable quantity of gas, significant to NSW and Metgasco.

Throughout the year a significant amount of technical work was devoted as preparatory work to drill Rosella E01. This included completing the contracts for drilling activities, wireline evaluation and testing services. Preparation for the drilling of Rosella E01 exploration was curtailed following the suspension of the approval to drill by the NSW Government. The drilling activities will remain on hold until such time as the suspension is lifted and Metgasco is confident that it has the support of the NSW Government to recommence drilling activity. This necessary support will include the Government's commitment to respect Metgasco's lawful rights and those of the farmer on whose land the well is proposed to be drilled.

Parallel to the preparation of the drilling of Rosella E01, Metgasco completed desktop studies to assist exploration of the acreage. Metgasco tested a method of using aeromagnetic data to provide more

confidence in mapping the extent of the Greater Mackellar prospect and other areas of interest in Metgasco's licences. A company specialising in advanced geophysical data reprocessing techniques was engaged to interpret geophysical data acquired by Geoscience Australia in 2011. The outcome provided Metgasco with additional support for drilling the Rosella E01 well at the proposed location.

The results from the aeromagnetic interpretation were incorporated into an extensive regional seismic mapping exercise across the basin. The exercise was initially undertaken to better understand the structural setting of the Greater Mackellar trend at the Gatton to Ipswich Coal Measures level and to further assess the early history of gas generation and migration towards the Rosella culmination. The mapping exercise was expanded to include other conventional prospects within the Clarence-Moreton Basin as well as to consolidate the seismic mapping to include further detail at shallower levels.

Well data from other operators in the adjacent acreage was incorporated, including recently released open file data. The final result of the mapping has refined the Company's ability to recognise and predict the source rock distribution in the basin and the location of potential gas-prone areas. It also established a geological framework to assess the range of options to test the I,J and K coal seams and other coal seams which lie deeper in the Walloon Coal Measures and have been part of Metgasco's certified reserves and resources.

Certified Reserves and Resources

The Group recognises the following gas reserves and resources in its tenement areas. The reserves and resources have been downgraded from those reported in 2013, with all reserves moved to the resource category as shown in the table below.

The Company's certifying agent, MHA Petroleum Consultants, has advised that the change is appropriate and that it will be possible to return to the previous reserve classification when there is more confidence in the NSW Government supporting gas development projects and confidence in the timing of a coal seam gas project.

Independently certified gas reserves and resources – Petajoules (PJ) All reserves and resources are 100% owned by Metgasco			
Reserve Category	PEL 13	PEL 16	Total
1P (Proven)	-	-	-
2P (Proven + Probable)	-	-	-
3P (Proven + Probable + Possible)	-	-	-
2C Contingent Resource	1,636	2,792	4,428

The estimates of gas reserves and resources 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 and resources have been developed within the guidelines of the SPE. MHA has consented to the use of this information.

Reconciliation of Reserve and Resource Movements

Reserve and Resource Category – Petajoules (PJ)				
	1P (Proven)	2P (Proven + Probable)	3P (Proven + Probable + Possible)	2C Contingent Resource
Reserves & resources 1 July 2013	2.7	338	2,055	2,373
Reclassification of reserves to resources	(2.7)	(338)	(2,055)	2,055
Reserves & resources 30 June 2014	-	-	-	4,428

Corporate

There were no capital raisings during the reporting period.

Significant Changes in the State of Affairs

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

Likely Developments and Expected Results

Metgasco continues to believe the NSW Government's suspension of the Rosella drilling approval was flawed. It considers that the Office of Coal Seam Gas ("OCSG") has been changing the rules and the reasons for the suspension as time moves on, and that it is confusing and conflating "consultation" with "persuasion". In order to protect shareholder interests, Metgasco had no choice but to commence legal action, which it did on 7 July 2014, lodging a summons in the NSW Supreme Court.

Metgasco believes that the outcome of the court action is very important for NSW. Genuine and effective community consultation does not and cannot require that everybody in the community agrees with the proposed activity, particularly if the community is taken to include people living in a very wide region and also includes activist protesters, many of whom have travelled from other states. If this is a 'new standard' to be adopted, new mines, dams, motorways, railways and airports will struggle to be built in NSW.

Metgasco has expressed its desire to work constructively with the NSW Government to resolve the current impasse out of court, but is seeking to have assurances that its lawful rights will be respected and supported.

While it seeks to resolve the suspension impasse, Metgasco has taken further action to reduce overhead costs and to conserve cash.

Metgasco will also continue to seek opportunities outside the Northern Rivers that complement our ability to recover value from the Northern Rivers resource.

Operating Results for the Year

The consolidated net loss after tax of the Group for the year ended 30 June 2014 amounted to \$85,917,632 (including the amount of \$81,219,760 being the impairment of the exploration and evaluation asset, a non-cash expense) (2013: \$7,210,352).

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 2014.

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 NSW 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:

Leonard Gill	Non-Executive Director and Chairman
Nicholas Heath	Non-Executive Director
Peter Henderson	Managing Director and Chief Executive Officer
Gregory Short	Non-Executive Director (appointed 6 August, 2013)
Peter Berry	Non-Executive Director (appointed 23 December, 2013)

Sean Hooper and Nicholas Geddes were the Company Secretaries during the 2014 financial year until Mr Geddes' resignation on 30 June 2014.

Leonard Gill – B. Eng (Hons), MAICD

Independent Non-Executive Director
Elected Chairman on 20 December 2013

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

Special responsibilities: Member of the Audit and Risk Management Committee, 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 in March 2011 (Retired 2011).

Nicholas Heath – B. Eng (Chem), FIChemE, SPE

Independent Non-Executive Director
Resigned as Chairman on 20 December 2013

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

Other directorships: None

Previous directorships of listed companies during the last three years: Non-Executive Chairman of MEO Australia Limited.

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

Gregory Short – B.Sc (Geology) (Hons), Graduate of AICD

Independent Non-Executive Director

Appointed: 6 August 2013

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

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

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

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

Peter Berry – Bachelor of Laws and Bachelor of Commerce

Independent Non-Executive Director

Appointed: 23 December 2013

Mr Berry has been an investment banker for more than 25 years, specialising in the energy and infrastructure sectors. Mr Berry brings broad experience from those sectors as well as experience from the capital markets.

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

Other directorships: Non-Executive Director of Hansen Technologies Limited.

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

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).

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, sixteen meetings of Directors were held. Attendances were as follows:

Director	Number of meetings attended while a Director	Number of meetings held while a Director
Leonard Gill	16	16
Nicholas Heath	16	16
Peter Henderson	16	16
Gregory Short	15	15
Peter Berry	10	10

Audit and Risk Management Committee Meetings

Leonard Gill was the Chairman of the Audit and Risk Management Committee until his appointment as Chairman of the Board on 20 December 2013. Nicholas Heath (until his retirement), Gregory Short, Peter Berry and Leonard Gill were members of this committee. Nicholas Heath was appointed Chair on 20 December 2013. This committee met twice during the year with all members in attendance.

Nomination and Remuneration Committee Meetings

The Nomination and Remuneration Committee is responsible for nominations and for reviewing the remuneration strategy for Directors and Key Management Personnel. Nicholas Heath was the Chairman of the Nomination and Remuneration Committee until his resignation on 20 December 2013. Gregory Short was appointed Chairman of the Nomination and Remuneration Committee on 20 December 2013. Nicholas Heath, Peter Berry 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.

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

Non-Executive Directors

Remuneration for non-executive directors is normally determined at market rates by conducting an annual benchmarking exercise against a pool of comparable companies. Remuneration was reduced by 20% for the 2013/14 financial year and currently remains frozen at that reduced level.

The structure of remuneration for Non-Executive Directors comprises a Base Fee inclusive of superannuation plus, where applicable, Committee Fees for participation as a member of a Board Committee. Fees to Non-Executive Directors are approved by the Board and set in aggregate within the maximum amount approved by shareholders. The maximum amount of fees approved to be paid to Non-Executive Directors by shareholders on 16 November 2010 was \$500,000. Fees paid to Non-Executive Directors during the year to 30 June 2014 were \$203,182.

Executive Team

The executive team are remunerated through:

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

Remuneration for the executive team is determined at market rates by conducting an annual benchmarking exercise against a pool of comparable companies. All employees are classified into a job band and the mix of remuneration between base pay, short term incentives and long term incentives is applied within the framework of the job band. The combination of these is considered to be the Total Remuneration for each executive team member.

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

Base Pay

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

Benefits

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

Short Term Performance Incentives (STIs)

All employees have the opportunity to be awarded STIs. Each year the Nomination and Remuneration Committee reviews management's recommendations relating to the performance of each individual and awards discretionary STIs that are not based on formal objectives. The maximum target STI opportunity is 25% of Base pay. Short term incentives may be awarded by way of cash, shares or options to acquire shares.

Long Term Incentives (LTIs)

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

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

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

Key Management Personnel

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

- Leonard Gill, Non-Executive Director and Chairman
- Nicholas Heath, Non-Executive Director and Chairman to 20 December 2013
- Gregory Short, Non-executive Director, Appointed 6 August 2013
- Peter Berry, Non-Executive Director, Appointed 23 December 2013
- Peter Henderson, Managing Director & CEO
- Sean Hooper, Chief Financial Officer and Company Secretary

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 2014 are as follows:

DIRECTORS' REPORT
Remuneration 2014

Name	Short Term Employment Benefits				Post-Employment Benefits			Long Term Benefits		Share Based Payments			% of remuneration that is equity based
	Cash Salary & fees	Other benefits	Short term incentive	Termination Payments	Superannuation	Long Service Leave	Net no. of shares granted in period	Share expense for year	Option expense for year	Total			
Directors	\$	\$	\$	\$	\$	\$		\$	\$	\$			
P. Henderson	453,327*	2,362	-	-	25,188	-	-	225,387****	-	706,264	32%		
N. Heath	56,465	-	-	-	5,223	-	-	-	-	61,688	-		
G. Short	41,548**	-	-	-	3,843	-	-	-	-	45,391	-		
P. Berry	24,236***	-	-	-	2,242	-	-	-	-	26,478	-		
L. Gill	57,862	-	-	-	11,763	-	-	-	-	69,625	-		
Executive Officers													
S. Hooper	242,632	19,595	-	-	23,265	-	2,473,885	81,033	-	366,525	22%		
Total	876,070	21,957	-	-	71,524	-	2,473,885	306,420	-	1,275,971	24%		

* The reported increase in remuneration was a result of a realignment of the payroll cycle for the Company. Mr Henderson's base rate of salary has been frozen since 2012.

** Appointed 6 August 2013

*** Appointed 23 December 2013

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

No equity was granted as remuneration to directors for the reporting period ending 30 June 2014.

Details of shares granted as remuneration for the reporting period ending 30 June 2014

Name	No. of deferred shares granted	Fair value at grant date	Date granted	Date vesting
Executive Officers				
S. Hooper	2,473,885	\$ 131,116	25/07/2013	23/07/2016
Total	2,473,885	131,116		

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 the VWAP price hurdles are:

- 1/3 shares must reach a volume weighted average price (VWAP) of \$0.14 or more during any period of 30 days commencing immediately after the date of grant and the vesting date
- 1/3 shares must reach a volume weighted average price (VWAP) of \$0.17 or more during any period of 30 days commencing immediately after the date of grant and the vesting date
- 1/3 shares must reach a volume weighted average price (VWAP) of \$0.20 or more during any period of 30 days commencing immediately after the date of grant and the vesting date

DIRECTORS' REPORT

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	0	100	0	100	0
S. Hooper	0	100	100	0	22

DIRECTORS' REPORT
Remuneration 2013

Name	Short Term Employment Benefits			Post-Employment Benefits			Long Term Benefits		Share Based Payments			% of remuneration that is equity based
	Cash Salary & fees	Other benefits	Short term incentive	Termination Payments	Superannuation	Long Service Leave	Net no. of shares granted in period	Share expense for year	Option expense for year	Total	\$	
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	-	
Executive Officers												
S. Hooper	240,056	8,695	-	-	25,000	-	659,383	67,617	-	341,368	20%	
Total	873,804	12,992	-	-	71,312	-	2,011,383	358,236	-	1,316,344	27%	

* 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
Executive Officers				
S. Hooper	152,165	33,476	29/08/2012	29/08/2012
S. Hooper	507,218	111,588	29/08/2012	24/08/2015
Total	2,011,383	415,464		

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.

DIRECTORS' REPORT

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
S. Hooper	60	40	100	-	20

Key Management Personnel Remuneration

There were no payments received or receivable by key management personnel of the Group or related parties of the Group other than those which are disclosed in the remuneration section of the Directors' Report and Note 21 and Note 23 of the Financial Statements.

At 30 June 2014, the direct and indirect interests of the Key Management Personnel in the securities of Metgasco are as follows:

Shares 2014	Opening Balance	Granted as Compensation	Received on Exercise of Options	Other Changes	Shares Disposed	Closing Balance
Nicholas Heath	783,590	-	-	-	-	783,590
Peter Henderson	2,572,161	-	-	-	-	2,572,161
Gregory Short*	-	-	-	150,000	-	150,000
Peter Berry**	2,994,413	-	-	-	-	2,994,413
Leonard Gill	445,386	-	-	300,000	-	745,386
Sean Hooper	689,383	2,473,885	-	-	-	3,163,268

* Appointed 6 August 2013

** Appointed 23 December 2013

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

No options were held directly or indirectly by management personnel during the year ended 30 June 2014.

Other key remuneration disclosures

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

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

Details of Employment Agreements

It is the Board's policy that all 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 2014, inclusive of superannuation, under the contract is \$459,903. The additional \$18,612 cash remuneration was a result of a realignment of the payroll cycle for the Company which resulted in income earned in June 2013 being paid in the 2014 financial year. 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.

In the current circumstances of the Company, the Board has determined that no STI or LTI payments are appropriate. This will be reviewed in the event of a material improvement to the Company's operational outlook.

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

DIRECTORS' REPORT

In the event that the Company becomes a target for takeover, in consideration of the Executive refraining from seeking or obtaining alternative employment for the duration of the takeover offer, the Company will in the event that the Executive is terminated by the Company within 6 months of the change of control of the Company, pay to the Executive an amount equivalent to six months of Total Remuneration Package.

Options Exercised by Directors or other Key Management Personnel during the year

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

Voting and comments made at the Company's 2013 Annual General Meeting

Metgasco Limited did not receive a 75% majority of 'yes' votes on its Remuneration Report for the financial year ended 30 June 2013. 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 and officers in the securities of Metgasco are as follows:

	Options	Ordinary Shares
Nicholas Heath	-	783,590
Peter Henderson	-	2,572,161
Gregory Short	-	150,000
Peter Berry	-	2,994,386
Leonard Gill	-	745,386
Sean Hooper	-	3,163,268

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

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

At a Board meeting on 22 July, 2014, consideration was given to STI and LTI awards. The Company made no STI or LTI awards to any staff for the year 2013/2014.

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 29.

Audit Services

During the year, audit and review fees payable to Grant Thornton Audit Pty Ltd amounted to \$83,000.

Non Audit Services

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

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

Corporate Governance

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.

A handwritten signature in black ink, appearing to read 'N.M. Heath' with a stylized flourish at the end.

Nicholas Heath
Chairman Audit and Risk Management Committee
26 September 2014

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 has not been a Director of the Group for such a period that his/her or independence may have been compromised;
- Within the last three years has not been a principal 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;

CORPORATE GOVERNANCE STATEMENT

- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's 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 Director's ability to act in the best interest of the Group.

The independence of Directors is assessed regularly. Currently the Board is comprised of five Directors, of whom four are considered to be independent; Mr Leonard Gill, Mr Nicholas Heath, Mr Peter Berry 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 Leonard Gill.

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 Gregory Short. 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 Directors' 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 2014 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.

Principle 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 maximising 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.

Due to the small size of the Company following downsizing over the last year and a half, the company has not been able to apply this recommendation.

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: 20%

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.

Principle 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 Nicholas Heath, 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 four 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 the 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.

Principle 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 the Guide to reporting on Principle 5.

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

Principle 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.

Principle 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.

Principle 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 Gregory Short. The Committee comprises four independent directors, Mr Gregory Short, Mr Leonard Gill, Mr Nicholas Heath and Mr Peter Berry.

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 except for gender diversity

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

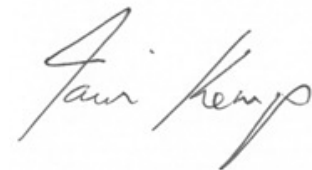
**Auditor's Independence Declaration
To the Directors of Metgasco Limited**

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 2014, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



I S Kemp
Partner - Audit & Assurance

Sydney, 26 September 2014

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

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014	2013
		\$	\$
Revenue	5 (a)	553,119	878,821
Other Income	5 (b)	145,610	20,386
Expenses			
Finance costs	6 (c)	(21,744)	(22,214)
Accounting, compliance, legal & professional		(327,903)	(378,593)
Investor relations		(402,702)	(358,100)
Consulting fees		(139,380)	(84,318)
Depreciation	6 (a)	(18,922)	(27,733)
Impairment of inventory and other non-current assets		(997,630)	(3,591,236)
Impairment of exploration and evaluation expenditure	11	(81,219,760)	-
Directors fees		(155,047)	(191,667)
Exploration activities expensed		(963,485)	-
Employee costs	6 (d)	(1,662,580)	(2,640,878)
Rent and occupancy	6 (b)	(259,605)	(366,320)
Travel & accommodation		(106,700)	(142,950)
Other administrative		(340,903)	(305,550)
Loss before income tax		(85,917,632)	(7,210,352)
Income tax expense	7	-	-
Net loss for the year		(85,917,632)	(7,210,352)
Other comprehensive income		-	-
Total comprehensive loss for the year		(85,917,632)	(7,210,352)
Loss attributable to owners of the parent		(85,917,632)	(7,210,352)
Earnings per share for loss from continuing operations			
Basic loss per share (cents)	27	(19.1)	(1.7)
Diluted loss per share (cents)	27	(19.1)	(1.7)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	2014	2013
		\$	\$
ASSETS			
Current			
Cash and cash equivalents	8	11,480,269	20,855,975
Inventory	9	305,572	1,312,082
Trade and other receivables	10	75,057	518,289
Current assets		11,860,898	22,686,346
Non-current			
Exploration and evaluation expenditure	11	-	77,778,821
Plant and equipment	12	530,512	968,613
Other receivables	13	770,497	885,497
Non-current assets		1,301,009	79,632,931
TOTAL ASSETS		13,161,907	102,319,277
LIABILITIES			
Current			
Trade and other payables	15	696,389	2,055,692
Provisions	16	100,000	2,555,189
Borrowings	17	11,576	119,656
Current liabilities		807,965	4,730,537
Non-current			
Provisions	18	286,320	95,265
Borrowings	17	17,039	-
Total non-current		303,359	95,265
TOTAL LIABILITIES		1,111,324	4,825,802
NET ASSETS		12,050,583	97,493,475
EQUITY			
Share capital	19	123,990,967	123,990,967
Share option reserve	20	5,715,622	5,240,882
Accumulated losses		(117,656,006)	(31,738,374)
TOTAL EQUITY		12,050,583	97,493,475

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 2014**

	<i>Share capital</i>	<i>Accumulated losses</i>	<i>Share option reserve (Note 20)</i>	<i>Total equity</i>
	\$	\$	\$	\$
At 1 July 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 payment expense	-	-	325,273	325,273
At 30 June 2013	123,990,967	(31,738,374)	5,240,882	97,493,475
Loss for the year	-	(85,917,632)	-	(85,917,632)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	(85,917,632)	-	(85,917,632)
Transactions with owners in their capacity as owners				
Share based payment expense	-	-	474,740	474,740
At 30 June 2014	123,990,967	(117,656,006)	5,715,622	12,050,583

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 2014

	<i>Note</i>	<u>2014</u>	<u>2013</u>
		\$	\$
Operating activities			
Payments to suppliers and employees (inclusive of goods and service taxes)		(2,556,189)	(3,935,453)
Interest received		553,119	769,170
Other income		72,469	3,393
Net cash flow from operating activities	26	<u>(1,930,601)</u>	<u>(3,162,890)</u>
Investing activities			
Expenditure on exploration and evaluation		(7,748,612)	(9,143,809)
R&D grant received		46,243	1,242,665
Bond refund		128,351	89,488
Disposal of property, plant and equipment		246,766	78,635
Purchase of property, plant and equipment		(4,623)	(122,638)
Net cash flow from investing activities		<u>(7,331,875)</u>	<u>(7,855,659)</u>
Financing activities			
Net proceeds from issue of shares		-	19,874,656
Repayments of borrowings		(91,486)	(198,590)
Finance costs paid		(21,744)	(22,214)
Net cash flow from financing activities		<u>(113,230)</u>	<u>19,653,852</u>
Net (decrease)/increase in cash and cash equivalents held		(9,375,706)	8,635,303
Cash and cash equivalents at the beginning of year		20,855,975	12,220,672
Cash and cash equivalents, end of year	8	<u>11,480,269</u>	<u>20,855,975</u>

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 2014**

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 2014 were approved and authorised for issue by the board of directors on 26 September 2014.

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

Last year 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.

On 15 May 2014, the New South Wales Government announced the suspension of Metgasco's right to drill the Rosella E01 well.

The directors and management believe that in their judgement, the potential impact of these suspensions triggers the requirement for an assessment of impairment under Australian accounting standards. Accordingly the group has assessed the carrying value of its capitalised exploration and evaluation expenditure, property, plant and equipment and inventory for impairment.

2. Summary of Significant Accounting Policies (continued)

As result of this assessment:

- the carrying value of inventory (refer Note 9) was impaired by \$997,630.
- the Group has formally assessed the recoverable amount of capitalised exploration and evaluation expenditure and has decided to that it is necessary to fully impair the asset. This is due to the actions of the NSW Government which has created a degree of uncertainty regarding the timing of recommencement of exploration activity in the Group's exploration licence areas and uncertainty of timing in relation to the future development of the asset in the near to medium term.

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.

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 2014. 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 2014, 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.

2. Summary of Significant Accounting Policies (continued)

c) Income tax (continued)

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

for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

d) Leases

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

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

e) Business undertakings

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

f) Joint ventures

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

g) Revenue and expenses

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

h) Foreign currency translation

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

i) Earnings per share

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

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

2. Summary of Significant Accounting Policies (continued)

j) Exploration expenditure and petroleum tenement leases

The Group 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 30 days. Receivables are assessed for their collectability on an ongoing basis. Debts which are known as uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due. Evidence of impairment includes: financial difficulties of the debtor, default payments or debts more than 60 days overdue.

m) Property, plant and equipment

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

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

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

2. Summary of Significant Accounting Policies (continued)

n) Depreciation

All fixed assets are depreciated on a straight line basis over their useful lives to the Group. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Plant and equipment 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.

(i) Long service leave

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

(ii) Share based payments

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

- The fair value of options and share rights granted under The Employee and Officer's Equity Plan is recognised as an Employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options and share rights.
- The fair value at grant date is determined by using a Black-Scholes option pricing model that takes into account the share price at grant date, exercise price, expected volatility, option life, expected dividends, the risk free rate, vesting and performance criteria, the impact of dilution and the fact that the options and share rights are not tradable.

2. Summary of Significant Accounting Policies (continued)

r) Employee benefits (continued)

(iii) Superannuation

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

s) Provisions

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

t) Cash and cash equivalents

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

u) Goods and Services Tax (GST)

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

v) Government grants

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

w) New and revised standards effective for these financial statements

A number of new and revised standards are effective for annual periods beginning on or after 1 July 2013. Information on these new standards is presented below.

AASB 10 Consolidated Financial Statements

AASB 10 supersedes AASB 127 Consolidated and Separate Financial Statements (AASB 127) and AASB Interpretation 112 Consolidation - Special Purpose Entities. AASB 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore to change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with AASB 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Group's investees held during the period or comparative periods covered by these financial statements.

AASB 11 Joint Arrangements

AASB 11 supersedes AASB 131 Interests in Joint Ventures and AASB Interpretation 113 Jointly Controlled Entities-Non-Monetary-Contributions by Venturers. AASB 11 revises the categories of joint arrangement, and the criteria for classification into the categories, with the objective of more closely aligning the accounting with the investor's rights and obligations relating to the arrangement. In addition, AASB 131's option of using proportionate consolidation for arrangements classified as jointly controlled entities under that Standard has been eliminated. AASB 11 now requires the use of the equity method for arrangements classified as joint ventures (as for investments in associates).

The application of AASB 11 did not impact on the financial statements of the Group for the year ended 30 June 2014.

2. Summary of Significant Accounting Policies (continued)

w) New and revised standards effective for these financial statements (continued)

AASB 12 Disclosure of interests in Other Entities

AASB 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

AASB 13 Fair Value Measurement

AASB 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of AASB 13 is broad and it applies for both financial and non-financial items for which other Australian Accounting Standards require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances.

AASB 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. The Group has however included as comparative information the AASB 13 disclosures that were required previously by AASB 7 Financial Instruments: Disclosures.

The Group has applied AASB 13 for the first time in the current year.

Amendments to AASB 119 Employee Benefits

The 2011 amendments to AASB 119 made a number of changes to the accounting for employee benefits, the most significant relating to defined benefit plans. The amendments:

- Eliminate the 'corridor method' and requires the recognition of re-measurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- Change the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit asset or liability; and
- Enhance disclosures, including more information about the characteristics of defined benefit plans and related risks.

Under the amendments, employee benefits 'expected to be settled wholly' (as opposed to 'due to be settled' under the superseded version of AASB 119) within 12 months after the end of the reporting period are short-term benefits, and are therefore not discounted when calculating leave liabilities. As the Group does not expect all annual leave for all employees to be used wholly within 12 months of the end of reporting period, annual leave is included in 'other long-term benefit' and discounted when calculating the leave liability.

This change has had no impact on the presentation of annual leave as a current liability in accordance with AASB 101 Presentation of Financial Statements.

The application of AASB 119 did not impact on the financial statements of the Group for the year ended 30 June 2014.

x) Accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The entity has not yet assessed the full impact of AASB 9 as this standard does not apply mandatorily before 1 January 2018 and the IASB is yet to finalise the remaining phases of its project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 in Australia).

2. Summary of Significant Accounting Policies (continued)

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

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.

When AASB 2012-3 is first adopted for the year ending 30 June 2015, there will be no impact on the entity as this standard merely clarifies existing requirements in AASB 132.

AASB 2013-3 Recoverable Amount Disclosures for Non-Financial Assets

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 Impairment of Assets to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB’s original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

AASB 2013-3 makes the equivalent amendments to AASB 136 Impairment of Assets. When these amendments are first adopted for the year ending 30 June 2015, they are unlikely to have any significant impact on the entity given that they are largely of the nature of clarification of existing requirements.

AASB 1031 Materiality and AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments

The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework for the Preparation and Presentation of Financial Statements (issued December 2013) that contain guidance on materiality. The AASB is progressively removing references to AASB 1031 in all Standards and Interpretations, and once all these references have been removed, AASB 1031 will be withdrawn. When the revised AASB 1031 is first adopted for the year ending 30 June 2015, it is unlikely to have any significant impact on the entity. Part B of AASB 2013-9 deletes references to AASB 1031 in various Australian Accounting Standards (including Interpretations). When these amendments are first adopted for the year ending 30 June 2015, they are unlikely to have any significant impact on the entity.

AASB 2014-1 Amendments to Australian Accounting Standards

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle. Among other improvements, the amendments arising from Annual Improvements to IFRSs 2010-2012 Cycle:

- (a) clarify that the definition of a ‘related party’ includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity); and
- (b) amend AASB 8 Operating Segments to explicitly require the disclosure of judgements made by management in applying the aggregation criteria.

When these amendments are first adopted for the year ending 30 June 2015, there will be no material impact on the entity.

Part B of AASB 2014-1 makes amendments to AASB 119 Employee Benefits to incorporate the IASB’s practical expedient amendments finalised in International Financial Reporting Standard Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) in relation to the requirements for contributions from employees or third parties that are linked to service.

The amendments clarify that if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service. In contrast, if the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required by paragraph 70 of AASB 119 for the gross benefit.

2. Summary of Significant Accounting Policies (continued)

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

When these amendments are first adopted for the year ending 30 June 2015, there will be no material impact on the entity.

Part C of AASB 2014-1 makes amendments to particular Australian Accounting Standards to delete their references to AASB 1031 Materiality, which historically has been referenced in each Australian Accounting Standard.

When these amendments are first adopted for the year ending 30 June 2015, there will be no material impact on the entity.

Part E of AASB 2014-1 makes amendments to Australian Accounting Standards to reflect the AASB's decision to defer the mandatory application date of AASB 9 Financial Instruments to annual reporting periods beginning on or after 1 January 2018.

The entity has not yet assessed the full impact of these amendments.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The amendments to IFRS 11 state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a 'business', as defined in IFRS 3 Business Combinations, should:

- (a) apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except principles that conflict with the guidance of IFRS 11. This requirement also applies to the acquisition of additional interests in an existing joint operation that results in the acquirer retaining joint control of the joint operation (note that this requirement applies to the additional interest only, i.e. the existing interest is not remeasured) and to the formation of a joint operation when an existing business is contributed to the joint operation by one of the parties that participate in the joint operation; and
- (b) provide disclosures for business combinations as required by IFRS 3 and other IFRSs.

The Australian Accounting Standards Board (AASB) is expected to issue the equivalent Australian amendment shortly.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.

IFRS 15 – Revenue from Contracts with Customers

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle.

IFRS 15:

- replaces IAS 18 Revenue, IAS 11 Construction Contracts and some revenue-related Interpretations
- establishes a new control-based revenue recognition model
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time
- provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing)
- expands and improves disclosures about revenue

In the Australian context, the Australian Accounting Standards Board (AASB) is expected to issue the equivalent Australian Standard (AASB 15 Revenue from Contracts with Customers).

When this standard is first adopted for the year ending 30 June 2018, there will be no material impact on the transactions and balances recognised in the financial statements.

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	
	2014	2013
	\$	\$
Cash and cash equivalents	11,480,269	20,855,975
Loans and receivables	773,897	902,248
Financial liabilities at amortised cost	624,881	(2,053,003)

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 \$28,615 (2013: \$119,656) 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 \$11,480,269 would increase/decrease the annual amount of interest received by \$114,803.

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 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	
	2014	2013
	\$	\$
(a) Revenue		
Interest received from financial institutions	553,119	878,821
Total revenue	<u>553,119</u>	<u>878,821</u>
(b) Other income		
Gain on disposal of assets	142,624	16,993
Miscellaneous income	2,986	3,393
Total other income	<u>145,610</u>	<u>20,386</u>

6. Expenses

Loss before income tax includes the following specific expenses:

	Consolidated	
	2014	2013
	\$	\$
(a) Depreciation		
Plant and equipment	18,922	27,733
Total depreciation	<u>18,922</u>	<u>27,733</u>
(b) Rent and occupancy		
Rent under operating lease - Sydney	123,994	280,151
Occupancy costs	135,611	86,169
Total rent and occupancy	<u>259,605</u>	<u>366,320</u>
(c) Finance cost - external		
Interest expense	3,673	877
Bank charges	18,071	21,337
Total Finance Cost	<u>21,744</u>	<u>22,214</u>
(d) Employee costs		
Superannuation	92,185	143,388
Wages and salaries	860,004	1,568,322
Workers compensation	33,131	51,361
Payroll tax	50,575	184,064
Share based payments	474,740	325,273
Recruitment and consultants	91,819	102,175
Provision for redundancy	-	204,764
Miscellaneous others	60,126	61,531
Total employee costs	<u>1,662,580</u>	<u>2,640,878</u>

Depreciation charged on assets employed directly in the Group's exploration activities for the year was \$247,189 (2013: \$436,268) and is capitalised to exploration assets (which has been subsequently impaired). Depreciation charged on assets not in the above category was \$18,922 (2013: \$27,733) for the year and is charged directly to the profit or loss.

7. Income Tax

	Consolidated	
	2014	2013
	\$	\$
(a) Income tax expense		
Loss before income tax expense	(85,917,632)	(7,210,352)
Prima facie tax benefit on loss at 30% (2013: 30%)	(25,775,290)	(2,163,106)
Tax effect of amounts which are not deductible in calculating taxable income:		
Share based payments	142,422	97,582
	(25,632,868)	(2,065,524)
Movements in unrecognised temporary differences	(2,390)	(30,020)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	25,635,258	2,095,544
Income tax expense	-	-
(b) Unrecognised deferred tax assets and liabilities		
Capital raising costs	974,735	882,186
Accruals and provision for employees benefits	46,823	49,212
Carry forward tax losses:		
– Operating	10,930,874	9,521,512
– Exploration and evaluation expenditure	24,365,928	23,333,648
Deferred tax liability - taxable temporary differences	(24,365,928)	(23,333,648)
Net unrecognised deferred tax asset	11,952,432	10,452,910

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	
	2014	2013
	\$	\$
Cash at bank and on hand	334,405	1,100,485
Term deposits	11,145,864	19,755,490
Total	11,480,269	20,855,975

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 2.95% to 3.70% (2013: 2.85% to 4.27%). The maturity dates of the various term deposits range from 1 day to 90 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	
	2014	2013
	\$	\$
Materials, consumables and equipment	305,572	1,312,082
Total	305,572	1,312,082

The cost of inventories recognised as an expense in 2014 and 2013 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 \$997,630 (2013: \$470,433). 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	
	2014	2013
	\$	\$
GST receivable	31,166	304,882
Rent deposits	3,400	16,751
Prepayments	40,491	196,656
Total	75,057	518,289

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

11. Exploration and Evaluation Expenditure

	Consolidated	
	2014	2013
	\$	\$
Expenditure for the entities operations		
Movement during the financial period (at cost):		
Opening balance	77,778,821	67,086,667
Capitalised exploration expenditure	3,487,182	11,092,837
R & D grant	(46,243)	(400,683)
Impairment charges	(81,219,760)	-
Carrying amount at end of year	-	77,778,821

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 2014, 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)).

The review resulted in an impairment loss of \$81,219,760 being recognised.

12. Plant and Equipment

	Consolidated	
	2014	2013
	\$	\$
<i>Office equipment</i>		
At cost	89,072	177,686
Accumulated impairment	(30,455)	(31,222)
Accumulated depreciation	(36,262)	(111,207)
Net carrying amount	<u>22,355</u>	<u>35,257</u>
<i>Computer equipment</i>		
At cost	510,572	508,146
Accumulated impairment	(16,260)	(16,260)
Accumulated depreciation	(472,091)	(448,917)
Net carrying amount	<u>22,221</u>	<u>42,969</u>
<i>Motor vehicles</i>		
At cost	52,865	86,956
Accumulated depreciation	(28,012)	(50,211)
Net carrying amount	<u>24,853</u>	<u>36,745</u>
<i>Motor vehicles under finance lease at cost</i>		
At cost	306,498	556,258
Accumulated depreciation	(277,473)	(398,628)
Net carrying amount	<u>29,025</u>	<u>157,630</u>
<i>Improvements</i>		
At cost	308,001	306,572
Accumulated impairment	(95,851)	(95,851)
Accumulated depreciation	(112,659)	(104,416)
Net carrying amount	<u>99,491</u>	<u>106,305</u>

12. Plant and Equipment (continued)

	Consolidated	
	2014	2013
	\$	\$
<i>Plant and equipment</i>		
At cost	1,337,179	1,641,275
Accumulated impairment	(28,218)	(28,218)
Accumulated depreciation	(1,171,394)	(1,218,350)
Net carrying amount	<u>137,567</u>	<u>394,707</u>
 <i>Richmond Valley Power Station – development costs</i>		
At cost	3,144,252	3,144,252
Accumulated impairment	(2,949,252)	(2,949,252)
Net carrying amount	<u>195,000</u>	<u>195,000</u>
 <i>Total plant and equipment</i>		
At cost	5,748,439	6,421,145
Accumulated impairment	(3,120,036)	(3,120,803)
Accumulated depreciation	(2,097,891)	(2,331,729)
Net carrying amount	<u>530,512</u>	<u>968,613</u>
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:		
<i>Office and equipment</i>		
Carrying amount at beginning of financial year	35,257	61,126
Additions	-	12,546
Disposals	(160)	-
Impairment	767	(31,222)
Depreciation	(13,509)	(7,193)
Carrying amount at end of financial year	<u>22,355</u>	<u>35,257</u>
 <i>Computer equipment</i>		
Carrying amount at beginning of financial year	42,969	65,359
Additions	2,426	36,484
Impairment	-	(16,260)
Depreciation	(23,174)	(42,614)
Carrying amount at end of financial year	<u>22,221</u>	<u>42,969</u>
 <i>Motor vehicles</i>		
Carrying amount at beginning of financial year	36,745	66,621
Disposals	-	(12,048)
Depreciation	(11,892)	(17,828)
Carrying amount at end of financial year	<u>24,853</u>	<u>36,745</u>

12. Plant and Equipment (continued)

	Consolidated	
	2014	2013
	\$	\$
<i>Motor vehicles under finance lease at cost</i>		
Carrying amount at beginning of financial year	157,630	276,916
Additions	-	45,459
Disposals	(79,422)	(49,594)
Depreciation	(49,183)	(115,151)
Carrying amount at end of financial year	<u>29,025</u>	<u>157,630</u>
<i>Improvements</i>		
Carrying amount at beginning of financial year	106,305	120,427
Additions	1,431	102,745
Impairment	-	(95,851)
Depreciation	(8,245)	(21,016)
Carrying amount at end of financial year	<u>99,491</u>	<u>106,305</u>
<i>Plant and equipment</i>		
Carrying amount at beginning of financial year	394,707	682,262
Disposals	(97,032)	(5,870)
Impairment	-	(28,218)
Depreciation	(160,108)	(253,467)
Carrying amount at end of financial year	<u>137,567</u>	<u>394,707</u>
<i>Richmond Valley Power Station – development costs</i>		
Carrying amount at beginning of financial year	195,000	3,144,252
Impairment	-	(2,949,252)
Carrying amount at end of financial year	<u>195,000</u>	<u>195,000</u>
<i>Total plant and equipment</i>		
Carrying amount at beginning of financial year	968,613	4,416,963
Additions	3,857	197,234
Disposals	(176,614)	(67,512)
Impairment	767	(3,120,803)
Depreciation	(266,111)	(457,269)
Carrying amount at end of financial year	<u>530,512</u>	<u>968,613</u>

Impairment loss

At 30 June 2014, 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)).

In the prior year, 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. No impairment loss was recognised in the current year.

12. Plant and Equipment (continued)

The recoverable amounts of other plant and equipment were also formerly reassessed. No impairment was required during 2014 financial year. The 2013 review led to the recognition of an impairment loss of \$171,551 in 2013 resulting from the suspension of field activities in March, 2013 and 21 out of a total of 27 staff being made redundant.

The 2013 impairment loss 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	
	2014	2013
	\$	\$
Security bonds non-current	770,497	885,497
Total	770,497	885,497

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			
			2014	2013	2014	2013
			%	%	\$	\$
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	
	2014	2013
	\$	\$
Trade payables	196,775	1,612,783
Accrued charges and expenses	399,555	320,564
Employee benefits	100,059	122,345
Total	696,389	2,055,692

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	
	2014	2013
	\$	\$
Provision for redundancy	-	204,764
Provision for site rehabilitation		
Opening balance	2,350,425	453,700
Amounts transferred from non-current	-	1,223,136
Amounts provided	-	2,536,967
Rehabilitation work	(2,250,425)	(1,863,378)
Closing balance for site rehabilitation	100,000	2,350,425
Total	100,000	2,555,189

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	
	2014	2013
	\$	\$
Current	11,576	119,656
Finance lease liability	11,576	119,656
Non-Current	17,039	-
Finance lease liability	17,039	-

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 approximates their carrying value. The lease liability is secured by motor vehicles which have a book value of \$27,393 at the end of the reporting period.

Full details of the lease commitments are as follows:

Finance Lease Commitments

Within one year	12,946	127,297
Later than one year but not later than 5 years	17,271	-
Minimum lease payments	30,217	127,297
Future finance charges	(1,602)	(7,641)
Recognised as a liability	28,615	119,656

18. Provisions (Non-current)

	Consolidated	
	2014	2013
	\$	\$
Long service leave	56,320	65,265
Lease make good	30,000	30,000
Provision for site rehabilitation		
Opening balance	-	1,223,136
Amounts provided	200,000	-
Expensed during the year	-	-
Transferred to rehabilitation provision - current	-	(1,223,136)
Closing balance for site rehabilitation	200,000	-
Total	286,320	95,265

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	\$	\$
	2014	2013	2014	2013
(a) Share Capital				
Ordinary Shares - Fully Paid	448,702,530	445,158,802	123,990,967	123,990,967
(b) Movements in Ordinary Share Capital				
	Date	No of Shares	Value \$	Issue Price \$
Balance at 30 June 2013		445,158,802	123,990,967	
Share rights issued during the year	25/07/13	6,189,339	-	-
Shares cancelled during the year	29/10/13	(2,645,611)	-	-
Balance at 30 June 2014		448,702,530	123,990,967	

	No of Options	No of Options
	2014	2013
Options (not quoted on ASX)		
Opening balance	3,284,143	5,580,624
Exercised by employees	-	-
Lapsed	(2,081,921)	(2,296,481)
Closing balance	1,202,222	3,284,143

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.

19. Share Capital (continued)

At the end of the reporting period there were 1,202,222 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 2014. 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	
	2014	2013
	\$	\$
Opening balance	5,240,882	4,915,609
Cost of securities issued under EOEP	474,740	325,273
Closing balance of reserve	5,715,622	5,240,882

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

NOTES TO THE FINANCIAL STATEMENTS

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 2014

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable Spot Price	Balance at beginning of year	Granted during year	Lapsed / forfeited during year	Exercised during year	Balance at end of year	Fair Value
			\$	\$	Number	Number	Number	Number	Number	\$
1/07/2008	1/07/2008	1/07/2013	1.20	1.050	289,486	-	289,486	-	-	-
1/07/2008	1/07/2009	1/07/2013	1.20	1.050	310,375	-	310,375	-	-	-
1/07/2008	1/07/2009	1/07/2013	1.20	1.050	241,283	-	241,283	-	-	-
1/07/2008	1/07/2010	1/07/2013	1.40	1.050	100,000	-	100,000	-	-	-
1/07/2008	1/07/2010	1/07/2013	1.60	1.050	390,777	-	390,777	-	-	-
21/08/2008	21/08/2008	21/08/2013	1.00	0.720	375,000	-	375,000	-	-	-
21/11/2008	21/11/2008	21/11/2013	1.00	0.380	375,000	-	375,000	-	-	-
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	290,000	-	-	-	290,000	95,393
Total					3,284,143	-	2,081,921	-	1,202,222	395,460
Weighted average exercise price					0.95				0.50	

NOTES TO THE FINANCIAL STATEMENTS

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 Number	Vested / Forfeited during year Number	Balance at end of year		Fair Value
			Number	\$			Number	\$	
13/08/2010	13/08/2013	0.45	268,000	-	-	268,000	-	-	-
12/09/2011	01/09/2014	0.31	458,752	-	-	11,290	447,462	138,713	138,713
15/11/2011	01/09/2014	0.31	645,161	-	-	-	645,161	200,000	200,000
15/11/2011	04/04/2014	0.525	200,000	-	-	200,000	-	-	-
15/11/2011	18/07/2014	0.26	30,000	-	-	-	30,000	7,800	7,800
23/08/2012	24/08/2015	0.22	1,290,517	-	-	19,545	1,270,972	279,614	279,614
29/08/2012	30/07/2015	0.26	75,000	-	-	75,000	-	-	-
14/11/2012	24/08/2015	0.20	983,272	-	-	-	983,272	196,654	196,654
25/07/2013	01/07/2014	0.053	-	400,000	-	-	400,000	21,200	21,200
25/07/2013	23/07/2014	0.053	-	5,789,339	-	75,691	5,713,648	302,823	302,823
Total			3,950,702	6,189,339		649,526	9,490,515	1,146,804	1,146,804

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

NOTES TO THE FINANCIAL STATEMENTS

20 Share Based Payments (continued)

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	

NOTES TO THE FINANCIAL STATEMENTS

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	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	1,075,661			

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

21. Key Management Personnel

	Consolidated	
	2014	2013
	\$	\$
Short-term employee benefits	898,027	886,796
Post-employment employee benefits	71,524	71,312
Share based payments	306,420	358,236
Total compensation	1,275,971	1,316,344

22. Auditor's Remuneration

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

	Consolidated	
	2014	2013
	\$	\$
During the year, fees paid/payable to the Company's auditors were:		
For audit and review – Grant Thornton Audit Pty Ltd	83,000	84,000

23. Related Party Disclosures

Directors and Directors' 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. Contingent Liabilities

	Consolidated	
	2014	2013
	\$	\$
Bank guarantees Department of Primary Industry	660,497	855,497
Rental bond / corporate credit card	33,400	46,751

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	
	2014	2013
	\$	\$
Minimum Exploration & Evaluation expenditure for exploration Tenements		
within one year	150,000	600,000
Total	150,000	600,000
Office Rent		
Within one year	149,905	156,285
Later than one year but not later than five years	103,059	217,811
Total	252,964	374,096

The minimum contractual commitment towards remuneration costs of Executive Directors is \$230,478.

26. Statement of Cash Flows Reconciliation

	Consolidated	
	2014	2013
	\$	\$
(a) Reconciliation of net loss after tax to net cash flows from operations		
Net loss for the year	(85,917,632)	(7,210,352)
Adjustments for:		
Depreciation	18,922	27,733
Impairment of inventory and other non-current assets	997,630	3,591,236
Impairment of exploration and evaluation expenditure	81,219,760	-
Net profit on disposal of property, plant and equipment	(70,155)	(16,993)
Finance cost classified as financing activities	21,744	22,214
Share based payment expense	474,740	325,273
Exploration costs classified as investing activities	963,485	-
Changes in assets and liabilities:		
Decrease/(Increase) in trade and other receivables	429,882	(137,379)
Decrease in inventory	6,906	40,248
Increase in trade and other payables	-	426
(Decrease)/Increase in provisions	(75,883)	194,704
Net cash flows used in operating activities	<u>(1,930,601)</u>	<u>(3,162,890)</u>

(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 nil (2013: \$46,820)

27. Earnings Per Share

	Consolidated	
	2014	2013
	\$	\$
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	<u>85,917,632</u>	<u>7,210,352</u>
Diluted earnings per share		
Loss attributable to owners of Metgasco Ltd used to calculate diluted earnings per share	<u>85,917,632</u>	<u>7,210,352</u>
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	449,199,130	416,010,054
Loss per share (cents)	<u>(19.1)</u>	<u>(1.7)</u>

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 2014.

30. Parent Entity Disclosures

	Consolidated	
	2014	2013
	\$	\$
Current assets	11,860,898	22,686,346
Non-current assets	1,301,009	79,632,931
Total assets	13,161,907	102,319,277
Current liabilities	807,965	4,730,537
Non-current liabilities	303,359	95,265
Total liabilities	1,111,324	4,825,802
Contributed equity	123,990,967	123,990,967
Accumulated losses	(117,656,006)	(31,738,374)
Share option reserve	5,715,622	5,240,882
Total equity	12,050,583	97,493,475
Loss for the year	(85,917,632)	(7,210,352)
Other comprehensive income for the year	-	-
Total comprehensive loss for the year	(85,917,632)	(7,210,352)

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 (2013: \$195,000). 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	
	2014	2013
	\$	\$
Minimum Exploration & Evaluation expenditure for exploration Tenements		
within one year	150,000	600,000
Total	150,000	600,000
Office Rent		
Within one year	149,905	156,285
Later than one year but not later than five years	103,059	217,811
Total	252,964	374,096

30. Parent Entity Disclosures (Continued)

Contingent Liabilities

	2014	2013
	\$	\$
Bank guarantees Department of Primary Industry	660,497	855,497
Rental bond / corporate credit card	33,400	46,751

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 2014 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 2014.
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



Nicholas Heath
Chairman Audit and Risk Management Committee

Sydney, 26 September 2014

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

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 2014, 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.

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

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

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 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

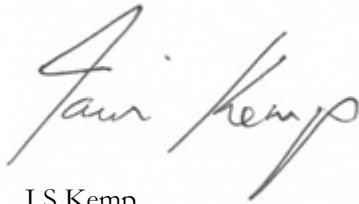
We have audited the remuneration report included in pages 13 to 20 of the directors' report for the year ended 30 June 2014. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility 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 2014, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



I S Kemp
Partner - Audit & Assurance

Sydney, 26 September 2014

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 17 September 2014.

The Issued Capital consisted of 448,702,530 fully paid ordinary shares.

There were 4,759 holders of these ordinary shares.

There were 1,572 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	437	0.04
1,001 – 5,000	844	0.58
5,001 – 10,000	677	1.26
10,001 – 100,000	2,100	18.28
100,001 and above	701	79.84
Total	4,759	100.00

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	8.09
ERM POWER LIMITED	20,822,009	4.64
MR PAUL FUDGE	15,296,128	3.41
DALEFORD WAY PTY LTD	8,600,000	1.92
SUNTRACK INVESTMENTS (BEVILLE) PTY LTD <SUNTRACK INV (BEVILLE) A/C>	7,956,522	1.77
KALSIE HOLDINGS PTY LTD <IYER SUPER FUND A/C>	7,532,693	1.68
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,324,600	1.63
FAST FREEZE INTERNATIONAL LIMITED	6,251,286	1.39
DANSAR PTY LTD <J&A VAUGHAN SUPER FUND A/C>	5,212,774	1.16
KALSIE HOLDINGS PTY LTD <IYER SUPER FUND A/C>	5,000,000	1.11
MR PETER STANMORE	4,803,542	1.07
MAGNIM PTY LTD <COX INVESTMENT A/C>	4,684,733	1.04
CITICORP NOMINEES PTY LIMITED	4,305,242	0.96
LITWICK ENTERPRISES PTY LTD	3,950,000	0.88
MR SIN MONG WONG + MS SENG BEE TEOH	3,933,000	0.88
MR DAVID JOHNSON	3,420,000	0.76
SEBODU PTY LTD	3,290,000	0.73
SHARON HOOPER <THE HOOPER FAMILY A/C>	3,163,268	0.70
ST BAKER INVESTMENTS PTY LTD <ST BAKER A/C>	3,043,141	0.68
MR NEVILLE GRAHAM MOSS + MRS MERLINE MAY MOSS	2,619,103	0.58
Total of top 20 holders of fully paid ordinary shares		35.10

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	12.73%

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 2014 is as follows.

Tenement	Resource Type	30 June 2014	30 June 2013
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 or 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 (10 ⁹ 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 (10 ⁹ joules)
Hydrostatic	Pressure exerted by a fluid at rest
Isotherm	A graph derived from measurements taken over a time at a constant temperature
Joule	A unit of energy
Jurassic	A period of geological time approximately 195 to 135 million years ago
Km	Kilometre
Km ²	Square kilometre
Mcf	Thousand cubic feet (10 ³ cubic feet)
Metgasco or the Group	Metgasco Ltd ACN 088 196 383
Md	Millidarcy (unit measurement of permeability)
MMcf	Million cubic feet (10 ⁶ cubic feet)
MW or Megawatt	One million watts of power
MWh	Megawatt hour
PEL	Petroleum Exploration Licence
Petroleum Act	Petroleum (Onshore) Act 1991 (NSW) and Petroleum (Onshore) Regulations 2002 (NSW)
Permeability	The capacity of a rock (coal) to transmit fluid
PJ	Petajoule (10 ¹⁵ joules)
Rank	A classification of coal based on the degree of heating and pressure undergone

Reserves

1P	(Proven oil/gas reserves) are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.
2P	Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
3P	Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) Reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
2C	Best estimate of those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.
Resource	The volume of gas stored in coal
Scfd	Standard cubic feet per day
Seismic	The gathering of data on the subsurface by a particular geophysical method which uses shock waves
Tcf	Trillion Cubic Feet
Tenement	Title to explore for and/or produce petroleum granted pursuant to the Petroleum Act
TJ	Terajoule (10 ¹² joules)
Walloon Coal Measures	A formation in the Clarence–Moreton Basin which contains coal and is of middle Jurassic Age

Standard Metric Prefixes

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

Conventional Conversions

1 mcf	= 1.1 Gigajoule
1 mmcf	= 1.1 Terajoule
1 bcf	= 1.1 Petajoule

CORPORATE DIRECTORY

Directors	Leonard Gill (Chairman) Nicholas Heath Peter Henderson Peter Berry 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 Secretary	Sean Hooper
Notice of Annual General Meeting	The Annual General Meeting of Metgasco will be held: Date: 28 November 2014 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 17, 383 Kent Street Sydney, NSW 2000
Solicitors	Gilbert & Tobin 2 Park Street Sydney, NSW 2000
Share Registry	Computershare Investor Services Pty Limited GPO Box 7115 Sydney, NSW 2001
How to contact us	
By mail	Level 11, 2 Elizabeth Plaza North Sydney, NSW 2060
By Telephone	(02) 9923 9100
By Fax	(02) 9923 9199
By Email	info@metgasco.com.au
Website	www.metgasco.com.au

