



CORPORATE GOVERNANCE STATEMENT – 2009

Metgasco and its Board of Directors are committed to maintaining and promoting good corporate governance practices within the Company 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 Constitution. The Board takes responsibility for the performance of the Company 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 number of directors 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 Company's financial objectives and ensuring that the necessary financial and human resources are in place for the Company to meet its objectives;
- d) Ensuring that the performance of management is regularly assessed and monitored;
- e) Setting the Company'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 variation;
- k) Authorising expenditure approval limits for the executive officers of the Company and authorizing 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 Company;
- n) Ensuring that the Company 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 Company's continuous disclosure obligations; and
- p) Reviewing and recommending to shareholders the appointment or if appropriate the termination of the appointment of the external auditor.

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

The Board has established two committees:

- Audit and Risk Management Committee; and
- Nominations 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 Company.

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.

The Company conducts an Annual Performance Review of all staff including senior executives. The performance of senior executives is considered against key individual and team objectives. All senior executives have formal position descriptions and each year their key performance measures are established in line with the Company's objectives and their roles and responsibilities. Performance evaluations have been conducted in accordance

with the process described for the financial year ended 30 June 2009.

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.

Principle 2: Structure the Board to add value

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

Recommendation 2.2: The Chair should be an independent Director

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

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

The Board considers that an independent director is one who:

- Is not a member of management;
- Is not a substantial shareholder of the Company or associated with a substantial shareholder of the Company;
- Within the last three years has not been employed in an executive capacity by the Company or been a director after ceasing to hold any such employment;
- Within the last three years has not been a principal of a material professional advisor or a material consultant to the Company;
- Is not a material supplier or customer of the Company or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- Has no material contractual relationship with the Company;
- 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 Company; 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 interests of the Company.

The independence of director's is assessed regularly. In consideration to the size and activities of the Company, the Board currently comprises five Directors, of which two are considered to be independent. Dr Peter Power, the Chairman and Mr Nicholas Heath are considered to be independent Directors.

The Company did not comply with recommendation 2.1 of the ASX Corporate Governance best practice recommendations as a majority of the Board are not considered to be independent when considered against the criteria described above. The Board intends to add additional independent directors over time to achieve an outcome whereby the Board is comprised of a majority of non-executive directors who are assessed to be independent. The Board maintains an independent Chairman, Dr Peter Power. The roles of the Chairman and Managing Director are exercised by different individuals.

Recommendation 2.4: The Board should establish a Nomination Committee

The Board has established a Nomination and Remuneration Committee which is chaired by an independent director, Mr Nicholas Heath. The Nomination and Remuneration Committee met informally on several occasions and met formally with the whole Board on one occasion during the reporting period. The Nomination and Remuneration Committee operates under a Charter which describes its role, responsibilities, composition, structure and membership requirements. The Charter is available on the Company's website at www.metgasco.com.au.

The Board comprises Directors with an appropriate range of skills, experience and qualifications. The names and skills, experience and expertise of the Directors and the tenure and independence status of each Director is described in the Director's report. Directors have the right, in connection with their duties and responsibility as Directors, to seek independent professional advice at the Company'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 Company's Constitution which requires that the minimum number of Director's is three and the maximum number of Directors is nine. The names of the members of the Nominations 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 2009 included interviews with Directors and the Chairman. These reviews were wide ranging and included each Director's contribution to Board discussions.

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.

Recommendation 3.3: Companies should provide the information indicated in the Guide to reporting on Principle 3.

The Board has adopted a Code of Conduct which requires that all Metgasco directors, officers and employees must perform their business in accordance with all relevant laws and regulations and in accordance with the Company's policies and procedures. The Code of Conduct is available on the Company's website at www.metgasco.com.au.

The Code of Conduct requires that all directors, officers, employees and contractors are expected to avoid "conflicts of interest" with regard to the Company's interests. Directors, officers and employees 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 trading in company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.

The Company has adopted a Share Trading Policy for all directors, officers, employees and contractors. Directors, officers and other employees are only permitted to trade in the securities of Metgasco during a four-week period commencing immediately after the announcement to ASX of the quarterly, half-yearly and annual results and after the conclusion of the Company's annual general meeting, provided that the person is not in possession of price-sensitive information and the trading is not for short term or speculative gain. Any trading outside these periods can only be conducted with the prior written approval of the Chairman. The Share Trading Policy is available on 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; has at least three members.

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

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

The Audit and Risk Management Committee is chaired by Dr Peter Power. The Audit and Risk Management Committee met once in 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. Due to the small size of the Company the Audit and Risk Management Committee does not consist of only non-executive directors. 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 by the external auditors to the Company's records, personnel and support is provided. Open communications with the auditors and management are maintained.

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.

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

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 Company, including its financial position, performance, ownership and governance. The policy outlines procedures to ensure that Directors and senior executives of the Company comply with its continuous disclosure obligations. The Board has delegated the function of continuous disclosure to the Company Secretary and Managing Director. This 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.

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

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 Company's website at www.metgasco.com.au; and
- continuous disclosure of material information.

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 Company 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.

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.

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

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 Company'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 Managing Director 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 Company operates within a risk management framework based upon Standards Australia's AS/ 4360 (*Risk Management*). This framework operates to identify, assess, mitigate and report against identified risks. In addition to the Risk Management Policy itself, the Company has established a number of other policies aimed to mitigate or manage risks including:

- Code of Conduct
- Health, Safety and Environment Policy

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 Managing Director 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.

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: 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 the Annual Report.

Recommendation 8.3: Provide the information indicated in the Guide to reporting on Principle 8.

All equity based executive remuneration is made in accordance with the Company's ESOP 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 Nominations and Remuneration Committee are provided in the Remuneration Report in the Annual Report.

Departures from ASX Corporate Governance Guidelines

Recommendation	Notification of Departure	Explanation of Departure
2.1	The Company does not have a majority of independent directors	The Directors consider that the current structure and composition of the Board is appropriate to the size and nature of operations of the Company.
4.3	Structure the audit committee so that it consists of: <ul style="list-style-type: none"> - a majority of non-executive directors - an independent chairperson who is not chairperson of the Board 	The current composition of the Board does not allow for the majority of the audit and risk management committee to consist of non-executive directors. The Audit and Risk Management Committee is chaired by the Board chairman who is independent.