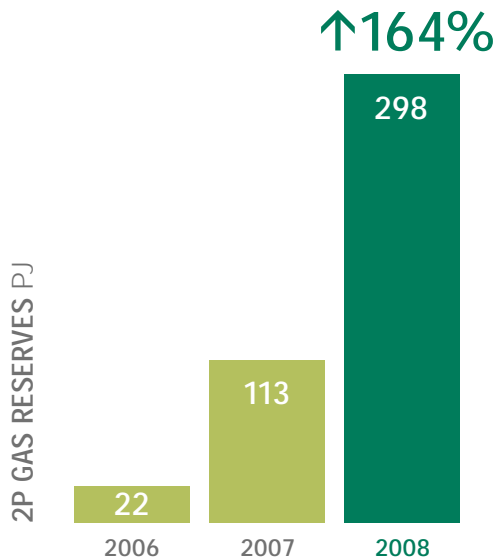


A hand is shown in the foreground, reaching out to touch the green leaves of a plant. In the background, an industrial drilling rig is visible, set up in a field of tall grass. The sky is overcast with grey clouds. The overall scene suggests a connection between nature and industrial energy production.

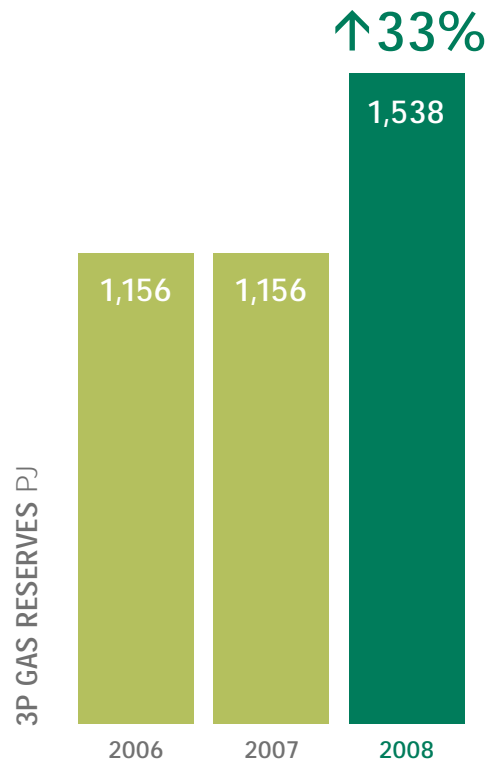
METGASCO
2008 ANNUAL REPORT

DISCOVERING CLEANER ENERGY

Growth in 2P reserve base



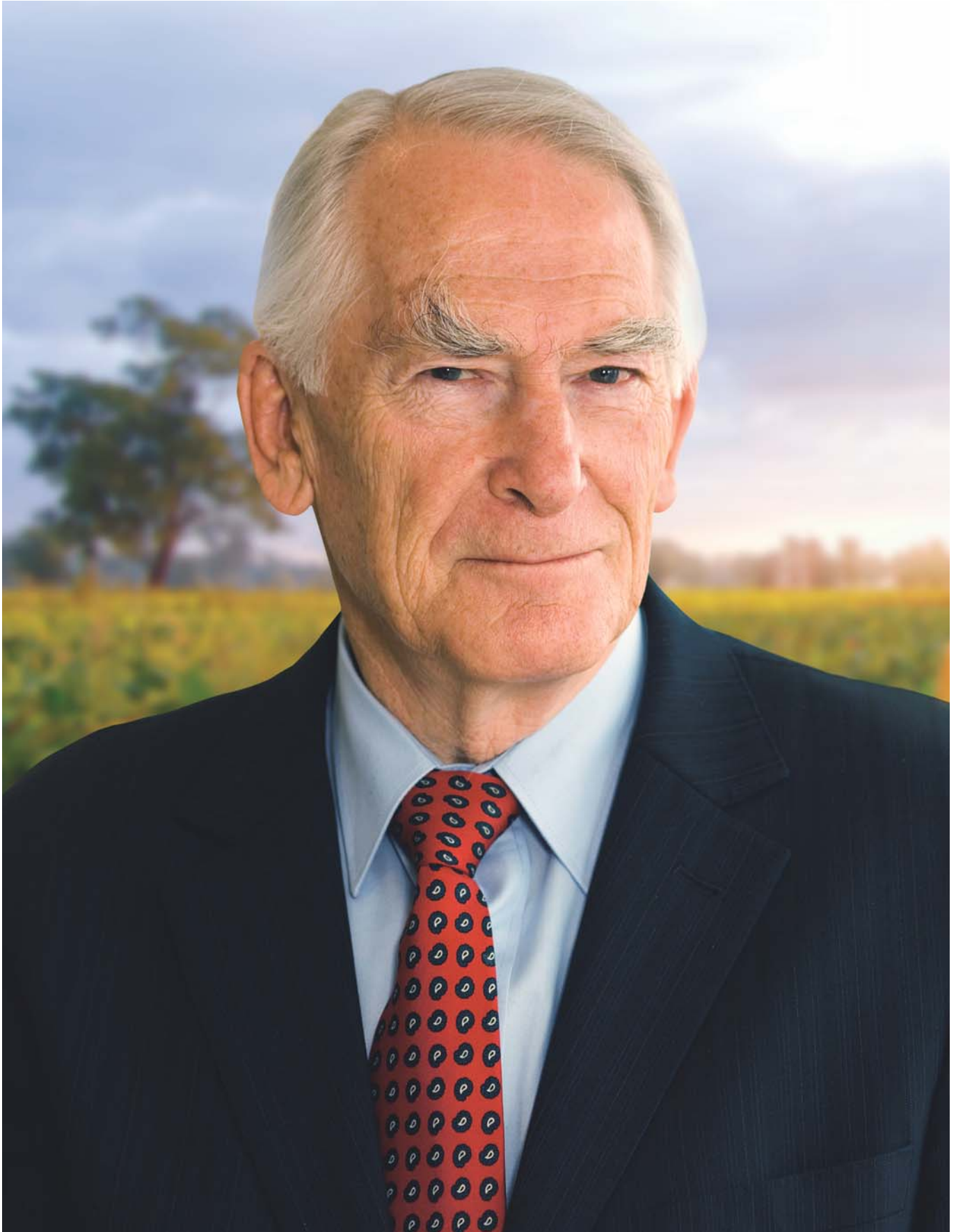
Growth in 3P reserve base



2008 ACHIEVEMENTS

- Continued to expand the largest certified gas reserve position in NSW
- First conventional gas discovery in the Clarence-Moreton basin (NSW)
- Completed Phase 2 Pilot drilling program with 6 pilot SIS wells drilled
- Completed First Appraisal Program under our joint venture with CS Energy
- Finalised the reprocessing and re-interpretation of 497 km of seismic data previously shot over the Clarence-Moreton basin
- Completed the acquisition of 168 km of new seismic data, the first seismic program to be undertaken in the basin in the past 20 years
- Completed work programs to farm-in PELs 13 and 426
- Signed non-binding MOU with BP Australia for the sale of 15 PJ/ year
- Finalised Environmental Assessment for Richmond Valley Power Station
- Commenced development work on Lions Way Pipeline to connect NSW to Qld
- Successfully raised \$7.6 million in capital to progress commercial developments

CHAIRMAN'S LETTER



“OVER THE PAST YEAR, METGASCO HAS CONTINUED TO EVALUATE AND GROW ITS CERTIFIED COAL SEAM GAS RESERVES TO RECORD LEVELS.”

The Company has now increased gas reserves in PEL 16 to 298 Petajoules. This is the largest volume of gas reserves ever established in the state of New South Wales, and will provide an important source of energy for the State in the future.

In other exciting news, the Company has made what is likely to be the first of a number of conventional gas discoveries. The Riflebird-E14 well in the Kingfisher Field was tested in May 2008 and recently completed work in mapping this structure indicates that it is a sizable discovery. The Company intends to undertake further appraisal drilling and mapping work over the coming year.

The Company's efforts are now moving from reserves appraisal to emphasis on the optimization of production and commercialisation. Detailed planning and preliminary engineering continue on the Company's major infrastructure projects, the Richmond Valley Power Station and the Lions Way Pipeline from Casino to Ipswich. I continue to be impressed by the complexity of such undertakings in which the rights and needs of traditional owners, landholders, permitting authorities and community groups need to be harmonised. Engineering of the projects, as well as negotiating sales and transportation agreements of gas and electricity, are progressing well.

Major expenditures on drilling and seismic acquisition were completed during the year with encouraging results. As Operator, Metgasco completed an extensive seismic acquisition program which has identified a number of leads and prospects. This program resulted in Metgasco completing its earn-in to various rights over an additional 5,000 km² of the Clarence-Moreton basin in northern New South Wales. Given this expansion, I think I may safely predict that much bigger reserves will be developed by the Company with further exploration.

As an investor in this industry you are no doubt aware that, in terms of emissions, gas is the cleanest of the fossil fuels for both power generation and industrial fuels. Your company is in the forefront of the clean energy business. The environmental benefits of moving the burden of energy production to gas are well known. Your company is emerging as a developer and producer of this clean energy source.

As you would be aware, the Government has announced its intention to introduce an emissions trading scheme by 2010. It is essential that the design of this scheme encourages the use of cleaner fuels such as gas, which is generally viewed by the international community as the only viable fuel able to deliver a low cost, practical, reliable and timely transition to a low carbon global economy. The move to a lower-carbon economy will enhance the value of Metgasco's assets, and underscores the need for additional exploration in the eastern states.

I believe shareholders are well served by the diligence and energy displayed by Metgasco's very capable staff and I thank them on your behalf.



DR PETER POWER, CHAIRMAN

DISCOVERY

RESERVES AND RESOURCES

Metgasco has continued to increase the largest certified gas reserve position in New South Wales in PEL 16 (Metgasco 96% interest) with independently certified gas reserves of:

- 298 Petajoules in 2P reserves (247 net to Metgasco); and
- 1,538 Petajoules in 3P reserves (1,389 net to Metgasco).

So far, all reserves are from coal seam gas and these have been recognized over less than 5% of the Company's acreage position.

CONVENTIONAL EXPLORATION – RIFLEBIRD-E14

We have recently begun to evaluate the conventional hydrocarbon potential of the basin and have made our first conventional gas discovery in 2008. Riflebird-E14 was tested in May 2008 and flowed gas at 247 scf/day. Further appraisal of this field is required and productivity enhancements are expected to be achieved by fracing and accessing additional gas in deeper sands.

UNEARTHING NEW INFORMATION

We have now completed reprocessing and interpretation of 497 line km of seismic data previously shot over the basin. This enabled a targeted new seismic acquisition program to be developed. In 2008, the Company completed the acquisition of 168 line km in PELs 16, 13 and 426.





CLEANER ENERGY

The States of New South Wales and Queensland did not always have huge dry interiors with a verdant green strip close to the coast. Millions of years ago, during the Cretaceous Period, a huge inland lake existed where rivers and rainwater deposited rich organic sediments into a series of enormous sedimentary basins. These basins extend from the north in Queensland – the Galilee, Bowen, and Surat basins – into New South Wales – the Clarence-Moreton and Gunnedah basins. Over millions of years these basins filled with remnants of vegetation to form layers of organic material.

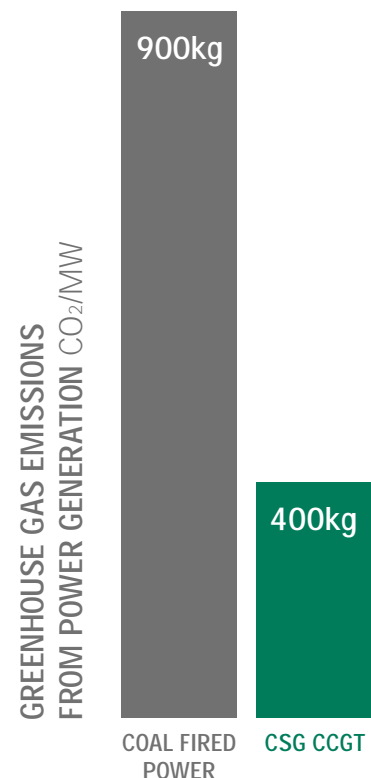
As these layers settled and more layers of organic material were deposited over millions of years, a heavy pressure of overburden was established. This combined with geothermal heat from the earth created coal, gas and oil as well as other hydrocarbons.

The Clarence-Moreton basin, where Metgasco operates, is a gas charged basin. Gas is trapped in sandstone reservoirs and in coal seams where it is trapped by the pressure of being buried underground.

Coal seam gas is a very pure source of natural gas, usually with very high (95%+) methane content. It is used by households for heating and cooking; in industrial energy applications; and for power generation.

Electricity generated from natural gas produces approximately 45% of the emissions produced by coal fired generation. As Australia implements an Emissions Trading Scheme, the use of gas in electricity generation will become increasingly important.

45% reduction in CO₂ emissions from gas fired power



MANAGING DIRECTOR'S REVIEW OF OPERATIONS

“THIS YEAR I’M PLEASED TO REPORT THAT METGASCO HAS MADE AN EXCITING GAS DISCOVERY WITH THE DRILLING OF OUR FIRST CONVENTIONAL WELL. THIS IS EXCELLENT EARLY CONFIRMATION OF OUR PREVIOUS ASSESSMENTS OF THE PROSPECTIVITY OF THE CLARENCE-MORETON BASIN.”

In 2004, the year that Metgasco was accepted to the list on the ASX, approximately 30 PJ of coal seam gas (“CSG”) was being sold into the east coast gas market. In the 2008 financial year, the estimated volume of CSG produced into this market was 133 PJ, representing growth of 340% over the period.

The Australian CSG industry has proven to be innovative, adaptable and aggressive in pursuing new market opportunities. Improved production techniques are continually being applied in the industry and new markets, such as the LNG projects which are currently proposed, are being investigated. At the same time the industry is facing the introduction of an Emissions Trading Scheme which will fundamentally alter supply and demand basics.

Metgasco is an emerging Company in this market and we are focused on being responsive to changing market conditions. During the year we have aimed to identify gas resources to supply these emerging market opportunities, establish the optimum production technique for our coal seam gas reserves and to anchor our position in the east coast gas market by securing customers. All of which underpin the commercial strategy of the Company.

Exploration

The Company has always considered that the Clarence-Moreton Basin is an under explored basin in comparison with other similar aged basins in Australia.

In March 2008, the Company decided to test a deeper section of the stratigraphy with the multiple objectives of determining if reservoir type rocks were present, to identify if potential re-injection units were present and also to test the depth capability of the ADR 100 rig for further conventional gas exploration programs. The well, Riflebird-E14, intersected a gross gas column over 49 metres commencing at 1,240m. The drilling rig in its current configuration was only capable of drilling to 1,296 metres so the well was terminated at this depth. It could well be that, in addition to the gas column identified to date, further reservoirs exist beneath this. The significance of the discovery is still being evaluated but has led to the identification of a contingent resource of up to 70 bcf for the Kingfisher Field. That we are potentially only just glimpsing the reservoir potential in our first conventional well highlights the unexplored nature of the basin. We are now planning to commence a series of appraisal wells to determine the extent and productive capacity of the Kingfisher Field.

During the year, the Company completed 168km of new 2D seismic located in PELs 13, 16 and 426. This is the first major new seismic program completed in the basin for 20 years and was designed to link with previous data to enhance the Company’s basin-wide interpretations. The seismic program has provided valuable new information on the Walloon Coal Measures, where our CSG activities are focused, as well as on units deeper in the stratigraphic sequence where potential exists for conventional accumulations of oil and gas. We anticipate following up the seismic program by identifying further drill targets and drill testing in the next year.



MANAGING DIRECTOR'S REVIEW OF OPERATIONS



Resource Development

Resource Development is an important area of activity for the company. It represents the next phase from exploration, to what is effectively inventory, and allows the Company to assess appropriate development strategies. To date, Metgasco has focussed on the development of our CSG resources. With the discovery of the Kingfisher Gas Field the Company now has an additional resource base to evaluate. The ability to develop both conventional and CSG resources at the same time provides significant potential benefits to customers. Conventional gas resources offer a mechanism for flexible supply delivery which complements the less flexible supply profile of CSG. Metgasco is one of the few companies on the east coast that is capable of offering such services to customers and we would expect that this should enhance our capability to sell gas at acceptable margins.

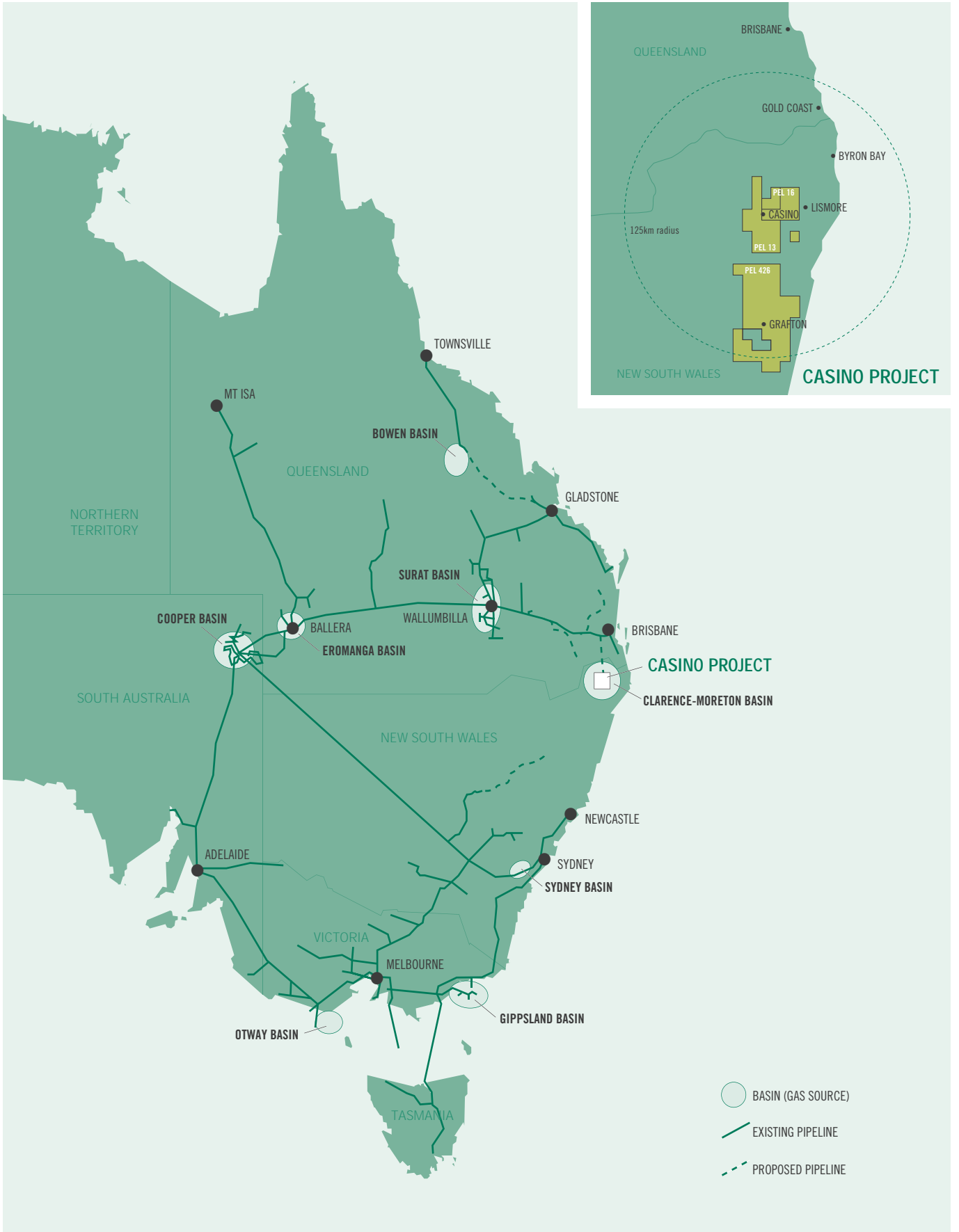
For Metgasco the resource development program during the year involved continuing to process all of the data collected during the reserves drilling program as well as undertaking the drilling for the trial production program which commenced in December 2007. The processing and evaluation of data collected from the reserve drilling program has led to a 53% increase in 2P CSG reserves to 298 Petajoules and a 33% increase in 3P reserves to 1,538 Petajoules. These reserves are currently the largest 2P reserves in NSW. We have also established a contingent resource estimate of 12-70 bcf for the newly discovered Kingfisher Gas Field. Over the coming year we anticipate moving this contingent resource in to a certified category.

PEL 16 RESERVES (PJ)

1P (proven)	–
2P (proven and possible)	298
3P (proven, possible and probable)	1,538

The CSG trial production program, which commenced December 2007, comprised 6 pilot surface to inseam wells to evaluate different coal seams over an area of approximately 120km². A range of drilling completion techniques was used. The drilling program using the Ensign ADR 100 technology has demonstrated that the Company can drill what it considers to be cost effective wells to technical specification. Early well results have highlighted that different areas and different seams show different performance characteristics. This has allowed the Company to prioritise areas for commercial production and identify those areas where further appraisal to optimise the technology will be required.

The Corella-P11 well continues to produce at near commercial rates and is suggesting the identification of a “sweet spot”. The Company considers this important as armed with the right drilling technology, in an area of suitable reservoir geology it can continue detailed planning for broader scale development as is contemplated under the Stratheden Joint Venture.



MANAGING DIRECTOR'S REVIEW OF OPERATIONS

Infrastructure Development

Metgasco has the goal of selling gas into the east coast gas market as well as converting gas to electricity to sell into the east coast power market. The major projects that are currently in development are the Stratheden Joint Venture with CS Energy and the Richmond Valley Power Station.

I am glad to report that the company is now in the closing stages of obtaining regulatory approval for the proposed 30MW Richmond Valley Power Station ("RVPS"). This project, on the drawing boards since the Company listed, has evolved from a 10MW demonstration proposal to a larger 30MW plant which, when built, will be capable of supplying electricity for approximately 30,000 households in the northern rivers region. The Environmental Assessment has been lodged and we are now seeking final Development Approval from the NSW Department of Planning. The development of this project has required the Company to broaden its organisational capability by adding skill sets in: regulatory planning and development approval processes, investment analysis, technical planning and engineering, and procurement and construction management.

The Stratheden Joint Venture with CS Energy has continued to progress over the past year. The Company completed 4 trial production wells using the ADR 100 rig. Reserves in the 2P category have materially increased and as further data is collected and processed we would expect further additions. Following the completion of the work program and associated expenditure, CS Energy has now earned a 15% working interest in the Stratheden Joint Venture.

Other work associated with the Stratheden Joint Venture includes environmental assessment work on the 145km Lions Way gas pipeline. Originally known as the Casino-Ipswich pipeline, this has been re-branded as the Lions Way pipeline to acknowledge the work by members of the Lions club of Kyogle who were initially responsible for building the road along much of the proposed route. The Company has been able to build on the expertise developed with the RVPS by rapidly securing "Major Project" status for the Lions Way Pipeline project in NSW, a pipeline survey licence in Queensland and Commonwealth EPBC declaration all within months of each other. Our contractors and field crews are now engaged in conducting the environmental assessment work, much of which will use the skills and knowledge base developed in the RVPS process.

Gas Sales

The Northern Rivers region is noticeable from a gas market perspective in that it does not have access to reticulated gas and there is no local power generation. All gas supplied into the market is from bottled gas which needs to be transported some distance, whilst the lack of embedded electrical power generation means power also comes from a significant distance away and therefore carries a greater transportation cost.

This represents both opportunities and obstacles for the Company. The opportunity for Metgasco to consider embedded power generation and gas market opportunities has led to discussions with a number of power and infrastructure market participants. These proposals are being considered while the Company undertakes preliminary studies on what type of additional power developments would suit the region and the Company's objectives.

Whilst the lack of readily available alternative energy sources is an opportunity for the Company, it is also an obstacle in that there is no existing pipeline that the Company can immediately gain access to and thereby deliver early sales. This underlies the importance of the Lions Way pipeline in providing a conduit to the important south east Queensland market. The Company sees the pipeline, with a foundation customer, as an important step in being able to then use capacity for additional gas sales and thereby turn an obstacle into further opportunity. To this end, the Company is pleased to have signed an MOU with BP Australia for the sale of up to 15 PJ/a. The recent Varanus Island explosion in Western Australia, which severely restricted gas supplies to households and industry, has highlighted the risk for the south east Queensland market which is currently only supplied by a single pipeline. This has been reflected in discussions with potential gas buyers seeking to diversify their physical delivery risks.



MANAGING DIRECTOR'S REVIEW OF OPERATIONS

Corporate Responsibility

The Company is seeking to create a working environment where staff and contractors are conscious of their obligations in respect of health and safety, the environment and community relations and are provided with the necessary resources and training to meet these obligations. The Company maintains systems to monitor, evaluate and improve our HS&E processes. The Company had a single lost time injury during the year with a minor injury to a contractor on site. We aim to minimise LTIs and our goal is to drive LTIs to zero in the coming year.

Metgasco recognises and respects the attachment to the land held by many Aboriginal people. The Company aims to ensure that it shows respect for these attachments. The Company regularly engages with local indigenous groups to ensure that Cultural Heritage matters are considered prior to any operations being undertaken on a new site.

The Company recognises that it has a wide group of stakeholders. These include land owners on whose land we operate, local regulatory authorities, our suppliers and the community at large. We are very conscious of the need to ensure that all parties are kept informed of any Metgasco activities that may affect them and also to ensure that the Northern Rivers community benefits from our presence. We are committed to using local suppliers and employing local staff wherever possible.

We aim to contribute in partnership to the local community and during the year have made donations to a diverse range of community organizations including: the Casino Beef Week Family Day, the Casino All Black Rugby Team, the Bentley Art Show, the Richmond Valley Council's Surf and Turf Film Festival and the Rotary Club of Alstonville's Science and Engineering Challenge. It is our intention to continue this sponsorship program.

Corporate Development

Whilst we are focused on the hard technical edge of proving up CSG and conventional resources and developing projects to sell gas, we have also sought to ensure that we are fully up to speed with imminent industry changes. The likely introduction of an Emissions Trading Scheme will have a major impact on both the energy sector and our Company. We are monitoring these developments closely to minimize any adverse impact and or to make the most of any opportunities that may arise as a result. We continue to regularly engage with gas buyers and closely monitor changing market conditions. We have now completed our Farm-In obligations in PEL's 13 and 426.

We have raised further capital during the year, despite turbulent financial markets and we welcome new shareholders to our register. Metgasco is in the lowest quartile of CSG companies in terms of exploration expenditure per 2P reserves and highlights that we are both prudent with our expenditure and that we still have substantial progress to make on our acreage.

Outlook

The outlook for gas demand in eastern Australian energy markets continues to be positive. The Company has numerous commercial opportunities available to it and substantially under explored acreage. We will continue to focus on delivery of existing projects into a cash generating position. Over the past year we have made good progress in this direction. It could well be that if appraisals of the Kingfisher Field and other prospects are successful, that the Company may be able to accelerate delivery of existing projects into a cash generating position and if this is the case we will be working assiduously to that objective.



DAVID JOHNSON, MANAGING DIRECTOR

DIRECTOR'S REPORT

Your Directors present their report on Metgasco Limited (Metgasco or the Company) and the entity it controlled for the year ended 30 June 2008.

The consolidated entity referred to hereafter as the Company consists of Metgasco Limited and the entity it controlled at the end of the financial year.

Principal Activities

The principal activities during the year were investment in hydrocarbon exploration, appraisal, and development (principally coal bed methane) and the development of associated energy infrastructure. There has been no change in the nature of these activities during the year.

Company Information

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

Review of Operations

During the year, the Company continued with the exploration, appraisal, development and production of its coal seam methane project in northern New South Wales where it owns 96% of the rights to PEL 16. The Company has achieved additional upgrades in gas reserves which have been independently certified. The Company has completed its farm-in obligation to the adjacent petroleum exploration tenements PEL 13 and PEL 426. The Company also operates the wholly owned subsidiary, Richmond Valley Power Pty Ltd, to develop the 30 MW Richmond Valley Power Station.

Significant Changes in the State of Affairs

During the year, the Company executed two planned capital raisings. On 6 May, a share purchase plan was concluded whereby \$2,644,058 was raised through the issue of 3,777,226 ordinary shares. Also on the same date a placement of 6,666,666 shares was made to existing institutional shareholding through Bell Potter Securities which raised \$5,000,000. The exercising of 2,000,000 Director options raised \$600,000. Cash received from these share issues was used principally to fund exploration, evaluation and development activities and to replenish working capital.

Following a number of reserve upgrades in the year, the independently certified 2P and 3P reserves for PEL 16 have increased substantially. At the date of this report the PEL 16 2P reserves are 298PJ (2007: 129PJ) whilst the 3P position has increased to 1,538PJ, (2007: 1,156).

Likely Developments and Expected Results

Metgasco expects to continue the exploration, evaluation and development of gas reserves and to progress commercialisation of these reserves through the development of associated energy infrastructure projects. In the opinion of Directors, further disclosure of information regarding potential developments in the operations of the Company is likely to prejudice the interests of the Company. Accordingly, this information has not been included in this report.

The Board will continue to review potential areas of activity that may create additional value to the Company. The Board will keep shareholders informed of any significant developments.

Operating Result for the Year

The consolidated loss of the Company for the year amounted to \$2,134,239.

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 2008.

Proceedings on Behalf of the Company

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

Environmental Regulation and Performance

Exploration and development activities are subject to State and Federal laws, principally the Environmental Protection Act and associated regulations in NSW. Metgasco has a policy of complying with its environmental performance obligations, and during the reporting period, there has been no significant known breach of the Company's licensed environmental conditions.

DIRECTOR'S REPORT



Directors

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

Peter Power	Non Executive Chairman
David Johnson	Managing Director
Glenda McLoughlin	Executive Director
Richard Wood	Executive Director
Nicholas Heath	Non Executive Director

Nicholas John Victor Geddes and Glenda McLoughlin were the Company Secretaries during the financial year 2008.

Mr. Geddes is joint Company Secretary of Metgasco. He is a member of the National Council of Chartered Secretaries Australia and Chairman of the NSW Branch of that Institute. He is also a Fellow of both the Australian and English Institutes of Chartered Accountants.

Dr Peter Power BSc, PhD

NON-EXECUTIVE CHAIRMAN

Appointed: 12 September 2002

Dr Power has almost fifty years experience in hydrocarbon exploration worldwide in senior management positions with major international companies. He was previously Managing Director of Ampolex Limited prior to its acquisition by Mobil.

Dr Power was the foundation Head of Geology at the Western Australian Institute of Technology (now Curtin University). He was a member of the Bureau of Mineral Resources Review in 1984 and the Australian Geological Survey Organisation Review in 1993, a member of the Advisory Council for the National Centre for Petroleum Geology and Geophysics from 1985–90. He has served as President of the Australian Geoscience Council and as a councillor and Chairman of the Australian Petroleum Production and Exploration Association, which has awarded him both the Lewis G. Weeks and Reg Sprigg Gold medals and honorary life membership.

Special responsibilities: Chairman and Chairman of the audit and risk management committee.

Other current Directorships: Director of Petsec Limited, Chairman of Elk Petroleum Ltd and Chairman of Austex Oil. He has held no other Directorships of any listed companies during the last three years.



David WG Johnson BAppSc (Geology), MBA, MAusIMM
MANAGING DIRECTOR

Appointed: 23 June 1999

Mr Johnson has twenty years experience in the minerals and petroleum sectors. His initial experience was working as a field geologist in exploration for gold in the south west Pacific. Subsequently, he worked in Australia, Africa, New Zealand and South America on a range of commodity types. Between 1992 and 1996 he also worked in corporate finance for resource related projects and companies. Since 1996, Mr Johnson has worked mainly in the area of project generation and development including that of the coal seam methane potential of the Clarence-Moreton Basin.

Special responsibilities: Managing Director

Other current Directorships: Mr Johnson has no other Directorships of any listed companies nor has held any in the last three years.



Glenda McLoughlin BEc, MBA, FAICD
CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

Appointed: 29 April 2002

Ms McLoughlin has over twenty years experience in investment banking, management consulting and industry policy working in Australia and internationally. Most recently she was the Head of the Utilities and Infrastructure group of Barclays Capital, the investment banking division of Barclays Bank plc. Prior to this, Ms McLoughlin was a Vice President of international investment bank Morgan Stanley based in Melbourne and Singapore. Ms McLoughlin has completed over \$8 billion in advisory assignments and financings and brings specialist skills in corporate financial advice and debt and equity capital raisings. She has been involved in major energy sector transactions and has provided financial advice to corporations and Governments on energy sector restructurings, acquisitions, divestments and financings.

Special responsibilities: Chief Financial Officer, Company Secretary

Other current Directorships: Ms McLoughlin is a Director of Elk Petroleum Ltd. She has held no former Directorships of any listed companies during the last three years.

DIRECTOR'S REPORT



Richard Wood BEng (Mining), FAICD
DIRECTOR, ENGINEERING & OPERATIONS

Appointed: 1 May 2004

Mr Wood has over forty years experience in engineering and operations in the upstream oil and gas industries. Mr Wood spent 18 years with Esso Australia Limited including drilling, production and project assignments in the Bass Strait, USA and Japan. He subsequently joined Ampolex Limited. As General Manager Operations for Ampolex he completed a number of major assignments including the planning and development of the Lufung offshore petroleum field in China, the development of the Wandoo offshore petroleum field in Western Australia and acting Joint Venture representative for the development of the Kutubu oil field in Papua New Guinea. Since that time he has acted as a project management consultant for a number of companies including: ExxonMobil Corporation; Hitachi Zosen Corporation in Japan; ROC Oil Pty Ltd; Worley Ltd; and Keppel Energy in Singapore.

Special responsibilities: Director of Engineering & Operations

Other current Directorships: Mr Wood has no current Directorships. He was a Director of Elk Petroleum until October 2007.



Nicholas Heath B.Eng (Chem), MAICD, FIChemE, SPE
NON-EXECUTIVE DIRECTOR

Appointed: 4 October 2006

Mr Heath has over thirty five years experience in the petroleum industry in technical, operational and commercial roles with the ExxonMobil group of companies. He was previously Director of ExxonMobil Australia Pty Ltd with functional responsibility for Gas & Power Marketing.

Mr Heath has worked in various engineering assignments at ExxonMobil including the early development and commissioning of Esso's Gippsland basin oil and gas fields offshore Victoria. In 1985, he became Esso's Production Manager for the Gippsland operations at a time of peak activity and record oil production. In 1987 following a major acquisition by Esso, Mr Heath became the Managing Director of Delhi Petroleum Pty Ltd with operations in central Australia. After oil and gas marketing assignments overseas and following the merger of Exxon and Mobil, Mr Heath became a Director of ExxonMobil Australia Pty Ltd. Mr Heath has served as Chairman of the Australian Petroleum and Production Association, which awarded him the Reg Sprigg Gold Medal and honorary life membership. For many years he was Chairman of APPEA's Energy Policy Committee and industry representative on many energy advisory groups to government.

Special responsibilities: Mr Heath is Chairman of the Nominations and Remuneration Committee.

Other current Directorships: Mr Heath is a Director of MEO Australia Limited and has held no former Directorships of any listed companies during the last three years.

Indemnification of Directors and Officers

Throughout the reporting period, the Company 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 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, eleven meetings of Directors were held. Attendances were as follows:

Director	Number of meetings held while a director	Number of meetings attended while a director
Peter Power	11	11
David Johnson	11	11
Glenda McLoughlin	11	11
Richard Wood	11	11
Nicholas Heath	11	11

Audit & Risk Management Committee Meetings

Peter Power is the Chairman of the Audit & Risk Management Committee and Nicholas Heath is a member of this committee. This committee met twice during the year with all board members attending.

Nominations & Remuneration Committee Meetings

Nicholas Heath is the Chairman of the Nominations and Remuneration Committee and Peter Power is a member of this committee. This committee met once during the year with all board members attending.

Retirement and Election of Directors

All Directors have acted as Directors of the Company for the entire financial year.

Directors' and Officers' Remuneration Report – Audited

General Policy

Remuneration of the Non Executive Directors is approved by the Board and set in aggregate within the maximum amount approval by the Shareholders. Remuneration for Non Executive Directors is benchmarked against a pool of comparable companies and reviewed on an annual basis. Remuneration is determined by the Board with reference to these benchmarks and takes into consideration the need to obtain appropriately qualified independent Directors. The aggregate pool of remuneration approved to be paid to Non Executive Directors by Shareholders on 15 November 2006 was \$250,000. The amount paid to Non Executive Directors during the year to 30 June 2008 was \$88,150.

Remuneration terms and conditions of employment of the Executive Directors and Key Management Personnel are reviewed annually having regard to performance and relevant comparative information. Remuneration for Executive Directors is benchmarked against a pool of comparable companies and reviewed on an annual basis. The Company has sought independent advice with respect to appropriate remuneration structures for Executive Directors and Key Management Personnel. The total remuneration comprises: base salary, superannuation, short term incentives in the form of cash bonuses, long term incentives in the form of share options and other non cash benefits. The bonus element of remuneration for all Executives is determined by the Nominations and Remuneration Committee of the Board. The use of options as an incentive attempts to strike a balance between preserving cash, offering medium term incentive (in the case of options that vest immediately) and ensuring a degree of staff retention in the case of long vesting options. There are no KPI based measures presently employed by the Company in the awarding of options, instead a process of annual performance reviews along with benchmarking is followed.

The key management personnel of the Company include the Executive Directors and the following:

- Kevin Dixon, General Manager Gas Marketing
- Aidan Stewart, Operations Manager
- Peter Stanmore, General Manager Exploration
- Mick O'Brien, General Manager Development
- Jackie Geraghty, General Counsel

The Company does not consider other executives to be key management personnel.

DIRECTOR'S REPORT

Details of Remuneration (audited)

Details of the nature and amount of each element of remuneration of each Director and Key Management Personnel of the Company for the year ended 30 June 2008 are as follows:

Negative amounts under annual leave represent a depletion in the executive's leave entitlement during the year.

Remuneration paid to Directors consist of amounts paid at current rates as disclosed in the section, Details of Employment Agreements, and rates which existed prior to an increase which came into effect during the year.

Remuneration 2008

Name	Short Term Employment Benefits			Post Employment Benefits	Long Term Benefits	Share Based Payments				% of Remuneration
	Cash Salary & Fees	Other benefits	Short term incentive	Superannuation	Long Service Leave	No. of Options	Option expense for year	Total		
Directors	\$	\$	\$	\$	\$		\$	\$	%	
P. Power	-	-	-	50,000	-	-	-	50,000	-	
N. Heath	2,917	-	-	35,233	-	-	-	38,150	-	
D. Johnson	247,707	3,409	-	22,293	3,192	210,154	90,698	367,299	24.7	
G. McLoughlin	247,707	10,087	-	22,293	3,192	210,154	90,698	373,977	24.3	
R. Wood	174,456	(39,069)	-	15,701	1,735	134,887	56,868	209,691	27.1	
Subtotal	672,787	(25,573)	-	145,520	8,119	555,195	238,264	1,039,117		
Key Management Personnel			-							
K. Dixon	151,479	(8,346)	-	13,633	1,475	113,590	47,888	206,129	23.2	
A. Stewart	147,408	8,171	20,000	15,067	1,615	68,253	29,889	222,150	13.5	
P. Stanmore*	123,048	9,382	-	11,074	355	100,000	41,658	185,517	22.5	
M. O'Brien**	104,386	8,636	-	9,395	444	200,000	41,140	164,001	25.1	
J. Geraghty***	66,808	4,367	-	6,013	284	65,000	17,425	94,897	18.4	
Subtotal	593,129	22,210	20,000	55,182	4,173	546,843	178,000	872,694		
Grand total	1,265,916	(3,363)	20,000	200,702	12,292	1,102,038	416,264	1,911,811		

* Peter Stanmore joined the Company on November 5th 2007 in the role of Exploration Manager.

** Michael O'Brien joined the Company on February 4th 2008 as General Manager of Development.

*** Jackie Geraghty joined the Company on February 4th 2008 as General Counsel.

Remuneration quoted for the above three Key Management Personnel is from their respective joining dates to 30 June.

Total value of options granted in 2008

Directors and Key Executives	Total value of options granted in year
D. Johnson	109,303
G. McLoughlin	109,303
R. Wood	69,959
K. Dixon	58,914
A. Stewart	35,401
P. Stanmore	55,919
M. O'Brien	136,512
J. Geraghty	43,384

Remuneration 2007

Name	Short Term Employment Benefits			Post Employment Benefits	Long Term Benefits	Share Based Payments			% of Remuneration
	Cash Salary & Fees	Other benefits	Short term incentive	Superannuation	Long Service Leave	No. of Options	Option expense for year	Total	
Directors	\$	\$	\$	\$	\$		\$	\$	%
P. Power	41,055	-	-	1,311	-	-	-	42,366	-
N. Heath	26,250	-	-	2,363	-	250,000	33,497	62,110	53.9
D. Johnson	194,495	11,777	-	17,505	3,323	250,000	49,496	276,596	17.9
G. McLoughlin	194,495	(4,315)	-	17,505	3,323	250,000	49,496	260,504	19.0
R. Wood	155,505	(493)	-	13,995	2,839	150,000	29,824	201,670	14.8
Subtotal	611,800	6,969	-	52,679	9,485	900,000	162,313	843,246	
Key Management Personnel									
K. Dixon	142,202	11,507	-	13,046	990	100,000	45,106	212,851	21.2
A. Stewart	119,266	14,220	6,000	10,734	813	100,000	19,890	170,923	11.6
Subtotal	261,468	25,727	6,000	23,780	1,803	200,000	64,996	383,774	
Grand total	873,268	32,696	6,000	76,459	11,288	1,100,000	227,309	1,227,020	

A short term incentive in the form of a cash bonus was paid to Aidan Stewart in the current financial year (October 2007) and the prior year (January 2007). The discretionary bonuses were assessed against Mr Stewart's personal performance and in particular the supervision of successful coring programs. The percentage of base remuneration paid as short term incentive during the year was 9% (2007: 3.5%).

DIRECTOR'S REPORT

Details of share options granted as remuneration for 2008

Name	No. Options Granted	No. Options Vested	Fair Value Per Option At Grant Date	Exercise Price	Date Granted	Expiry Date	Date Exercisable
Directors							
			\$	\$			
D. Johnson	92,358	92,358	0.535	0.90	21/11/2007	30/06/2012	21/11/2007
	27,987	27,987	0.535	0.90	21/11/2007	30/06/2012	30/06/2008
	29,159	29,159	0.513	1.00	21/11/2007	30/06/2012	30/06/2008
	60,650	–	0.493	1.10	21/11/2007	30/06/2012	30/06/2009
G. McLoughlin	92,358	92,358	0.535	0.90	21/11/2007	30/06/2012	21/11/2007
	27,987	27,987	0.535	0.90	21/11/2007	30/06/2012	30/06/2008
	29,159	29,159	0.513	1.00	21/11/2007	30/06/2012	30/06/2008
	60,650	–	0.493	1.10	21/11/2007	30/06/2012	30/06/2009
R. Wood	51,994	51,994	0.535	0.90	21/11/2007	30/06/2012	21/11/2007
	19,695	19,695	0.535	0.90	21/11/2007	30/06/2012	30/06/2008
	20,519	20,519	0.513	1.00	21/11/2007	30/06/2012	30/06/2008
	42,679	–	0.493	1.10	21/11/2007	30/06/2012	30/06/2009
Subtotal	555,195	391,216					
Key Management Personnel							
K. Dixon	43,785	43,785	0.535	0.90	21/11/2007	30/06/2012	01/07/2007
	16,585	16,585	0.535	0.90	21/11/2007	30/06/2012	30/06/2008
	17,279	17,279	0.513	1.00	21/11/2007	30/06/2012	30/06/2008
	35,941	–	0.493	1.10	21/11/2007	30/06/2012	30/06/2009
A. Stewart	16,419	16,419	0.535	0.90	21/11/2007	30/06/2012	01/07/2008
	16,585	16,585	0.535	0.90	21/11/2007	30/06/2012	30/06/2008
	17,279	17,279	0.513	1.00	21/11/2007	30/06/2012	30/06/2008
	17,970	–	0.493	1.10	21/11/2007	30/06/2012	30/06/2009
P. Stanmore	100,000	–	0.559	0.90	21/11/2007	31/12/2012	14/09/2008
M. O'Brien	100,000	–	0.683	0.90	21/11/2007	04/02/2013	04/02/2009
	100,000	–	0.683	0.90	21/11/2007	04/02/2013	04/02/2010
J. Geraghty	65,000	–	0.667	1.00	21/11/2007	04/02/2013	04/02/2009
Subtotal	546,843	127,932					

The recipients of the above options paid no consideration towards them. None of the above options were issued during the year. All terms attaching to the options granted above are consistent with the Company's remuneration policy as found in the section above entitled "General Policy" in the Directors' and Officers' Remuneration Report – Audited.

Details of share options granted as remuneration for 2007

Name	No. Options Granted	No. Options Vested	Fair Value Per Option At Grant Date	Exercise Price	Date Granted	Expiry Date	Date Exercisable
Directors			\$	\$			
N. Heath	100,000	100,000	0.190	0.30	03/10/2006	01/01/2012	03/10/2006
	150,000	150,000	0.173	0.50	03/10/2006	01/01/2012	03/10/2006
D. Johnson	70,000	70,000	0.213	0.35	29/11/2006	01/01/2012	29/11/2006
	70,000	70,000	0.203	0.40	29/11/2006	01/01/2012	29/11/2006
	110,000	110,000	0.185	0.50	29/11/2006	01/01/2012	29/11/2006
G. McLoughlin	70,000	70,000	0.213	0.35	29/11/2006	01/01/2012	29/11/2006
	70,000	70,000	0.203	0.40	29/11/2006	01/01/2012	29/11/2006
	110,000	110,000	0.185	0.50	29/11/2006	01/01/2012	29/11/2006
R. Wood	44,000	44,000	0.213	0.35	29/11/2006	01/01/2012	29/11/2006
	46,000	46,000	0.203	0.40	29/11/2006	01/01/2012	29/11/2006
	60,000	60,000	0.185	0.50	29/11/2006	01/01/2012	29/11/2006
Subtotal	900,000	900,000					
Key Management Personnel							
K. Dixon	30,000	30,000	0.225	0.30	29/11/2006	01/01/2012	29/11/2006
	30,000	30,000	0.203	0.40	29/11/2006	01/01/2012	29/11/2006
	40,000	40,000	0.185	0.50	29/11/2006	01/01/2012	29/11/2006
A. Stewart	30,000	30,000	0.213	0.35	29/11/2006	01/01/2012	29/11/2006
	30,000	30,000	0.203	0.40	29/11/2006	01/01/2012	29/11/2006
	40,000	40,000	0.185	0.50	29/11/2006	01/01/2012	29/11/2007
Subtotal	200,000	200,000					

The recipients of the above options paid no consideration towards them. None of the above options were exercised during the year.

Details of Employment Agreements

Employment Agreements

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

Managing Director

Mr Johnson provides services under a two year contract from 21 November 2007 to 21 November 2009. The base remuneration inclusive of superannuation under the contract is \$270,000. Mr Johnson'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 Johnson is eligible to receive up to 25% of his base salary by way of short term performance awards and up to 50% of his base salary as share options by way of long term performance awards.

The Company can terminate the contract on the grounds of serious misconduct, incapacity and non performance. The Managing Director can resign by giving three months notice. The Company can terminate the contract by giving twelve months notice.

Chief Financial Officer

Ms McLoughlin provides services under a two year contract from 21 November 2007 to 21 November 2009. The base remuneration inclusive of superannuation under the contract is \$270,000. Ms McLoughlin'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. Ms McLoughlin is eligible to receive up to 25% of her base salary by way of short term performance awards and up to 50% of her base salary as share options by way of long term performance awards.

The Company can terminate the contract on the grounds of serious misconduct, incapacity and non performance. The Chief Financial Officer can resign by giving three months notice. The Company can terminate the contract by giving twelve months notice.

DIRECTOR'S REPORT

Director of Engineering and Operations

Mr Wood provides services under a two year contract from 21 November 2007 to 21 November 2009. The base remuneration inclusive of superannuation under the contract is \$190,000. Mr Wood'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 Wood is eligible to receive up to 25% of his base salary by way of short term performance awards and up to 50% of his base salary as share options by way of long term performance awards.

The Company can terminate the contract on the grounds of serious misconduct, incapacity and non performance. The Director of Engineering and Operations can resign by giving three months notice. The Company can terminate the contract by giving twelve months notice.

All Key Management Personnel are employed under ongoing employment contracts. Termination can be effected by either party with one months notice. The payment of short term and long term incentive awards to Key Management Personnel is at the discretion of the board and based upon performance of the Company and performance of the individual against specific objectives.

Options Exercised in Year

During the reporting period a total of 2,000,000 options were exercised at 0.30c by Peter Power. Options were exercised on two occasions. The benefit derived on the first exercising of options was \$490,000 (1,000,000 * 0.49c) whilst on the other occasion, it was \$760,000 (1,000,000 * 0.76c). The benefit is calculated by taking the difference between the exercise price and the closing price on the day the shares were issued multiplied by the number of shares issued. The shares issued were fully paid ordinary shares.

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:

	Ordinary Shares	Options Held	Subject to Shareholder Approval
Peter Power	3,023,276	2,780,575	300,000
David Johnson	10,092,167	5,191,794	251,065
Glenda McLoughlin	5,886,140	5,191,794	251,065
Richard Wood	745,626	1,681,173	176,142
Nicholas Heath	129,825	250,000	–
Kevin Dixon	–	600,288	–
Aidan Stewart	100,000	247,785	–
Peter Stanmore	–	227,270	–
Michael O'Brien	22,143	200,000	–
Jackie Geraghty	40,143	65,000	–

In addition to the options disclosed above, options held at the date of this report by persons other than those that are required to be disclosed above total 4,485,742. Director options are subject to shareholder approval which will be sought at the next Annual General Meeting.

Options issued after balance date

At the date of this report there were 20,921,421 unissued ordinary shares in Metgasco Limited under option. At the year end there were 19,321,458. A total of 1,599,963 options were issued after balance date. Details of these options appear below.

Date granted	Expiry date	Exercise price	Number issued
01/07/2008	01/07/2013	\$1.20	599,861
01/07/2008	01/07/2013	\$1.40	373,191
01/07/2008	01/07/2013	\$1.60	626,911

Other key management personnel disclosures

During the year there were no transactions of any kind with Directors, Key Management Personnel or any related parties or entities other than what has been disclosed in the above remuneration reports. This includes loans, dividends, and consulting services. Any shares issued to Directors or senior executives throughout the year were issued through a share purchase plan in April, on-market transactions or through the exercising of options.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 26.

Audit Services

During the year, audit and review fees payable to BDO Kendalls amounted to \$82,695.

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 Company and/or the Company are important. During the current financial year, the auditor, BDO Kendalls, did not provide any non-audit services to the Company.

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.

Significant Events After Balance Date

A total of 1,599,963 options were issued to Directors, Officers and staff on 1 July 2008 under the Company's ESOP.

An upgrade of gross 2P and 3P CSM reserves was received from MHA Petroleum Consultants and released to the market on July 24.

On 3 September 2008 the Company announced more details including the possible size, of the conventional gas discovery first made during the drilling of the Riflebird 14 well.

On 2 September 2008, it was announced that Metgasco had fulfilled its obligations under a farm-in agreement with Molopo Australia Ltd in respect of PEL 13 & 426. The details of interests now held are outlined in a table appearing at the end of this report.

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



DR PETER POWER, CHAIRMAN

19 September 2008

AUDITOR'S INDEPENDENCE DECLARATION



BDO Kendalls

BDO Kendalls (NSW)
 Level 19, 2 Market St
 Sydney NSW 2000
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 Phone 61 2 9286 5555
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ABN 57 908 209 104

DECLARATION OF INDEPENDENCE BY IAN FERGUSSON TO THE DIRECTORS OF METGASCO LIMITED

As lead auditor of Metgasco Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

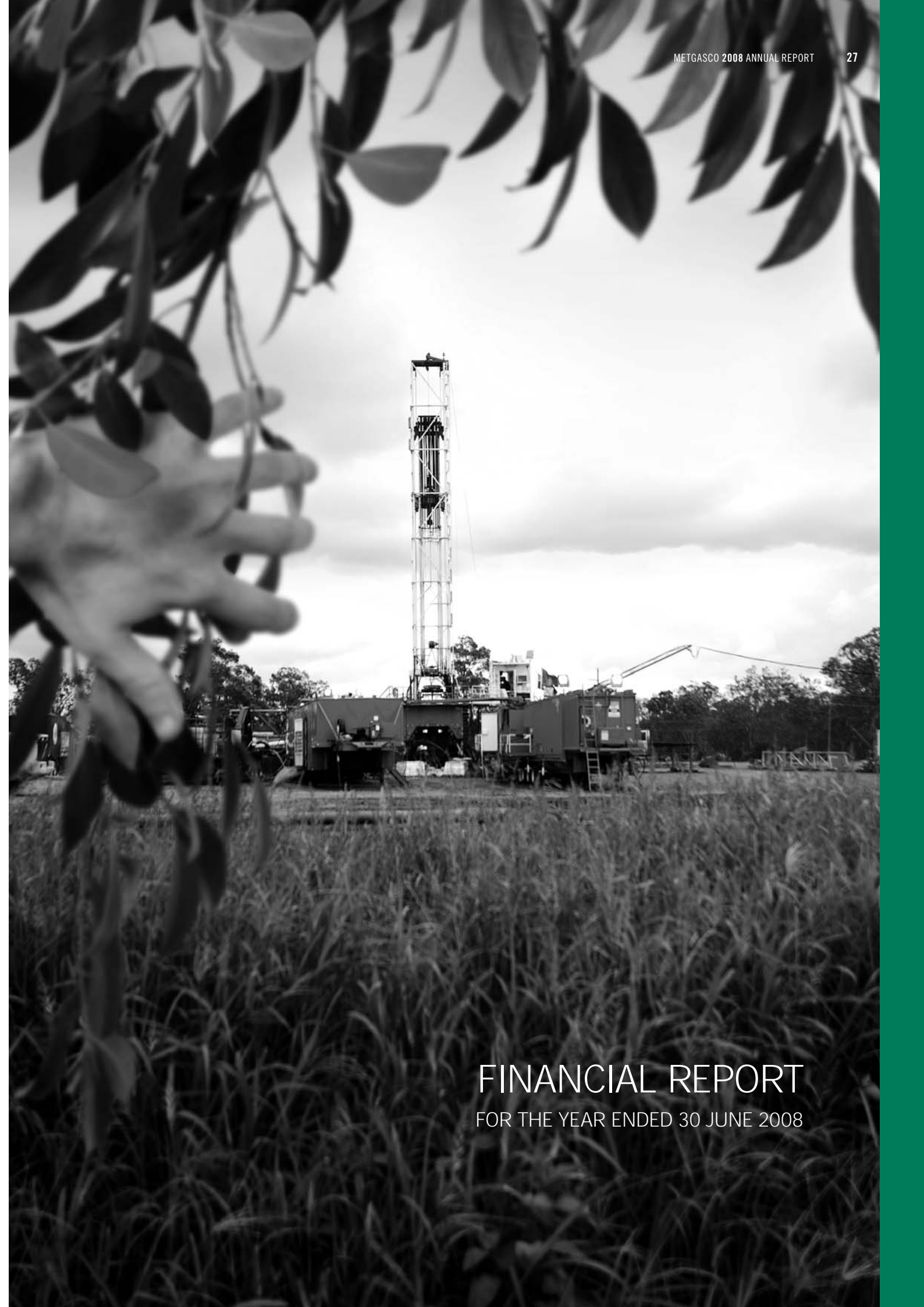
This declaration is in respect of Metgasco Limited and the entity it controlled during the year.

I K Fergusson
 PARTNER

BDO Kendalls
 CHARTERED ACCOUNTANTS

Dated in Sydney, this 19th day of September 2008

BDO Kendalls is a national association of separate partnerships and entities. Liability limited by a scheme approved under Professional Standards Legislation.



FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2008

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Parent	
		2008	2007	2008	2007
		\$	\$	\$	\$
REVENUE FROM CONTINUING OPERATIONS	5	1,165,190	392,570	1,165,190	392,570
Less: Expenses					
Finance Costs		24,068	8,878	24,068	8,878
Accounting, Compliance, Legal & Professional		168,354	281,841	168,354	281,841
Investor Relations		233,317	211,081	233,317	211,081
Consulting Fees		202,298	118,538	202,298	118,538
Depreciation	6	21,640	13,657	21,640	13,657
Directors Fees		85,000	67,305	85,000	67,305
Employee Costs	6	2,122,403	1,274,494	2,122,403	1,274,494
Rent and Occupancy	6	155,781	63,880	155,781	63,880
Travel & Accommodation		127,078	115,487	127,078	115,487
Other Administration Expenses		159,490	124,361	159,490	124,361
Loss before income tax		(2,134,239)	(1,886,952)	(2,134,239)	(1,886,952)
Income tax expense	7	-	-	-	-
Loss from continuing operations		(2,134,239)	(1,886,952)	(2,134,239)	(1,886,952)
Loss attributable to members of Metgasco Limited		(2,134,239)	(1,886,952)	(2,134,239)	(1,886,952)
			Cents		Cents
EARNINGS PER SHARE					
FOR LOSS FROM CONTINUING OPERATIONS					
Basic loss per share	26	(1.7)	(1.9)		
Diluted loss per share	26	(1.7)	(1.9)		

The above income statements should be read in conjunction with the accompanying notes.

BALANCE SHEETS

AS AT 30 JUNE 2008

	Note	Consolidated		Parent	
		2008	2007	2008	2007
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	8	6,769,660	17,203,633	6,769,660	17,203,633
Inventory	9	1,469,410	320,989	1,469,410	320,989
Trade and other receivables	10	1,369,808	1,796,279	3,419,073	2,857,773
TOTAL CURRENT ASSETS		9,608,878	19,320,901	11,658,143	20,382,395
NON CURRENT ASSETS					
Exploration and evaluation expenditure	11	22,069,122	10,107,255	22,069,122	10,107,255
Plant and equipment	12	3,190,865	1,408,580	1,141,600	347,086
Other financial assets	13	–	–	100	100
TOTAL NON CURRENT ASSETS		25,259,987	11,515,835	23,210,822	10,454,441
TOTAL ASSETS		34,868,865	30,836,736	34,868,965	30,836,836
CURRENT LIABILITIES					
Trade and other payables	14	2,935,873	6,720,551	2,935,973	6,720,651
Provisions	15	144,500	38,330	144,500	38,330
Borrowings	16	47,607	4,202	47,607	4,202
TOTAL CURRENT LIABILITIES		3,127,980	6,763,083	3,128,080	6,763,183
NON CURRENT LIABILITIES					
Provisions	17	33,468	12,987	33,468	12,987
Borrowings	16	146,759	21,429	146,759	21,429
TOTAL NON CURRENT LIABILITIES		180,227	34,416	180,227	34,416
TOTAL LIABILITIES		3,308,207	6,797,499	3,308,307	6,797,599
NET ASSETS		31,560,658	24,039,237	31,560,658	24,039,237
EQUITY					
Contributed equity	18	35,047,696	27,007,018	35,047,696	27,007,018
Share option reserve	19	2,196,120	581,138	2,196,120	581,138
Accumulated losses		(5,683,158)	(3,548,919)	(5,683,158)	(3,548,919)
TOTAL EQUITY		31,560,658	24,039,237	31,560,658	24,039,237

The above balance sheets should be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	Issued Capital \$	Accumulated Losses \$	Share Option Reserve \$	Total Equity \$
PARENT				
AS AT 1 JULY 2006	8,946,941	(1,661,967)	313,588	7,598,562
Loss for the period	–	(1,886,952)	–	(1,886,952)
Issue of share capital	18,799,002	–	–	18,799,002
Cost of share issue	(738,925)	–	–	(738,925)
Share based expense	–	–	267,550	267,550
AS AT 30 JUNE 2007	27,007,018	(3,548,919)	581,138	24,039,237
Loss for the period	–	(2,134,239)	–	(2,134,239)
Issue of share capital	8,244,058	–	–	8,244,058
Cost of share issue	(203,380)	–	–	(203,380)
Share based expense	–	–	1,614,982	1,614,982
AS AT 30 JUNE 2008	35,047,696	(5,683,158)	2,196,120	31,560,658
CONSOLIDATED				
AS AT 1 JULY 2006	8,946,941	(1,661,967)	313,588	7,598,562
Loss for the period	–	(1,886,952)	–	(1,886,952)
Issue of share capital	18,799,002	–	–	18,799,002
Cost of share issue	(738,925)	–	–	(738,925)
Share based expense	–	–	267,550	267,550
AS AT 30 JUNE 2007	27,007,018	(3,548,919)	581,138	24,039,237
Loss for the period	–	(2,134,239)	–	(2,134,239)
Issue of share capital	8,244,058	–	–	8,244,058
Cost of share issue	(203,380)	–	–	(203,380)
Share based expense	–	–	1,614,982	1,614,982
AS AT 30 JUNE 2008	35,047,696	(5,683,158)	2,196,120	31,560,658

The above statements of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Parent	
		2008	2007	2008	2007
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees (inclusive of goods and services tax)		(1,890,915)	(2,746,037)	(1,890,915)	(2,746,037)
Interest received		794,821	392,570	794,821	392,570
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	25	(1,096,094)	(2,353,467)	(1,096,094)	(2,353,467)
CASH FLOWS FROM INVESTING ACTIVITIES					
Expenditure on exploration and evaluation		(20,036,338)	(4,567,809)	(20,036,338)	(4,567,809)
Purchases of inventory		(1,148,421)	(275,020)	(1,148,421)	(275,020)
Receipts for exploration activities		5,529,411	6,410,000	5,529,411	6,410,000
R&D grant received		428,253	–	428,253	–
Bonds paid		(354,610)	(187,391)	(354,610)	(187,391)
Purchase of plant and equipment		(1,965,587)	(1,006,038)	(977,816)	(247,912)
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES		(17,547,292)	373,742	(16,559,521)	1,131,868
CASH FLOWS FROM FINANCING ACTIVITIES					
Net Proceeds from Issue of shares		8,040,678	18,057,348	8,040,678	18,057,348
Changes to borrowings		168,735	(999)	168,735	(999)
Payments on behalf of subsidiary company		–	–	(987,771)	(758,126)
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES		8,209,413	18,056,349	7,221,642	17,298,223
Net Increase (decrease) in cash and cash equivalents		(10,433,973)	16,076,624	(10,433,973)	16,076,624
Cash and cash equivalents at beginning of period		17,203,633	1,127,009	17,203,633	1,127,009
CASH AND EQUIVALENTS AT THE END OF THE PERIOD	8	6,769,660	17,203,633	6,769,660	17,203,633

The above cash flow statements should be read in conjunction with the accompanying notes.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 1

Corporate Information

The financial report of Metgasco for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the Directors on 19 September 2008 and covers Metgasco as an individual entity as well as the consolidated entity consisting of Metgasco and its subsidiary as required by the *Corporations Act 2001*.

The financial report is presented in Australian currency. Metgasco is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The address of the registered office and principal place of business is:

Level 9, 77 Pacific Highway North Sydney NSW 2060

Note 2

Summary of Significant Accounting Policies

a) Basis of preparation

This financial report is a general purpose financial report that has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report has been prepared on an accrual basis, is based on historical cost and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on fair value of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The material accounting policies adopted by the Company in the preparation of the financial report are summarised below.

b) Statement of compliance

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRSs). Compliance with AIFRS ensures that the financial report complies with International Financial Reporting Standards (IFRSs).

c) Critical accounting estimates and judgements

The preparation of a financial report requires the Company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are 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 judgements 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. Judgements made by the Company in the application of accounting standards that have a significant impact on the financial report and estimates with a significant risk of material adjustment in the next year are highlighted in the accounting policies detailed below.

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

The Company has exercised its judgement in assessing the existence of impairment indicators on its exploration assets and is satisfied that none exist. These assets are therefore shown at their full carrying value in Note 11.

d) Principles of consolidation

The consolidated financial statements comprise the financial statements of Metgasco and its subsidiary as at 30 June 2008. Subsidiaries are entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

At 30 June 2008, Metgasco Limited controlled 100% of Richmond Valley Power Pty Ltd. This subsidiary company was incorporated on 27 June 2006. The financial statements of the subsidiary are prepared for the same reporting date as the parent company, using consistent accounting policies. The purchase method of accounting is used to account for the acquisition of the subsidiary by the Company. 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 subsidiary is accounted for in the parent entity at cost.

e) Income tax

Income tax expense is based on the result for the year adjusted for any non-assessable or disallowed items. Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax 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 in the income statement except where it relates to items that are debited or credited directly to equity, in which case the deferred tax is adjusted directly against equity. 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 Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law. The Company has not formed a consolidated tax group.

f) 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 the income statement 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.

g) Business undertakings

The Company intends to conduct oil and gas exploration activities solely and through joint ventures with other parties and through farm-in/farm-out agreements and to develop associated energy infrastructure.

h) Joint ventures

The Company is the operator of an unincorporated joint venture. The proportionate share of the Company's interest in the assets and liabilities of the joint venture operations is incorporated in these financial statements under the appropriate headings.

i) 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).

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 2 (continued)

j) Foreign currency translation

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of transaction. At balance date, 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 income statement.

k) 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 date of this report, options over unissued shares are not considered to be dilutive and have not been used to calculate diluted loss per share.

l) Exploration expenditure and petroleum tenement leases

The Company is actively involved in hydrocarbon exploration and evaluation activities in relation to coal seam gas and conventional hydrocarbons on PEL 16, 13 & 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; or
- 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 Income Statement 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. Grants recognised under the Federal Government's Sustainable Regions program 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 Company 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.

m) Inventory

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

n) Receivables

Receivables are recognised at their original invoice value less an allowance for any amounts deemed uncollectible. The terms of all receivables is 30 days. Receivables are assessed for their collectibility 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 include financial difficulties of the debtor, default payments or debts more than 60 days overdue.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

o) Property, plant and equipment

Each class of property, plant and equipment is carried at cost, less, where applicable, any accumulated depreciation and impairment losses. Plant and equipment is measured on the 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 Company includes the cost of materials, direct labour, borrowing costs, and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset carrying amount 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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

p) Depreciation

All fixed assets are depreciated on a straight line basis over their useful lives to the Company. 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 each balance sheet date. Depreciation charged on assets which are employed exclusively in the Company's exploration activities is capitalised. This is consistent with the treatment of other exploration related expenses.

q) 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). The Company has made the assessment that its assets of exploration costs and the Richmond Valley Power Station project are likely to be recoverable through the successful development of both. The Company has not reached the phase for either which would enable it to reliably test for impairment.

r) Restoration and rehabilitation

Estimates of the cost of restoration and rehabilitation are provided for when areas first become affected as a result of exploration activities. 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.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs are determined on the basis that the restoration will be completed within one year of abandoning the site.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 2 (continued)

s) Trade and other payables

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

t) Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. 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.

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 balance 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 reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

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

- Share options vesting before 1 January 2005.
 - No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

- Share options granted after 1 January 2005 and vested after 1 January 2005.
 - The fair value of options granted under the Employee and Officer's Option 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.
 - 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 are not tradable.

Superannuation

The Company 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 balance sheet.

u) Provisions

Provisions are recognised when the Company 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.

v) 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 balance sheet. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

w) 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 balance sheet are shown inclusive of GST. Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which is disclosed as operating cash flows.

x) Government grants

Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with conditions attaching to those grants. Government grants shall be recognised as a credit to carried forward exploration costs whilst the treatment of exploration costs continue to comply with AASB 6. Grants will be recognised only to the extent of the expenditure incurred for which the grants are intended to cover. The Company has applied AASB 2007-4, which permits the offsetting of such grants to carried forward assets.

y) Going Concern

The Company has prepared these accounts on the basis that it is a going concern. In making this assumption the Company acknowledges that it must rely from time to time on the issuing of shares to existing shareholders and equity markets in general. The success or otherwise of the issuing of additional capital is dependent on the continued successful development of the Company's gas reserves and projects.

z) New accounting standards

Certain new accounting standards and interpretations have been published that are for 30 June 2008 reporting period. The standards and interpretations for the Company and their impact on the Company's financial statements are set out below.

i) Revised AASB 3 *Business Combinations*

AASB 3 Business Combination changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statements; measurement of non-controlling (minority) interests at fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Company's 30 June 2010 financial statements. Under the Company's current structure this revised standard has no effect on the financial statements because it only applies prospectively to business combinations where the acquisition date is on or after 1 July 2009.

ii) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. The Company has not yet adopted AASB 8.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 2 (continued)

iii) Revised AASB 123 *Borrowing Costs* and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 (AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12)

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and when adopted will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

The Company presently has no external borrowing arrangements in place which would be governed by this revised standard.

iv) AASB 101 (2009) *Presentation of Financial Statements*

A revised AASB 101 was issued in September 2007 and is applicable to annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity but will not affect any of the amounts recognised in the financial statements.

v) AASB 2008-1 *Share Based Payments* – Vesting Conditions and Cancellation

This revised standard clarifies the definitions of vesting and non vesting conditions and how to treat them. The definitions of vesting conditions has been amended to state that vesting conditions can only be performance related or service related conditions. The revised standard has mandatory application from annual reporting periods beginning 1 January 2009. The Company anticipates no effect following the introduction of this standard.

The Directors have considered all other new or amended standards and interpretations that have been issued at the date that these financial statements were authorised for issue, but which are only effective for future financial years. None of these will have any financial impact on the current or future financial statements of the Company.

Note 3

Financial Risk Management

Activities undertaken by Metgasco Limited and its subsidiary may expose it to a variety of financial risks including: market risk, credit risk and liquidity risk. The Company'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 Company has minimal exposure to market and credit risk.

The carrying amount of financial instruments by category are:

Loans and receivables	\$814,883
Financial liabilities at amortised cost	\$2,977,349

Within the above amount for loans and receivables, \$731,239 is pledged as security for well rehabilitation, rental bonds and corporate credit card. See Note 23 accompanying the financial statements.

Of the financial liabilities disclosed above, the sum of \$194,366 represents amounts due on finance leases and the maturity analysis can be seen in Note 16 to the accounts. The remainder represents trade payables and various accrued amounts which are expected to be settled within 30 to 60 days from balance date.

a) Market risk

i) Foreign exchange risk

A small component of the Company's purchases of well materials are denominated in US dollars. At balance date the amount of trade payables denominated in USD was \$AUD76,935. In the event of a 10% movement up or down in the exchange rate, the net loss of the Company would decrease by \$6,994 or increase by \$8,543 respectively. The Company has from time to time, 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.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

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

The Company has no exposure to interest rate risk other than reductions/increases in interest earned should the rates decrease/increase respectively. The Company seeks to maximise the interest earned on its investments whilst only investing in AAA rated products. The interest receivable on the Company's short term investment are recognised in the financial accounts and as these investments are held with a AAA rated institution, there is no risk associated with future cashflows of interest and as such a sensitivity analysis would serve no purpose. There are no dealings in any financial securities therefore exposure to this type of risk is zero.

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 Company incurring a financial loss. This usually occurs when debtors or counterparties to contracts fail to settle their obligations owing to the Company. The Company 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. The Company has entered into a Joint Venture Agreement with CS Energy and is in the process of finalizing Joint Operating Agreements with Molopo Australia Ltd. The Company is exposed to counterparty credit risk with respect to joint venture contributions under these agreements.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet commitments. The Company ensures that sufficient cash reserves are available to carry out its committed program of works. The Company is reliant upon continued support from shareholders to maintain the liquidity of the Company. A profile of the maturity dates of the Company's term deposits appears in Note 8 to the Financial Statements. The Directors consider these maturity dates to provide more than enough liquidity.

d) Net fair values

The fair value of financial assets and liabilities recognised at the balance date approximates their carrying values.

Note 4

Segment Information

The Company operates in one business segment, being hydrocarbon exploration and evaluation and the development of associated energy infrastructure. The Company operates solely in the Clarence-Morton Basin in NSW.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 5

Revenue

From continuing activities:

Interest received from financial institutions	794,821	392,570	794,821	392,570
Equipment hiring income	369,070	–	369,070	–
Unrealised foreign exchange gain	1,299	–	1,299	–
TOTAL	1,165,190	392,570	1,165,190	392,570

Note 6

Expenses

Loss before income tax includes the following specific expenses:

DEPRECIATION EXPENSE

Plant and equipment	21,640	13,657	21,640	13,657
TOTAL DEPRECIATION	21,640	13,657	21,640	13,657

RENT AND OCCUPANCY

Rent under operating lease – Sydney	120,470	49,091	120,470	49,091
Occupancy costs	35,311	14,789	35,311	14,789
TOTAL RENT EXPENSE	155,781	63,880	155,781	63,880

OPERATING LEASE RENTALS – MOTOR VEHICLES

	9,901	9,862	9,901	9,862
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FINANCE COST – EXTERNAL

Interest expense	4,761	659	4,761	659
Bank charges	19,307	8,219	19,307	8,219
TOTAL FINANCE COST	24,068	8,878	24,068	8,878

EMPLOYEE EXPENSES

Superannuation	97,785	63,790	97,785	63,790
Wages and salaries	1,084,118	740,862	1,084,118	740,862
Workers compensation	94,206	62,168	94,206	62,168
Payroll tax	115,269	60,086	115,269	60,086
Share based payments	522,395	267,550	522,395	267,550
Fringe benefits tax	25,574	24,522	25,574	24,522
Recruitment and consultants	183,056	55,516	183,056	55,516
TOTAL EMPLOYEE EXPENSES	2,122,403	1,274,494	2,122,403	1,274,494

Depreciation charged on assets employed directly in the Company's exploration activities for the year was \$209,335 and is charged to exploration asset. Depreciation charged on assets not in the above category was \$21,640 for the year and is charged directly to the income statement.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Income Tax Expense				
LOSS FROM CONTINUING ACTIVITIES BEFORE TAX EXPENSE	(2,134,239)	(1,886,952)	(2,134,239)	(1,886,952)
Prima facie tax benefit on loss from continuing activities at 30% (2007: 30%)	(640,272)	(566,086)	(640,272)	(566,086)
Tax effect of amounts which are not deductible in calculating taxable income:				
Share-based payments	156,718	80,265	156,718	80,265
	(483,554)	(485,821)	(483,554)	(485,821)
Movements in unrecognised temporary differences	(4,842)	(20,132)	(4,842)	(20,132)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	488,396	505,953	488,396	505,953
INCOME TAX EXPENSE	-	-	-	-

UNRECOGNISED DEFERRED TAX ASSETS

On income tax account				
Capital raising costs	211,835	175,709	211,835	175,709
Accruals and provision for employees benefits	55,907	36,411	55,907	36,411
Carry forward tax losses:				
- Operating	1,792,218	1,139,744	1,792,218	1,139,744
- Exploration and evaluation expenditure	6,620,737	3,032,176	6,620,737	3,032,176
Deferred tax liability – taxable temporary differences	(6,620,737)	(3,032,176)	(6,620,737)	(3,032,176)
NET UNRECOGNISED DEFERRED TAX ASSET	2,059,960	1,351,864	2,059,960	1,351,864

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 accounts purposes, with respect to the above, the Company has not brought the tax benefit to account.

Note 8

Cash and Cash Equivalents

Cash at bank and on hand	1,269,660	3,917,347	1,269,660	3,917,347
Term deposits	5,500,000	13,286,286	5,500,000	13,286,286
TOTAL	6,769,660	17,203,633	6,769,660	17,203,633

a) Cash at bank and on hand

These are all interest bearing with the actual rate of interest at balance date being 4.7%.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 8 (continued)

b) Term deposits

The term deposits bear interest between 7.86% and 8.24% (2007-5.0% and 6.57%). The maturity profile of term deposits is as follows.

\$2,000,000	14/07/2008
\$500,000	30/07/2008
\$2,000,000	08/08/2008
\$1,000,000	10/09/2008

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

Note 9

Inventory

Materials, consumables and equipment	1,469,410	320,989	1,469,410	320,989
TOTAL	1,469,410	320,989	1,469,410	320,989

The cost of inventories recognised as an expense in 2008 and 2007 was nil. Inventory is at cost and there have been no writedowns to the carrying value in the period. Inventory items consist predominantly of materials used in the construction of coal seam and conventional gas wells.

Note 10

Trade and Other Receivables

Security bonds	731,239	376,629	731,239	376,629
GST receivable	431,764	410,735	431,764	410,735
Trade receivables	83,523	613,362	83,523	613,362
Prepayments	123,160	295,262	123,160	295,262
Amount receivable from wholly owned subsidiary	–	–	2,049,265	1,061,494
Deposits paid on undelivered inventory orders	122	100,291	122	100,291
TOTAL	1,369,808	1,796,279	3,419,073	2,857,773

The carrying amount of Other Receivables approximates its fair value. Such receivables are recognised at their original invoice value less an allowance for any amounts deemed uncollectible. The terms of these receivables is 30 days and no balances are impaired or past due. Receivables are assessed for their collectibility on an ongoing basis. Due to the short term nature and payment history associated with these debts, the credit risk is assessed to be zero. The carrying amount above represents the maximum exposure to credit risk at reporting date. Security bonds are held by the National Australia Bank. The amount receivable by the parent entity from its wholly owned subsidiary is for funds advanced to the subsidiary 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.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 11

Exploration and Evaluation Expenditure

EXPENDITURE FOR THE ENTITIES OPERATIONS (SOLE USE)

Movement during the financial period (at cost):

Opening balance	10,107,255	6,193,420	10,107,255	6,193,420
Capitalised exploration expenditure	11,655,331	4,181,725	11,655,331	4,181,725
R & D grant	(428,253)	–	(428,253)	–
Government grants	(601,521)	(267,890)	(601,521)	(267,890)
CARRYING AMOUNT AT REPORTING DATE	20,732,812	10,107,255	20,732,812	10,107,255

EXPENDITURE FOR THE ENTITIES OPERATIONS (JOINT VENTURE)

Movement during the financial period (at cost):

Opening balance	–	–	–	–
Capitalised exploration expenditure	9,327,042	3,079,270	9,327,042	3,079,270
Contributions from joint venture partner	(7,990,732)	(3,079,270)	(7,990,732)	(3,079,270)
CARRYING AMOUNT AT REPORTING DATE	1,336,310	–	1,336,310	–

TOTAL CARRYING AMOUNT AT YEAR END	22,069,122	10,107,255	22,069,122	10,107,255
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Contributions from the joint venture partner are only recognised to the extent that they relate to expenditure incurred. The balance of funds received are classed as deferred contributions for the purpose of these accounts (see Note 14). At balance date the carried forward gross capitalised exploration expenditure of the joint venture was \$12,406,312. The gross carrying amount is then reduced by the total amount received to date from joint venture partners. The amount received as at balance date is \$11,070,002.

Salaries and all other expenses of personnel based in Casino are recognised as a cost of exploration and evaluation, since the costs are directly related to operational activities. A proportion of the cost of employment of the Director of Operations and the Managing Director is also 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.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Note 12				
Plant and Equipment				
Office equipment at cost	117,275	47,224	117,275	47,224
Less accumulated depreciation	(21,111)	(10,812)	(21,111)	(10,812)
	96,164	36,412	96,164	36,412
Computer equipment at cost	176,393	70,647	176,393	70,647
Less accumulated depreciation	(65,741)	(28,808)	(65,741)	(28,808)
	110,652	41,839	110,652	41,839
Motor vehicles at cost	124,853	51,762	124,853	51,762
Less accumulated depreciation	(36,842)	(11,345)	(36,842)	(11,345)
	88,011	40,417	88,011	40,417
Motor vehicles under finance lease at cost	219,767	26,631	219,767	26,631
Less accumulated depreciation	(44,010)	(2,047)	(44,010)	(2,047)
	175,757	24,584	175,757	24,584
Improvements at cost	185,093	-	185,093	-
Less accumulated depreciation	(5,169)	-	(5,169)	-
	179,924	-	179,924	-
Plant and equipment at cost	629,422	237,179	629,422	237,179
Less accumulated depreciation	(138,330)	(33,345)	(138,330)	(33,345)
	491,092	203,834	491,092	203,834
Richmond Valley Power Station – development costs	2,049,265	1,061,494	-	-
TOTAL PLANT AND EQUIPMENT	3,190,865	1,408,580	1,141,600	347,086

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
RECONCILIATIONS OF THE CARRYING AMOUNTS OF EACH CLASS OF PROPERTY, PLANT AND EQUIPMENT AT THE BEGINNING AND END OF THE CURRENT AND PREVIOUS FINANCIAL YEAR ARE SET OUT BELOW:				
OFFICE EQUIPMENT				
Carrying amount at beginning of financial year	36,412	27,371	36,412	27,371
Additions	70,496	15,025	70,496	15,025
Disposals	(445)	–	(445)	–
Depreciation	(10,299)	(5,984)	(10,299)	(5,984)
Carrying amount at end of financial year	96,164	36,412	96,164	36,412
COMPUTER EQUIPMENT				
Carrying amount at beginning of financial year	41,839	32,072	41,839	32,072
Additions	109,395	26,685	109,395	26,685
Disposals	(3,650)	–	(3,650)	–
Depreciation	(36,932)	(16,918)	(36,932)	(16,918)
Carrying amount at end of financial year	110,652	41,839	110,652	41,839
MOTOR VEHICLES				
Carrying amount at beginning of financial year	40,417	13,725	40,417	13,725
Additions	73,091	32,406	73,091	32,406
Depreciation	(25,497)	(5,714)	(25,497)	(5,714)
Carrying amount at end of financial year	88,011	40,417	88,011	40,417
MOTOR VEHICLES UNDER FINANCE LEASE				
Carrying amount at beginning of financial year	24,584	–	24,584	–
Additions	193,136	26,631	193,136	26,631
Depreciation	(41,963)	(2,047)	(41,963)	(2,047)
Carrying amount at end of financial year	175,757	24,584	175,757	24,584
IMPROVEMENTS				
Carrying amounts at beginning of year	–	–	–	–
Additions	185,093	–	185,093	–
Depreciation	(5,169)	–	(5,169)	–
Carrying amount at end of year	179,924	–	179,924	–
PLANT AND EQUIPMENT				
Carrying amount at beginning of financial year	203,834	107,208	203,834	107,208
Additions	392,242	173,796	392,242	173,796
Transfers to inventory	–	(45,969)	–	(45,969)
Depreciation	(104,984)	(31,201)	(104,984)	(31,201)
Carrying amount at end of financial year	491,092	203,834	491,092	203,834
RICHMOND VALLEY POWER STATION – DEVELOPMENT COSTS				
Carrying amount at beginning of financial year	1,061,494	303,368	–	–
Additions	987,771	758,126	–	–
Carrying amount at end of financial year	2,049,265	1,061,494	–	–
TOTAL	3,190,865	1,408,580	1,141,600	347,086

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 12 (continued)

The following tables disclose the assets employed exclusively in exploration and development activities. Depreciation is therefore charged to deferred exploration costs.

Office equipment at cost	67,754	20,776	67,754	20,776
Less accumulated depreciation	(8,789)	(3,030)	(8,789)	(3,030)
	58,965	17,746	58,965	17,746
Computer equipment at cost	109,332	36,190	109,332	36,190
Less accumulated depreciation	(33,000)	(12,905)	(33,000)	(12,905)
	76,332	23,285	76,332	23,285
Motor vehicles at cost	124,853	51,762	124,853	51,762
Less accumulated depreciation	(36,842)	(11,345)	(36,842)	(11,345)
	88,011	40,417	88,011	40,417
Motor vehicles under finance lease at cost	219,767	26,631	219,767	26,631
Less accumulated depreciation	(44,010)	(2,047)	(44,010)	(2,047)
	175,757	24,584	175,757	24,584
Improvements at cost	169,153	-	169,153	-
Less accumulated depreciation	(4,907)	-	(4,907)	-
	164,246	-	164,246	-
Plant and equipment at cost	629,422	237,179	629,422	237,179
Less accumulated depreciation	(138,330)	(33,345)	(138,330)	(33,345)
	491,092	203,834	491,092	203,834
TOTAL	1,054,403	309,866	1,054,403	309,866

Reconciliations of the carrying amounts of each class of asset used exclusively in exploration and evaluation activities at the beginning and end of the current and previous financial year are set out on the following table:

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
OFFICE EQUIPMENT				
Carrying amount at beginning of financial year	17,746	6,159	17,746	6,159
Additions	47,424	13,742	47,424	13,742
Disposals	(445)	–	(445)	–
Depreciation	(5,760)	(2,155)	(5,760)	(2,155)
Carrying amount at end of financial year	58,965	17,746	58,965	17,746
COMPUTER EQUIPMENT				
Carrying amount at beginning of financial year	23,285	4,049	23,285	4,409
Additions	73,142	25,966	73,142	25,966
Disposals	–	–	–	–
Depreciation	(20,095)	(7,090)	(20,095)	(7,090)
Carrying amount at end of financial year	76,332	23,285	76,332	23,285
MOTOR VEHICLES				
Carrying amount at beginning of financial year	40,417	13,725	40,417	13,725
Additions	73,091	32,406	73,091	32,406
Depreciation	(25,497)	(5,714)	(25,497)	(5,714)
Carrying amount at end of financial year	88,011	40,417	88,011	40,417
MOTOR VEHICLES UNDER FINANCE LEASE				
Carrying amount at beginning of financial year	24,584	–	24,584	–
Additions	193,136	26,631	193,136	26,631
Depreciation	(41,963)	(2,047)	(41,963)	(2,047)
Carrying amount at end of financial year	175,757	24,584	175,757	24,584
IMPROVEMENTS				
Carrying amount at beginning of financial year	–	–	–	–
Additions	169,153	–	169,153	–
Depreciation	(4,907)	–	(4,907)	–
Carrying amount at end of financial year	164,246	–	164,246	–
PLANT AND EQUIPMENT				
Carrying amount at beginning of financial year	203,834	107,208	203,834	107,208
Additions	392,242	173,796	392,242	173,796
Transfers to inventory	–	(45,969)	–	(45,969)
Depreciation	(104,984)	(31,201)	(104,984)	(31,201)
Carrying amount at end of financial year	491,092	203,834	491,092	203,834
TOTAL	1,054,403	309,866	1,054,403	309,866

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 13

Other Financial Assets

The consolidated financial statements incorporate the assets, liabilities and results of the subsidiary in accordance with the policy described in Note 2d.

Name of entity	Country of incorporation	Class of shares	Equityholding			
			2008	2007	2008	2007
			%	%	\$	\$
Richmond Valley Power Pty Ltd	Australia	Ordinary	100	100	100	100

The proportion of ownership interest is equal to the proportion of voting power held. The subsidiary was established on 27 June 2006.

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 14

Trade and Other Payables

Employee benefits	152,890	108,384	152,890	108,384
Trade creditors	1,843,078	2,157,023	1,843,078	2,157,023
Accrued charges and expenses	939,905	1,124,412	940,005	1,124,512
Deferred contributions from joint venture partner	–	3,330,732	–	3,330,732
TOTAL	2,935,873	6,720,551	2,935,973	6,720,651

Amounts classified above as employee benefits are all expected to be settled within 12 months of balance date.

Note 15

Provisions current

SITE REHABILITATION

Opening balance	38,330	–	38,330	–
Provisions made	106,170	38,330	106,170	38,330
CLOSING BALANCE	144,500	38,330	144,500	38,330

The Company recognises the costs of site rehabilitation for the wells that it drills as each well is spudded. All well sites are expected to be rehabilitated in the coming 12 months therefore the discounting of expected future costs is not required in this case.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 16

Borrowings current and non current

CURRENT

Finance lease liability	47,607	4,202	47,607	4,202
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NON CURRENT

Finance lease liability	146,759	21,429	146,759	21,429
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The Company has borrowings in the form of finance leases. The rate of interest charged is 8.85%.

Full details of the lease commitments are as follows. The fair value of the above financial liabilities is equal to their carrying value.

Finance lease commitments				
Within one year	63,922	6,350	63,922	6,350
Later than one year but not later than 5 years	172,404	24,234	172,404	24,234
Later than 5 years		–		–
Minimum lease payments	236,326	30,584	236,326	30,584
Future finance charges	(41,960)	(4,953)	(41,960)	(4,953)
Recognised as a liability	194,366	25,631	194,366	25,631

Note 17

Provisions non current

Long service leave	33,468	12,987	33,468	12,987
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Parent Entity		Parent Entity	
	2008	2007	2008	2007
	Shares	Shares	\$	\$

Note 18

Contributed equity

A) SHARE CAPITAL

Ordinary Shares

FULLY PAID	132,231,134	119,787,242	35,047,696	27,007,018
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	Date	No. of shares	\$	Issued Price \$
B) MOVEMENTS IN ORDINARY SHARE CAPITAL				
Balance at 1 July 2006:		79,015,000	8,946,941	
Shares issued during period:	29/09/2006	11,762,500	2,352,500	0.20
	22/12/2006	13,332,819	4,266,502	0.32
	04/04/2007	15,576,923	12,150,000	0.78
	04/04/2007	100,000	30,000	0.30
Transaction costs in relation to placements			(738,925)	
Balance at 30 June 2007:		119,787,242	27,007,018	
Shares issued during the period:	14/8/2007	1,000,000	300,000	\$0.30
	17/10/2007	1,000,000	300,000	\$0.30
	06/05/2008	3,777,226	2,644,058	\$0.70
	06/05/2008	6,666,666	5,000,000	\$0.75
Transaction costs in relation to placements			(203,380)	
BALANCE AT 30 JUNE 2008		132,231,134	35,047,696	

	No. of Options 2008	No. of Options 2007
Options (not quoted on ASX)		
Opening balance	18,241,869	17,011,869
Issued to employees	1,329,589	1,330,000
Issued to contractors	1,750,000	-
Exercised by employees	(2,000,000)	(100,000)
CLOSING BALANCE	19,321,458	18,241,869

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.

As at balance date there were 19,321,458 options on issue. The options granted and vesting during the year were 2,414,285. Options issued by the Company with vesting dates after 30 June 2008 were 665,304. Options are not quoted on the ASX.

Capital risk management

The Company considers its capital to comprise its ordinary shares. In managing its capital, the Company'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 the Company's sole means of achieving its long term operational and strategic objectives. As the Company is involved in exploration and has no debt apart from finance leases disclosed in Note 16, the use of various gearing ratios is not employed.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 19

Share-Based Payment

The Metgasco Limited Employees and Officer's Option Plan ("ESOP") was approved in November 2004. A summary of the rules of the ESOP is set out below.

The allocation of options to each employee, officer or consultant is at the discretion of the Board. Each option is to subscribe for one fully paid ordinary share in the Company and will expire five years from its date of issue. An option is exercisable at any time from its date of vesting. Options 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 Company's shares at the time the Board resolves to offer those options.

SHARE-BASED PAYMENT EXPENSE RECOGNISED DURING THE FINANCIAL YEAR

Opening balance	581,138	313,588	581,138	313,588
Cost of options issued under ESOP	1,614,982	267,550	1,614,982	267,550
CLOSING BALANCE OF RESERVE	2,196,120	581,138	2,196,120	581,138

Of the above movement in the share option reserve, an amount of \$1,092,587 was capitalised. This amount relates to the issuing of options to a US based firm known as Vectra CBM LLC. The issue of these options was approved at last years annual general meeting and they are not part of the employee share option plan.

They are included in the total number of options on issue which is quoted in this report. Details of options outstanding as part of the employee share option plan (ESOP) and those issued to contractors outside of the ESOP during the financial year is as follows:

CONSOLIDATED AND PARENT ENTITY 2008

Grant Date	Vesting Date	Expiry Date	Exer- cise Price	Appli- cable spot price	Balance at	Granted during the year	Exercised during the year	Balance at	Fair Value
					beginning of year			end of the year	
					Number	Number	Number	Number	\$
20/10/2004	20/10/2004	30/06/2009	0.30	0.20	14,561,869	-	(2,000,000)	12,561,869	N/A
28/01/2005	28/01/2005	30/06/2009	0.30	0.20	2,000,000	-	-	2,000,000	N/A
20/04/2006	20/04/2006	20/04/2011	0.30	0.41	100,000	-	-	100,000	26,200
22/05/2006	20/05/2006	22/05/2011	0.32	0.32	50,000	-	-	50,000	8,926
22/05/2006	22/05/2007	22/05/2011	0.32	0.32	100,000	-	-	100,000	17,852
22/05/2006	22/05/2008	22/05/2011	0.32	0.32	100,000	-	-	100,000	17,852
03/10/2006	03/10/2006	01/01/2012	0.30	0.255	100,000	-	-	100,000	15,196
03/10/2006	03/10/2006	01/01/2012	0.50	0.255	150,000	-	-	150,000	18,301
27/09/2006	27/09/2009	01/01/2012	0.30	0.245	50,000	-	-	50,000	7,213
27/09/2006	27/09/2009	01/01/2012	0.30	0.245	30,000	-	-	30,000	4,328
29/11/2006	29/11/2006	01/01/2012	0.35	0.35	30,000	-	-	30,000	6,394
29/11/2006	29/11/2006	01/01/2012	0.40	0.35	30,000	-	-	30,000	6,086
29/11/2006	29/11/2007	01/01/2012	0.50	0.35	40,000	-	-	40,000	7,409
29/11/2006	29/11/2007	01/01/2012	0.40	0.35	50,000	-	-	50,000	10,144
29/11/2006	29/11/2007	01/01/2012	0.35	0.35	50,000	-	-	50,000	10,657

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 19 (continued)

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable spot Price	Balance at beginning of year	Granted during the year	Exercised during the year	Balance at end of the year	Fair Value
					Number	Number	Number	Number	\$
29/11/2006	29/11/2006	01/01/2012	0.35	0.35	184,000	–	–	184,000	39,218
29/11/2006	29/11/2006	01/01/2012	0.40	0.35	216,000	–	–	216,000	43,820
29/11/2006	29/11/2006	01/01/2012	0.50	0.35	370,000	–	–	370,000	68,534
29/11/2006	29/11/2006	01/01/2012	0.30	0.35	30,000	–	–	30,000	6,740
21/11/2007	21/11/2007	21/11/2012	0.82	0.90		500,000		500,000	286,070
21/11/2007	04/02/2008	21/11/2012	0.82	0.90		500,000		500,000	286,070
21/11/2007	21/11/2007	30/06/2012	0.90	0.90		236,710		236,710	126,696
21/11/2007	30/06/2008	30/06/2012	0.90	0.90		75,669		75,669	40,501
21/11/2007	30/06/2008	30/06/2012	1.00	0.90		164,759		164,759	84,587
21/11/2007	30/06/2009	30/06/2012	1.10	0.90		250,304		250,304	123,479
21/11/2007	30/06/2007	30/06/2012	0.90	0.90		114,884		114,884	61,490
21/11/2007	30/06/2008	30/06/2012	0.90	0.90		72,263		72,263	38,678
21/11/2007	14/09/2008	30/06/2012	0.90	0.90		100,000		100,000	55,919
04/02/2008	04/02/2009	04/02/2013	0.90	0.94		100,000		100,000	68,256
04/02/2008	04/02/2010	04/02/2013	0.90	0.94		100,000		100,000	68,256
04/02/2008	04/02/2009	04/02/2013	1.00	0.94		65,000		65,000	43,384
14/02/2008	14/02/2009	14/02/2013	1.00	0.82		50,000		50,000	28,638
21/02/2008	21/02/2008	21/02/2013	1.00	0.83		375,000		375,000	206,603
21/05/2008	21/05/2008	21/05/2013	1.00	1.10		375,000		375,000	313,844
					18,241,869	3,079,589	(2,000,000)	19,321,458	2,147,341
					Weighted average exercise price	0.31	0.92	0.40	

No options expired during the year. The weighted average share price applicable to shares issued upon the exercising of options was \$0.908

Fair value calculation

The fair value at grant date was 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 are not tradable. The inputs used for the Black-Scholes option pricing model for options granted during the year ended 30 June 2008 were as follows: The volatility used is derived with reference to the standard deviation in the closing share price over a rolling 90 day period up to grant date of options.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Inputs into the Model	2008	2007
Weighted average share value	\$0.92	\$0.40
Risk free rate	6.5% – 6.84%	5.50% – 5.60%
Exercise price	\$0.82 – \$1.10	\$0.30 – \$0.50
Standard deviation/volatility	66.3% – 93.3%	66.3%

The reconciliation of options outstanding for the period ending 30 June 2007 is also required to be presented.

CONSOLIDATED AND PARENT ENTITY 2008

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable spot Price	Balance at beginning of year	Granted during the year	Exercised during the year	Balance at end of the year	Fair Value
					Number	Number	Number	Number	\$
20/10/2004	20/10/2004	30/06/2009	0.30	N/A	14,561,869	–	–	14,561,869	N/A
28/01/2005	28/01/2005	30/06/2009	0.30	N/A	2,000,000	–	–	2,000,000	N/A
28/10/2005	28/10/2005	28/10/2010	0.30	0.34	50,000	–	(50,000)	–	10,550
28/10/2005	28/10/2006	28/10/2010	0.30	0.34	50,000	–	(50,000)	–	10,519
20/04/2006	20/04/2006	20/04/2011	0.30	0.41	100,000	–	–	100,000	26,200
22/05/2006	20/05/2006	22/05/2011	0.32	0.32	50,000	–	–	50,000	8,926
22/05/2006	22/05/2007	22/05/2011	0.32	0.32	100,000	–	–	100,000	17,852
22/05/2006	22/05/2008	22/05/2011	0.32	0.32	100,000	–	–	100,000	17,852
03/10/2006	03/10/2006	01/01/2012	0.30	0.255	–	100,000	–	100,000	15,196
03/10/2006	03/10/2006	01/01/2012	0.50	0.255	–	150,000	–	150,000	18,301
27/09/2006	27/09/2009	01/01/2012	0.30	0.245	–	50,000	–	50,000	7,213
27/09/2006	27/09/2009	01/01/2012	0.30	0.245	–	30,000	–	30,000	4,328
29/11/2006	29/11/2006	01/01/2012	0.35	0.35	–	30,000	–	30,000	6,394
29/11/2006	29/11/2006	01/01/2012	0.40	0.35	–	30,000	–	30,000	6,086
29/11/2006	29/11/2007	01/01/2012	0.50	0.35	–	40,000	–	40,000	7,409
29/11/2006	29/11/2007	01/01/2012	0.40	0.35	–	50,000	–	50,000	10,144
29/11/2006	29/11/2007	01/01/2012	0.35	0.35	–	50,000	–	50,000	10,657
29/11/2006	29/11/2006	01/01/2012	0.35	0.35	–	184,000	–	184,000	39,218
29/11/2006	29/11/2006	01/01/2012	0.40	0.35	–	216,000	–	216,000	43,820
29/11/2006	29/11/2006	01/01/2012	0.50	0.35	–	370,000	–	370,000	68,534
29/11/2006	29/11/2006	01/01/2012	0.30	0.35	–	30,000	–	30,000	6,740
					17,011,869	1,330,000	(100,000)	18,241,869	335,939

The weighted average cost of shares prevailing on the date of the exercise of options and subsequent quotation of those shares was \$0.995. No options expired during the year. Directors have elected not to include in the accounts valuations of options issued in the year ended June 30 2005. After this date such valuations became mandatory.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 20

Key Management Personnel

KEY MANAGEMENT PERSONNEL COMPENSATION

Short-term employee benefits	1,282,553	911,964	1,282,553	911,964
Post-employment benefits	200,702	76,459	200,702	76,459
Other long-term benefits	12,292	11,288	12,292	11,288
Share based payments	416,264	227,309	416,264	227,309
TOTAL	1,911,811	1,227,020	1,911,811	1,227,020

There were no payments received or receivable by key management personnel of the Company or related parties of the Company other than that which are disclosed in the remuneration section of the Directors' Report. There were no termination benefits paid in the year.

At the date of these accounts, the direct and indirect interests of the Directors and key management personnel in the securities of Metgasco are as follows:

	Opening balance	Shares acquired	Shares disposed	Closing balance
SHARES 2008				
Peter Power	964,704	2,058,572	-	3,023,276
David Johnson	10,085,024	7,143	-	10,092,167
Glenda McLoughlin	5,834,846	51,294	-	5,886,140
Richard Wood	731,340	14,286	-	745,626
Nicholas Heath	115,539	14,286	-	129,825
Kevin Dixon	-	-	-	-
Michael O'Brien	-	22,143	-	22,143
Aidan Stewart	100,000	-	-	100,000
Peter Stanmore	-	-	-	-
Jackie Geraghty	-	40,143	-	40,143

	Opening balance	Options granted	Options lapsed/ exercised	Closing balance
OPTIONS 2008				
Peter Power	4,480,575	-	(2,000,000)	2,480,575
David Johnson	4,730,575	210,154	-	4,940,729
Glenda McLoughlin	4,730,575	210,154	-	4,940,729
Richard Wood	1,370,144	134,887	-	1,505,031
Nicholas Heath	250,000	-	-	250,000
Kevin Dixon	350,000	113,590	-	463,590
Mick O'Brien	-	200,000	-	200,000
Aidan Stewart	100,000	68,253	-	168,253
Peter Stanmore	-	100,000	-	100,000
Jackie Geraghty	-	65,000	-	65,000

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Opening balance	Shares acquired	Shares disposed	Closing balance
SHARES 2007				
Peter Power	933,454	31,250	–	964,704
David Johnson	12,269,399	15,625	2,200,000	10,085,024
Glenda McLoughlin	5,787,971	46,875	–	5,834,846
Richard Wood	720,090	11,250	–	731,340
Nicholas Heath	–	115,539	–	115,539
Kevin Dixon	–	–	–	–
Aidan Stewart	–	100,000	–	100,000

	Opening balance	Options granted	Options lapsed/ exercised	Closing balance
OPTIONS 2007				
Peter Power	4,480,575	–	–	4,480,575
David Johnson	4,480,575	250,000	–	4,730,575
Glenda McLoughlin	4,480,575	250,000	–	4,730,575
Richard Wood	1,220,144	150,000	–	1,370,144
Nicholas Heath	–	250,000	–	250,000
Kevin Dixon	250,000	100,000	–	350,000
Aidan Stewart	100,000	100,000	(100,000)	100,000

The company has taken the opportunity to avail itself of relief provided under Corporations Regulation 2M.6.04 to transfer detailed disclosures of remuneration paid to Directors and Key Management Personnel to the Directors' Report.

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

Other key remuneration disclosures

During the year there were no transactions of any kind between the Company and Directors, Key Management Personnel or parties related to these groups other than what has been disclosed in the remuneration reports. This includes loans, dividends, and consulting services. Any shares issued to Directors or Key Management Personnel throughout the year were issued through a share purchase plan (SPP), on-market transactions or through the exercise of options.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 21

Remuneration of Auditors

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

ASSURANCE SERVICES

Amounts paid/payable to BDO Kendalls for audit

or review of the financial report	82,695	44,900	82,695	44,900
TOTAL	82,695	44,900	82,695	44,900

No services of any other kind were provided by the Company's auditors during the course of the year.

Note 22

Related Party Transactions

Directors and Director-related entities share and option holdings at balance date are disclosed in Note 20 to the accounts. The transactions and balances with the joint venture partner are disclosed in Note 29. There are no further related party transactions to disclose.

Note 23

Contingent Liabilities

Bank guarantees Department of Primary Industry	595,000	240,000	595,000	240,000
Rental bond/corporate credit card	136,239	56,629	136,239	56,629

Should the Company fail to satisfactorily rehabilitate wells sites after their abandonment, the amounts secured by bank guarantee could be forfeited.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 24

Commitments

The Company is committed to exploration and evaluation expenditure on PEL 16, 13 & 426 and minimum remuneration commitments to the Executive Directors as disclosed in the Director's Report. The Company also has the following operating lease commitments.

Motor Vehicle operating lease commitments				
Within one year	9,013	13,519	9,013	13,519
Later than one year but not later than 5 years	-	9,013	-	9,013
Later than 5 years	-	-	-	-
	9,013	22,532	9,013	22,532
Office Rent				
Within one year	279,961	70,514	276,961	70,514
Later than one year but not later than 5 years	900,578	2,640	900,578	2,640
Later than 5 years	-	-	-	-
	1,180,539	73,154	1,180,539	73,154
Exploration activities				
Within one year	-	2,995,000	-	2,995,000
Later than one year but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	-	2,995,000	-	2,995,000

Expenditure commitments in respect of exploration activities are represented by the following.

	2008	2007
	\$	\$
The minimum payment due under a contract for supply of a drilling rig from Canada	-	\$1,898,000
Minimum expenditure under the Farm-in Agreement with Molopo Ltd on PEL 426	-	\$500,000
Minimum expenditure under the terms of the license for PEL 16	-	\$450,000
Minimum expenditure under Farm-in Agreement with Molopo PEL 13	-	\$147,000
	-	\$2,995,000

As the holder of a petroleum exploration licence, there is a requirement imposed by the relevant Government Department to perform an agreed program of works. The work commitments for the next permit year as have, at the date of this report, not been set. The Company has minimum commitments towards remuneration costs of Executive Directors in the amount of \$197,500.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 25

Reconciliation of loss after income tax to net cash outflow from operating activities

Loss from ordinary activities after income tax	(2,134,239)	(1,886,952)	(2,134,239)	(1,886,952)
Non cash flows in operating loss				
– Depreciation	21,640	13,657	21,640	13,657
– Share Based Payments	522,395	267,550	522,395	267,550
– Increase (decrease) in other receivables	680,909	1,083,656	680,909	1,083,656
– (Increase) decrease in creditors	(186,799)	(1,831,378)	(186,799)	(1,831,378)
Cash flows used in operating activities	(1,096,094)	(2,353,467)	(1,096,094)	(2,353,467)

NON CASH FINANCING AND INVESTING ACTIVITIES

Note that part of the increase in fixed assets is attributable to the entering in to of finance leases. This increase for the current year is \$193,136 (2007: \$26,631).

Note 26

Earnings per share

Reconciliation of earnings used in calculating earnings per share

	Consolidated	
	2008	2007
	\$	\$
BASIC EARNINGS PER SHARE		
Loss from continuing operations attributable to ordinary equity holders of Metgasco Limited used to calculate basic earnings per share	2,134,239	1,886,952
Loss attributable to ordinary equity holders of Metgasco used to calculate basic earnings per share	2,134,239	1,886,952
Basic loss per share	(1.7c)	(1.7c)
DILUTED EARNINGS PER SHARE		
Loss from continuing operations attributable to ordinary equity holders of Metgasco Limited used to calculate basic earnings per share	2,134,239	1,886,952
Loss from continuing operations attributable to ordinary equity holders of Metgasco Limited used to calculates diluted earnings per share	2,134,239	1,886,952
Loss attributable to ordinary equity holders of Metgasco used to calculate diluted earnings per share	2,134,239	1,886,952
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	122,910,448	98,595,549
Diluted loss per share	(1.7c)	(1.9c)

19,321,458 options were on issue at balance date, as described in Note 19. These potential shares are not considered dilutive and have not been used to calculate diluted loss per share.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Note 27

Financing Facilities

The Company does not have any loan facilities in place as at the date of these accounts.

Note 28

Government Grants

In June 2007 the Company signed a Sustainable Regions Funding Agreement with the Department of Transport and Regional Services. Under the terms of this agreement, funding has been made available to the Company to assist with the drilling of a number of CSM exploration wells. The purpose of these wells is to establish sufficient CSM reserves to support the development of the Richmond Valley Power Station. Expenditure on these well is now substantially complete. Funding received has been classified as a credit to capitalised exploration costs.

Note 29

Joint Ventures

Metgasco has entered into a joint venture operation called Stratheden Joint Venture with CS Energy Ltd to explore and evaluate the potential for coal seam methane and its extraction in the Clarence-Moreton Basin in Northern NSW. The company at balance date has an 85% interest in the joint venture and is entitled to a similar proportion of the output. The Company's interest in the assets and liabilities of the jointly controlled operation are included in the consolidated balance sheet in accordance with the accounting policy described in Note 1(h). At balance date, the Company has employed the following categories of its assets and liabilities in the joint venture.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
CURRENT ASSETS				
Cash and cash equivalents	–	3,609,705	–	3,609,705
Exploration and Evaluation	1,336,310	–	1,336,310	–
Inventory – raw materials	–	36,080	–	36,080
Other receivables	210,000	335,816	210,000	335,816
CURRENT LIABILITIES	85,000		85,000	
Deferred joint venture contributions	–	3,330,732	–	3,330,732
Trade payables	445,019	1,155,121	445,019	1,155,121

At balance date, the capitalised exploration expenditure attributable to the joint venture was \$12,406,312 less contributions received of \$11,070,002. In accordance with stated accounting policy, the net carrying value is presented in the accounts.

At balance date the interest earned by CS Energy in the CSM rights of blocks 4, 5 & 1 in PEL 16 was 15% or 2% of the total tenement of PEL 16.

On June 28 2007 Molopo Australia Ltd gave notice that the Company had fulfilled its obligations under the First Farm-in Program of the PEL 13 Farm-in Agreement dated 30 January 2006, and had earned the First Interest in PEL 13 being 51% of the CSM rights. This event triggers the requirement to form a joint venture but as at balance date the joint venture had not yet come into existence nor a program of works established.

Note 30

Events subsequent to balance date

A total of 1,599,963 options were issued to Directors, Officers and staff on 1 July 2008 under the Company's ESOP.

An upgrade of gross 2P and 3P CSM reserves was received from MHA Petroleum Consultants and released to the market on July 24.

On 3 September 2008, the Company announced more details including the possible size, of the conventional gas discovery first made during the drilling of the Riflebird 14 well.

On 2 September 2008, Metgasco advised that it had fulfilled its obligations under the First Farm-in Program in PEL 426 and the Third Farm-in Program in PEL 13. The details of interests now held are outlined in a table appearing at the end of this report.

DIRECTORS' DECLARATION

METGASCO LIMITED AND ITS CONTROLLED ENTITIES ACN 088 196 383

The Directors of the company declare that:

The financial statements, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity, accompanying notes, are in accordance with the *Corporations Act 2001* and:

- comply with Accounting Standards and the Corporations Regulations 2001; and
- give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the company and the consolidated entity.

In the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The remuneration disclosures included in pages 19 to 24 of the Directors' Report (as part of audited Remuneration Report), for the year ended 30 June 2008, comply with section 300A of the *Corporations Act 2001*.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



D. Johnson
DIRECTOR



P. POWER
CHAIRMAN

Sydney, 19 September 2008

INDEPENDENT AUDITOR'S REPORT



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TO THE MEMBERS OF METGASCO LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Metgasco Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration of the consolidated entity comprising the company and the entity 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2b, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we 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. Our responsibility is also to express an opinion on remuneration disclosures contained in the Directors' Report based on our audit.

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 entity's preparation and fair presentation of the financial report 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 entity'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 and the remuneration disclosures contained in the Directors' 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*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the Directors at the time that this auditor's report was made.

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 company's and consolidated entity's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2b.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 19 to 24 of the Directors' Report for the year ended 30 June 2008. 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

In our opinion, the Remuneration Report of Metgasco Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



BDO Kendalls
CHARTERED ACCOUNTANTS



I K Fergusson
PARTNER

Dated in Sydney, this 19th day of September 2008

CORPORATE GOVERNANCE STATEMENT

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 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.

Metgasco provides its Corporate Governance Statement with reference to the First Edition of the ASX Corporate Governance Council's *Principles of Good Corporate Governance* and *Best Practice Recommendations*.

Principle 1

Lay solid foundations for management and oversight

Recommendation 1.1: Formalise and disclose the functions reserved to the Board and those delegated to management.

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 Board accepts that it is responsible for:

- a) Setting and endorsing the strategic direction on all matters of importance to the Company, setting the Company's financial objectives and ensuring that the necessary financial and human resources are in place for the Company to meet its objectives;
- b) Oversight of the Company, including its control and accountability systems;
- c) Ensuring that the performance of management is regularly assessed and monitored;
- d) Setting the Company's values and standards of conduct and ensuring that these are adhered to;
- e) Establishing a framework of prudent and effective controls which allow for risk to be assessed and managed;
- 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 remuneration committee;
- i) Safeguarding the interests of the Company's shareholders, employees, customers, suppliers and the communities in which it operates;
- j) Monitoring compliance with legal and ethical obligations;
- k) Approving the annual budget and business plan, major operating and capital budgets and material variations to these budgets;
- l) Authorise expenditure approval limits for the executive officers of the Company and authorize expenditure in excess of these discretionary limits;
- m) Approving all mergers, acquisitions and disposals of projects and businesses;
- n) Authorising the issue of securities and instruments of the Company;
- o) Ensuring that the Company conducts all its activities in an environmentally responsible and sustainable way by planning and managing all activities in an environmentally sustainable manner; and
- p) 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.

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. 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 to be elected by the Board and the performance of Directors is to be reviewed on an ongoing basis.

Principle 2

Structure the Board to add value

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

Recommendation 2.2: The Chairperson should be an independent Director.

Recommendation 2.3: The roles of Chairperson and Managing Director should not be exercised by the same individual.

In consideration to the size and activities of the Company, the Board 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 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 Mr Nicholas Heath. The Nomination and Remuneration Committee has held one meeting during the reporting period. The Nomination and Remuneration Committee operates under a Charter which describes its role, responsibilities, composition, structure and membership requirements.

Recommendation 2.5: Provide information indicated in Guide to Reporting on Principle 2.

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.

Principle 3

Promote ethical and responsible decision-making

Recommendation 3.1: Establish a Code of Conduct to guide the Directors, the chief executive officer, the chief financial officer and any other key executives.

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 Company'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 Company'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.

CORPORATE GOVERNANCE STATEMENT

Recommendation 3.2: Disclose the policy concerning trading in company securities by Directors, officers and employees.

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.

Principle 4

Safeguard integrity in financial reporting

Recommendation 4.1: Require the chief executive officer and the chief financial officer to state in writing to the Board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results are in accordance with relevant accounting standards.

In accordance with Board policy and Corporations Act requirements, the Managing Director and the Chief Financial Officer have provided a statement to the Board that the Company's financial report presents a true and fair view, in all material respects, of the Company's financial condition and operational results are in accordance with relevant accounting standards.

Recommendation 4.2: The Board should establish an audit committee.

Recommendation 4.3: Structure the audit committee so that it consists of only non-executive Directors; a majority of independent Directors; an independent chairperson who is not chairperson of the Board; at least three members.

Recommendation 4.4: The audit committee should have a formal charter.

Recommendation 4.5: Provide the information indicated in Guide to Reporting on Principle 4.

The Company has established an Audit and Risk Management Committee which is chaired by Dr Peter Power. The Audit and Risk Management Committee meets twice yearly 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 to the Company's records, personnel and support are provided. Open communications with the auditors and management are maintained.

Principle 5

Make timely and balanced disclosure

Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

Recommendation 5.2: Provide the information indicated in Guide to reporting on Principle 5.

Directors are committed to keeping the market fully informed of material developments to ensure compliance with ASX Listing Rules and the Corporations Act. 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 Officers of the Company comply with its continuous disclosure obligations. There is an agenda item at each Board meeting for consideration to be given to any matters which require disclosure under this obligation. The Board has delegated the function of continuous disclosure to the Company Secretary and Managing Director.

Principle 6

Respect the rights of shareholders

Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

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:

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

Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

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: The board or appropriate board committee should establish policies on risk oversight and management.

The Board takes a proactive approach to risk management. 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 CEO and the Audit and Risk Management Committee. The Company operates within a risk management framework which is overseen by the Audit and Risk Management Committee.

Recommendation 7.2: The chief executive officer and the chief financial officer should provide a statement on risk management compliance.

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.

Principle 8

Encourage enhanced performance

Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual Directors and key executives.

The Company conducts an annual performance review and planning process for all officers and employees. A performance evaluation of the Board was not conducted during the period.

Principle 9

Remunerate fairly and responsibly

Recommendation 9.1: Provide disclosure in relation to the Company's remuneration policies.

The Board determines and reviews compensation arrangements for the Directors, Managing Director and Senior Management. In addition, the Board determines and reviews any incentive programs and contractual arrangements established with Senior Executives and Directors and the performance of Senior Executives and Directors.

The Company has provided full disclosure of the remuneration practices, policies and procedures applying within the Company within the Remuneration report section of the Director's report.

CORPORATE GOVERNANCE STATEMENT

Recommendation 9.2: 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 9.3: Clearly distinguish the structure of non-executive director's remuneration from that of executives.

The structure of non-executive director's remuneration is described in the remuneration report section of the Director's report.

Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

Recommendation 9.5: Provide the information indicated in the Guide to reporting on Principle 9.

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 Director's report.

Principle 10: Recognise the legitimate interests of stakeholders

Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

Metgasco has established a Code of Conduct which sets out the behaviour required of Directors, officers, employees and contractors. The Board promotes a culture of fair and ethical behaviour and encourages the reporting of breaches of the law and matters potentially detrimental to the Company or its reputation.

Departures from ASX Corporate Governance Guidelines

Best Practice 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: – 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 committee is chaired by the Board chairman.
8.1	A Board performance review was not conducted during the year.	The Board of Metgasco reviews its performance on an ongoing basis throughout the year. The small size of the Company and hands on management style requires an increased level of interaction between Directors and executives throughout the year. Board members meet amongst themselves formally and informally. The Board considers that the current approach that it has adopted with regard to the review of its performance provides the best guidance and value to the Company.
1, 2, 3, 4, 5, 6, 7, 8, 9, 10	The Company does not have a Corporate Governance section on its website.	The Company is in the process of updating its website.

STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 15 September 2008.

Distribution of Equity Securities

Analysis of numbers of equity security holders by size of holding

Number of fully paid ordinary shares held	Shareholders	Optionholders
1 – 1000	213	
1,001 – 5,000	657	
5,001 – 10,000	441	
10,001 – 100,000	1,111	6
100,001 and above	134	12
TOTAL	2,556	18

There were 100 holders of less than a marketable parce of 667 ordinary shares.

20 Largest Shareholders

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

Name	Number Held	Percentage of Issued Shares
ANZ Nominees Limited	16,325,891	12.35
Mr David Johnson	10,092,167	7.63
Geotech Investments Pty Ltd	6,213,868	4.70
Glenda McLoughlin	5,886,140	4.45
Equity Trustees – SGH Funds	5,379,241	4.07
Cydac Pty Ltd	3,785,741	2.86
Magnim Pty Ltd	3,674,749	2.78
Lost Ark Nominees Pty Ltd	3,327,396	2.52
Peter Power	3,023,276	2.29
National Nominees Limited	2,741,665	2.07
The Australian National University	2,712,000	2.05
Thorney Investments Pty Ltd	1,025,641	0.78
David Smith	1,000,000	0.76
UBS Wealth Management Australia Nominees Pty Ltd	793,461	0.60
Rick Wood	745,626	0.56
Dagmar Petia Sevil	719,180	0.54
Dennis Moore	676,303	0.51
R.J. Custodians	666,667	0.50
White Sands Investments	625,000	0.47
Dale Newman	582,840	0.44
	69,996,852	52.94

STOCK EXCHANGE INFORMATION

Substantial shareholders

As at 17 September 2008 there were two substantial shareholders in the Company. Mr David Johnson has provided a substantial shareholding notice in relation to a relevant interest in 10,085,024 shares in the Company. Matthews Capital Partners – Sabre Fund has provided a substantial shareholding notice in relation to a relevant interest in 9,589,993 shares in the Company.

Voting Rights

On a show of hands, at a General Meeting of the Company, 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. Optionholders have no voting rights.

Interests in Mining Tenements

At the date of this report Metgasco holds the following interests in respect of coal seam methane and conventional gas rights.

Tenement	Resource type	Metgasco	Molopo	CS Energy
PEL 13	Coal seam gas	75%	25%	–
PEL 13	Conventional	50%	50%	–
PEL 16	Coal seam gas	96%	–	4%
PEL 16	Conventional	100%	–	–
PEL 426	Coal seam gas	50%	50%	–
PEL 426	Conventional	50%	50%	–

The assignment of the following interests were formalised and announced between balance date and the date of this report.

PEL 13 coal seam gas CSM 24%

PEL 13 conventional gas 50%

PEL 426 all interests

All financial commitments in relation to the above farm-ins are recognised in the financial accounts.

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
CO₂	Carbon Dioxide
Core	A cylindrical piece of rock taken as a sample
CSM	Coal Seam Methane. Also known as 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
Km²	Square kilometre
Mcf	Thousand cubic feet (10 ³ cubic feet)
Metgasco or the Company	Metgasco Ltd ACN 088 196 383
Md	Millidarcy (unit measurement of permeability)
MMcf	Million cubic feet (10 ⁵ cubic feet)
MW or Megawatt	One million watts of power
MWh	Megawatt hour
PEL	Petroleum Exploration Licence
PEL 16	Petroleum Exploration Licence Number 16
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.
Resource	The volume of gas stored in coal
Scf/t	Standard cubic feet per tonne
Scf/ton	Standard cubic feet per short (US) ton (1scf/ ton = 1.1 scf/t)
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

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Directors

Dr Peter Power (Chairman)
David Johnson
Glenda McLoughlin
Richard Wood
Nicholas Heath

Company Secretaries

Glenda McLoughlin
Nicholas Geddes

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ASX Symbol

MEL

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