ANNUAL REPORT
YEAR ENDED
30 JUNE 2004

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1. CORPORATE PARTICULARS

Directors:	Peter Power	Non Executive Chairman
	David Johnson	Managing Director
	Glenda McLoughlin	Executive Director
	Rick Wood	Executive Director

Company Secretary: David Johnson

Registered Office:

Level 1
402 New South Head Road
Double Bay
NSW 2028

Telephone:	(02) 9363 9605
Facsimile:	(02) 9327 4765
Website:	www.metgasco.com.au
Email:	info@metgasco.com.au

Auditors:

McLeay Chartered Accountants
105 Pitt Street
Sydney NSW 2000

Bankers:

Macquarie Bank Limited
68 Pitt Street
Sydney NSW 2000

Australia Company Number: ACN 088 196 383

Date and Place of Incorporation: 22nd June 1999, Sydney, Australia

2. REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2004

The Directors of Metgasco Limited hereby present their report of the Company together with the Statement of Financial Position as at 30 June, 2004 and the Statement of Financial Performance for the year ended 30 June, 2004 and the auditor's report thereon.

Directors and Directors' Shareholdings
The names of the directors of the Company at any time during or since the financial year and details of shares held in the Company as advised by each director as at the date of this report are as follows:

Director	Appointed As Director	Shareholding	Nature of Interest
Peter Power		100,000	Direct
David William Johnson		1,154,410	Direct
Glenda Ann McLoughlin		230,060	Indirect
Richard Orme Wood	27th April 2004	-	

The directors of the Company have considerable experience in conventional and unconventional hydrocarbon exploration together with project finance, legal and commercial experience. Particulars relating to the directors' qualifications and responsibilities at the date of this report are as follows:

Dr Peter Power - B.Sc, PhD
Non Executive Chairman
Dr Peter Power has over 40 years experience in hydrocarbon exploration worldwide. He was previously Managing Director of Ampolex prior to its acquisition by Mobil. He has served as Chairman of the Australian Petroleum Production and Exploration Association and President of the Australian Geoscience Council. He is currently a non-executive Director of Petsec Limited.

David WG Johnson - B.App.Sc(Geol), MBA, MAusIMM
Managing Director
David Johnson has 20 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 Australasia, Africa 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 coalbed methane potential of the Clarence Moreton Basin.

Glenda McLoughlin - B.Ec, MBA
Chief Financial Officer
Glenda McLoughlin has over 20 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 brings specialist skills in corporate financial advice and debt and equity capital raisings.

Rick Wood – B Eng(Mining)
Director, Engineering
Rick Wood has over 30 years experience in engineering and operations in the upstream oil and construction industries. Mr Wood spent 18 years with Esso including project assignments in the Bass Strait, USA and Japan. He subsequently joined Ampolex Ltd. As General Manager Operations for Ampolex he completed a number of major assignments including the development of the Lufung offshore petroleum field in China, 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 Hitachi Zosen in Japan, ROC Oil, Worley Ltd and Keppel Fels in Singapore.

Directors' Meetings
During the year ended 30 June 2004 a total of 6 directors meetings were held. Attendance by individual directors at those meetings is as follows:

Director	Meetings Attended
Peter Power	6
David William Johnson	6
Glenda Ann McLoughlin	6
Rick Wood	3

Principal Activity
The principal activity of the company during the course of the year was coalseam methane exploration within exploration permit PEL 16 located in Northern New South Wales.

Operating Results
The net loss of the Company for the year after extraordinary items and income tax expense, was $7,532 (2003 loss $ 7,792).

Dividends
No dividends were declared or paid since the end of the previous financial year.

State of Affairs
During the financial year the following significant changes in the state of affairs of the consolidated entity occurred:

i. Rick Wood was appointed to the Board
ii. The Company raised further funds by way of private placement
iii. The Company drilled a further well South Casino # 2

Review of Operations and Likely Developments
In the year ended 30 June 2004 the Company continued appraisal of the coalbed methane potential of PEL 16. The company completed the follow up well South Casino # 2, at a location just south of South Casino # 1. The Company is now planning trial production for South Casino.

Environmental Regulations
The company's operations are governed by Part 3 of the Petroleum (Onshore) Act 1991 and which require determination under the Environmental Planning and Assessment Act 1979. Such regulations require stringent environmental management practices by the Company.

Events Subsequent to Balance Date
Subsequent to balance date the following events occurred:

i. $ 95,000 of director related advances were made to the Company
ii. $ 50,000 was raised by way of private placement at $0.50/share

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report, any item transaction or event of a material and unusual nature likely in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Options
On 12 September 2002 the following directors options were allotted:

Peter Power	481,626
Glenda Macloughlin	481,626
David Johnson	240,813

Other than the above, no matters or circumstances have arisen since the year end that significantly, or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future years.

Directors Emoluments

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the accounts, or the fixed salary of a full-time employee of the Company or a related Corporation), by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a Company in which he has a substantial financial interest.

Corporate Governance

At the date of this report the directors have not formally resolved to adopt any specific corporate governance practices and no committees of the board have been formed.

The directors acknowledge they are responsible for protecting the rights and interests of the shareholders through the implementation of sound strategies and action plans and the development of an integrated framework of controls over the Company's resources, functions and assets.

They also acknowledge and support corporate governance concepts and obligations.

The directors believe that, having regard to the size and nature of the Company and group activities, the functions of corporate governance and board committees are met at normal directors meetings held during the year.

Indemnification and Insurance

The company has, during the year end, in respect of any person who is or has been an officer of the company or auditor of the company or a related body corporate, gained member approval to:

i. indemnify, or make a relevant agreement against a liability incurred as an officer or auditor, including costs and expenses in successfully defending legal proceedings, including matters as set out in the auditors initial letter of engagement, or

ii. however, the company has not paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer or auditor for the costs or expenses to defend legal proceedings.

Dated at Sydney this 10th day of September 2004.

David Johnson
Director

3. STATEMENT OF FINANCIAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2004

	Note	2004	2003
		$	$
Revenues from ordinary activities	2	4,374	19,427
Classification of expenses by function:			
Administration costs		11,906	14,403
Corporate costs		-	12,816
Loss from ordinary activities before income tax expense		7,532	7,792
Income tax expense relating to ordinary activities	3	Nil	Nil
Loss for ordinary activities after related Income tax expense		7,532	7,792
Net loss		7,532	7,792
Net loss attributable to members of Metgasco Limited		7,532	7,792

The accompanying notes form part of these financial statements.

METGASCO LIMITED

ACN 088 196 383

4. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE, 2004

	Note	2004	2003
		$	$
CURRENT ASSETS			
Cash assets		357	103,491
Receivables	4	20,812	17,005
TOTAL CURRENT ASSETS		**21,169**	**120,496**
NON CURRENT ASSETS			
Exploration and evaluation expenditure	5	412,888	128,815
Security Deposits		25,000	15,000
TOTAL NON CURRENT ASSETS		**437,888**	**143,815**
TOTAL ASSETS		**459,057**	**264,311**
CURRENT LIABILITIES			
Accounts payable	7	85,264	7,368
Other	8	56,380	104,000
TOTAL CURRENT LIABILITIES		**141,644**	**111,368**
TOTAL LIABILITIES		**141,644**	**111,368**
NET ASSETS		**317,413**	**152,943**
EQUITY			
Contributed equity	9	354,154	184,154
Accumulated losses	10	36,741	31,211
TOTAL EQUITY		**317,413**	**152,943**

The accompanying notes form part of these accounts.

5. STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2004

	Note	2004	2003
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers	19	(11,906)	(21,289)
Interest received		4,272	2,786
Net cash provided by (used in) operating activities		**(7,532)**	**(18,503)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net expenditure on exploration		(277,073)	(6,492)
Net cash provided by (used in) financing activities		**(277,073)**	**(6,492)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares		170,000	89,802
Cash for share placement		(100,000)	100,000
Loan – other company		50,000	-
Advances from related Director		2,380	4,000
Increase in accounts payable		-	3,078
Decrease in sundry creditors		(77,896)	52,359
Increase in sundry debtors		3,807	(16,275)
Net cash provided by/(used in) financing activities		**181,471**	**128,246**
Net increase in cash during the year		**(103,134)**	**103,251**
Cash at 1st July, 2003		118,491	240
Cash at 30 June 2004		**357**	**103,491**

6. NOTES TO AND FORMING PART OF THE ACCOUNTS **FOR THE FINANCIAL YEAR ENDED 30 JUNE 2004**

1. Statement of Accounting Policies

This financial report is a general purpose financial report that has been prepared in accordance with the Corporations Act 2001, applicable Accounting Standards, and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board).

The financial report has been prepared on an accrual basis of 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 values 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.

(a) Cash Assets

The cash flow statement includes as cash:

(i) cash on hand and at call with banks or financial institutions, net of bank overdrafts
(ii) Investments in money market instruments with less than 14 days to maturity

(b) Income Tax

The Company adopts the liability method of tax effect accounting. Income tax expense has been calculated on pre-tax accounting profits after adjustment for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the realisation of the benefit can be regarded as beyond doubt.

Income tax on net cumulative timing differences which occur when items are included or allowed for tax purposes in a different period from that for accounting is shown at the corporate tax rate of 30% in provision for deferred income tax and future tax benefit as applicable.

(c) Exploration Expenditure and Petroleum Tenement Leases

Expenditure incurred on exploration, evaluation and development of each areas of interest is accumulated and identified by that area of interest.

These costs are written off as incurred, except that they may be carried forward, provided that the rights to the area of interest are current and:

(i) such costs are expected to be recouped by successful development of the area of interest, or
ii) by sale of the area of interest, or
(iii) exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the area of interest.

When an area of interest is abandoned or the Directors decide that it is not commercial any accumulated expenditure applicable to such area of interest is written off to the profit and loss account in the year in which such decision is made.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

A regular review is undertaken of each area of interest to determine the appropriateness of carrying forward costs in relation to that area of interest.

NOTES TO AND FORMING PART OF THE ACCOUNTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2004

Statement Of Accounting Policie (Cont'd)

(d) Business Undertakings

The company intend to conduct certain exploration activitie through joint venture with other partie and Farm In/ Farm Out Agreement . The company' intere t in the e joint venture i included in the balance heet under the appropriate heading .

(e) Revenue And Expenses

Revenue i recogni ed on delivery of the good or ervice to the cu tomer. Intere t revenue i recogni ed on the ba i of when the intere t wa derived with r egard to proportionality of intere t rate and applicable time horizon a ociated with the inve tment.

Expen e are recogni ed on an accrual ba i .

All revenue and expen e are tated on the net amount after adju tment for applicable good and ervice tax (GST).

(f) Earnings Per Share

(i) Ba ic earning per hare:

Ba ic earning per hare i determined by dividing the operating profit after income tax by the weighted average number of ordinary hare out tanding during the financial year.

(ii) Diluted earning per hare:

Diluted earning per hare adju t the figure u ed in determining earning per hare by taking into account amount unpaid on ordinary hare and any reduction in earning per hare that will probably ari e from the exerci e of option out tanding during the financi al year.

NOTES TO AND FORMING PART OF THE ACCOUNTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2004

2. Revenue

	2004 $	2003 $
Operating activities:		
Intere t rece ived from other per on	4,374	2,786
Government re earch and development grant	-	16,641
	4,374	19,247

3. Income Tax Expense

	2004	2003
Operating lo	7,532	7,791
Income benefit at 30% (2003, 30%)	2,260	2,337
Add tax effect of permanent difference (change in tax rate)	-	4,992
Future income tax benefit not brought to account	2,260	7,329

A at 30 June, 2004 the Company ha unconfirmed carry forward tax benefi t of $ 16,321 (2003 $14,061) with re pect to un -recouped tax lo e of $ 54,402 (2003 $46,870).

The taxation benefit will only be obtained if the a e able income derive d i of a nature and an amount ufficient to enable the benefit of deduction to be reali ed; condition for deductibility impo ed by the law are complied with; and there are no change in tax legi lation which adver ely affect the reali ation of the benef it of the deduction .

For account purpo e and with re pect to the above, the company ha not brought the tax benefit to account.

4. Receivables

	2004 $	2003 $
Other debtor – R & D grant	10,026	16,641
GST refund due	10,786	364
	20,812	17,005

5. Exploration and Evaluation Expenditure

	2004	2003
Exploration and evaluation pha e at co t	412,888	128,815
Movement during the financial period:		
At cost:		
Opening balance	**128,815**	**122,322**
Capitali ed exploration expenditure	293,996	6,492
R&D Grant	(9,923)	-
Exploration expenditure written off on tenement	NIL	NIL
Carrying amount at reporting date	**412,888**	**128,815**

NOTES TO AND FORMING PART OF THE ACCOUNTSFOR THE FINANCIAL YEAR ENDED 30 JUNE 2004

6. Business Undertakings

By an amendment to the Farmin Agreement effective 24 July 2002 between Metga co and Sunoco Inc. wa enabled to maintain it 26% working intere t for the next $A300,000 of exploration expenditure by Metga co on PEL 16 whereafter Sunoco would a ign it working intere t back to the company in exchange for the company re erving Sunoco a 5% non - convertible gro overriding royalty ba ed upon 100% of the petroleum ub tance produced, marketed or deemed to have been produced from PEL 16. Metga co ha now incurred an additional $300,000 of exploration expenditure and ha re umed a 100% working intere t in PEL 16.

		2004 $	2003 $
7.	**Accounts Payable**		
	Sundry creditor and accrual	85,264	7,368
8.	**Other**		
	Sub cription for hare not i ued	-	100,000
	Loan – other company	50,000	
	Loan from director-un ecured	6,380	4,000
		56,380	104,000

9.	**Equity**	$	$
	Ordinary hare		
	3,010,164 ordinary hare fully paid	354,154	184,154
	Balance at beginning of reporting period:	184,154	94,352
	Share i ued during the period for ca h:	170,000	-
	89,802 on 9 September 2002	-	89,802
	Balance at reporting date	**354,154**	**184,154**
		No.	**No.**
	Balance at beginning of reporting period:	3,010,164	1,415,280
	Share i ued during the period:		
	9 September 2002	-	89,802
	10 September 2002 - 2 for 1 hare plit	-	1,505,082
	Share i ued during the period	340,000	-
	Balance at reporting date	**3,350,164**	**3,010,164**

Ordinary hare have the right to par ticipate in dividend , voting entitlement, and proceed on the winding up of the Company in proportion to the number of hare held. At hareholder ' meeting each ordinary hare i entitled to one vote when a poll i called, otherwi e each hareholde r ha one vote on a how of hand .

		2004 $	2003 $
10.	**Accumulated Losses**		
	Accumulated lo e at beginning of the period	29,209	21,417
	Net lo	7,532	7,792
	Accumulated lo e at end of the financial period	36,741	29,209

11. Remuneration of Directors

The name of the Director who have held office during the year are:

Peter Power
David William John on
Glenda Ann McLoughlin
Richard Orme Wood

(a) Director ' remuneration

Total remuneration to director in re pect of 2004 financial year i $ Nil a follow :

	$
Director fee	Nil
Other fee	Nil
	Nil

(b) Retirement and uperannuation Payment

There were no amount paid or payable in re pect to any pre cribed benefit during the period by the company or a related party to a director or uperannuation fund in connection with retirement from a pre cribed office.

(c) Executive remuneration

There were no payment received or receivable by executive officer of the company or related party for the management of the affair of the company where uch remuneration exceeded $100,000.

12. Remuneration of Auditors

Total amount provided for remuneration for ervice provided to the Company by the auditor are:

	2004	2003
	$	$
Audit of account	3,000	2,000
Other- Offer Information Statement	-	3,000
	3,000	5,000

13. Economic Dependency

During the period under review, the Company' principal activity ha been that of an exploration company, predominantly maintaining it tenement and carrying out exploration and evaluation. The Company doe not derive any income from trading activity and i dependent upon the upport of hareholder for fund to finance it intended exploratio n activitie .

14. Related Party Transactions

Related party tran action have been et out above under item 10.

(a) Director ' tran action in hare :
During the period to 30 June 2004 no hare were i ued to Director for ca h or other con ideration .

(b) Director ' holding of hare
Director and Director -related entitie hold directly, indirectly or beneficially a at the reporting date, equity in 1,484,470 ordinary hare .

15. Contingent Liabilities and Assets

At the date to which the e account are made up the Director are not aware of any contingent liabilitie other than tated el ewhere in the Note to the e account .

16. Capital Commitments

Other than budgeted exploration and evaluation expenditure on PEL 16, the company doe not have any capital commitment .

17. Segment Reporting

During the period, the Company wa olely involved in exploration and evaluation activitie a ociated with PEL 16 located in Northern New South Wale .

18. Events Subsequent to Balance Date

Sub equent to balance date the following event occurred:

i. $ 45,000 of director related advance were made to the Co mpany
ii. $ 50,000 wa rai ed by way of private placement at $0.50/ hare

Other than the above, there were no event ub equent to balance date.

19. Cash Flow Statement Notes

Reconciliation of Cash Flows from operations with operating loss

	$	$
Lo from ordinary activitie after income tax	7,532	7,792
Non ca h flow in operating lo	4,374	10,711
Ca h flow u ed in operating activitie	11,906	18,503

Non Cash Financing Activities

During the financial year the Company' net liabilitie decrea ed by $ 162,468 (2003, increa e $ 44,008).

Financing Facilities

The Company doe not have any formal loan facilitie in place a at the date to which the e account are made up.

20. Earnings Per Share

	2004 $	2003 $
Ba ic lo per hare	0.23c	0.26c
Operating lo after income ta x and earning u ed in the calculation	7,532	7,792
Weighted average number of ordinary hare u ed in the calculation	3,284,208	2,972,270

7. DIRECTOR'S DECLARATION

The Director of METGASCO LIMITED declare that:

1. The attached financial tatement and note :

   (a) comply with Accounting Statement and the Corporation Act 2001; and

   (b) give a true and fair view of the Company' financial po ition a at 30 June 2004 and performance for the twelve month period for the financial year ended on that date.

2. In the Director' opinion there are rea onable ground to believe that the Company will be able to pay it debt a and when they become due and pa yable.

Signed in accordance with a re olution of the Director made pur uant to Section 302 of the Corporation Act 2001.

....

D.W. John on

10th September 2004

8. INDEPENDENT AUDIT REPORT

Scope

I have audited the attached financial report comprising the Director's Declaration, Statement of financial Performance, Statement of Financial Position, Statement of Cash flows and notes to and forming part of the financial statements of Metgasco Limited for the financial year ended 30 June 2004. The company's Directors are responsible for the financial report and accompanying information. I have conducted an independent audit of this financial report so as to express an opinion on it as required by Section 715 (2) (c) of the corporations Act 2001.

My audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting and statutory requirements so as to present a view which is consistent with my understanding of the Company's financial position and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Qualification

As at 30 June 2004 there was an excess of current liabilities to current assets of $120,475. These current liabilities included Director and Director related party advances of $56,380.

Subsequent to 30 June 2004 further equity and Director advances to the company totalled $95,000, allowing the company to meet its obligations to unrelated parties.

The company's activities are those of exploration and development of the resource located at PEL 16. The ability of the company to meet its commitments as and when they fall due, to finance its operations and prove this resource is dependent upon the ongoing support of Directors and its ability to raise further capital.

Audit Opinion

In my opinion, the financial report of Metgasco Limited is in accordance with:

a. The Corporations Act 2001, including,

   i giving a true and fair view of the company's financial position as at 30 June, 2003 and of the performance for the year ended on that date; and

   ii complying with Accounting Standards and the Corporations regulations 2001; and

b. other mandatory professional reporting requirements.

Gregory McLeay
Chartered Accountant

Dated this 9th day of September, 2004