



METGASCO

2005 ANNUAL REPORT

IT'S HAPPENING...

...SO FAR WE'VE BARELY
SCRATCHED THE SURFACE
OF AN UNTAPPED
NATURAL RESOURCE...

COAL SEAM METHANE.
(CSM)

METGASCO LIMITED IS AN
AUSTRALIAN ENERGY COMPANY
THAT IS SEEKING TO COMMERCIALISE
THE CSM POTENTIAL OF THE
WALLOON COAL MEASURES LOCATED
IN NORTHERN NEW SOUTH WALES.
CSM IS NOW A RECOGNISED
AND IMPORTANT SOURCE OF
NATURAL GAS.

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LETTER FROM OUR CHAIRMAN

Dear Shareholders

I am pleased to present you with Metgasco's first annual report as a publicly listed company and to tell you that we have ended this year on a very optimistic note. As you know, the Company was formed to explore for, and develop, coal seam methane and conventional gas resources in northern New South Wales.

Since completing our inaugural drilling program, we have quadrupled our estimate of the gas resource located within PEL16 from 1.05Tcf, as described in our December prospectus, to 4.8Tcf. Drilling has confirmed the presence of very gassy coal over a wide area and our work program to date indicates that we are well on track to undertake commercial development of this resource over the next 12 months.

Five pilot production wells have been completed and are being de-watered to establish flow characteristics. I am pleased to report that early results are encouraging. The Company has retained independent petroleum reservoir engineers, Malkewicz Hueni Associates of Denver, to review the Metgasco project as a precursor to reserve certification. This review has identified a number of alternative approaches which Metgasco may adopt to improve well productivity. Additional appraisal drilling to confirm these predicted outcomes is already in the planning stage.

Engineering planning for the gas fired electricity generating plant is well advanced and we expect to commission it a little over twelve months from now. We have commenced the formal planning approval process and will have completed the front end engineering design for the project by the end of this calendar year.

As we set out in our prospectus, this power project is intended to provide cash flow to enable us to establish

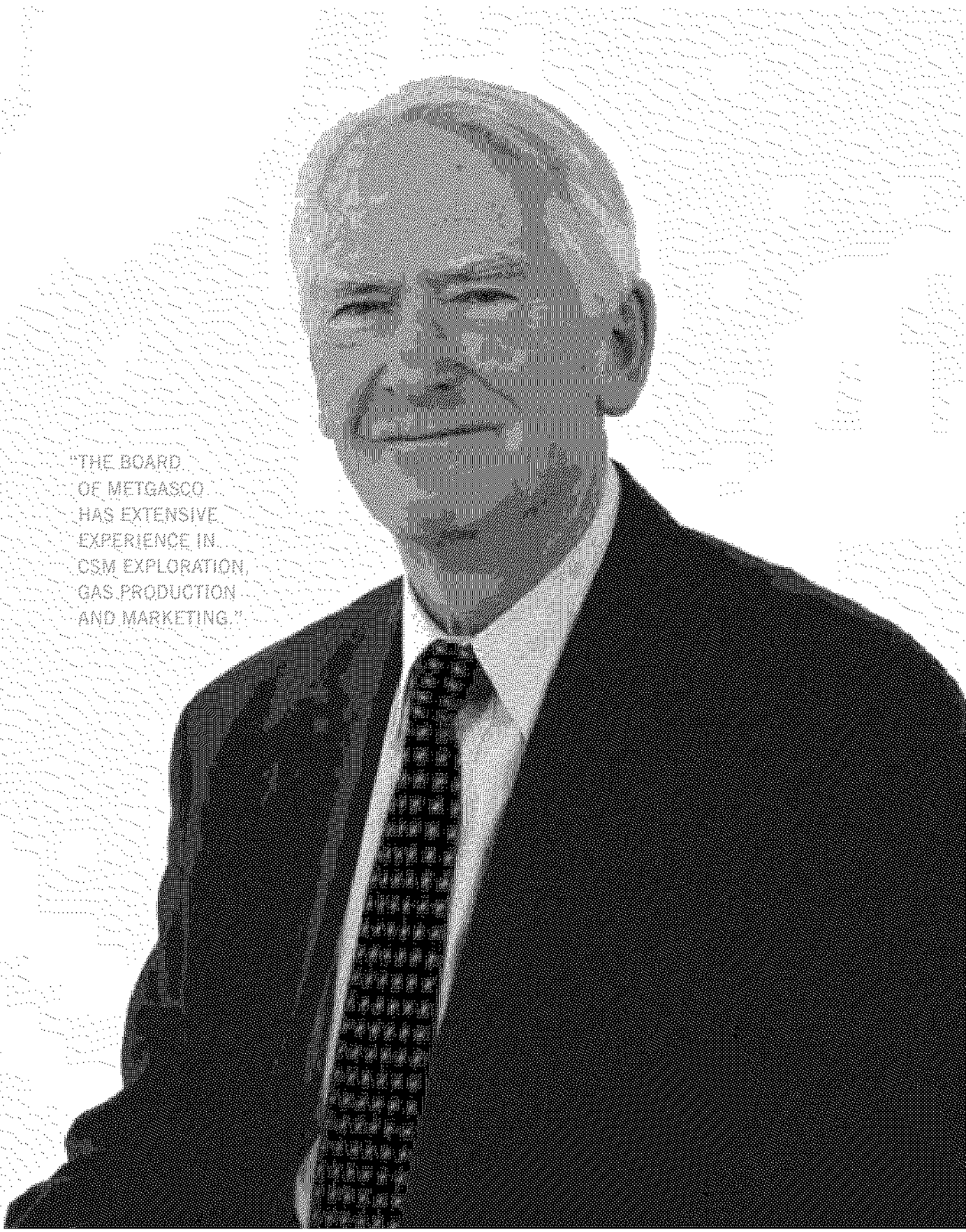
reserves sufficient to underwrite gas sales agreements. Preliminary discussions have been held with a number of potential customers over the past six months.

Your Board recognises that the Company 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. To this end, a number of public question-and-answer forums have been held, as well as a meeting with the representatives of the Northern Rivers Regional Development Board. I am happy to report that we have been well received. We are keen to develop deep roots in our local community and actively seek to utilise local staff and contractors where possible. As Metgasco develops, the Company will endeavour to build upon our existing positive relationship with the local community.

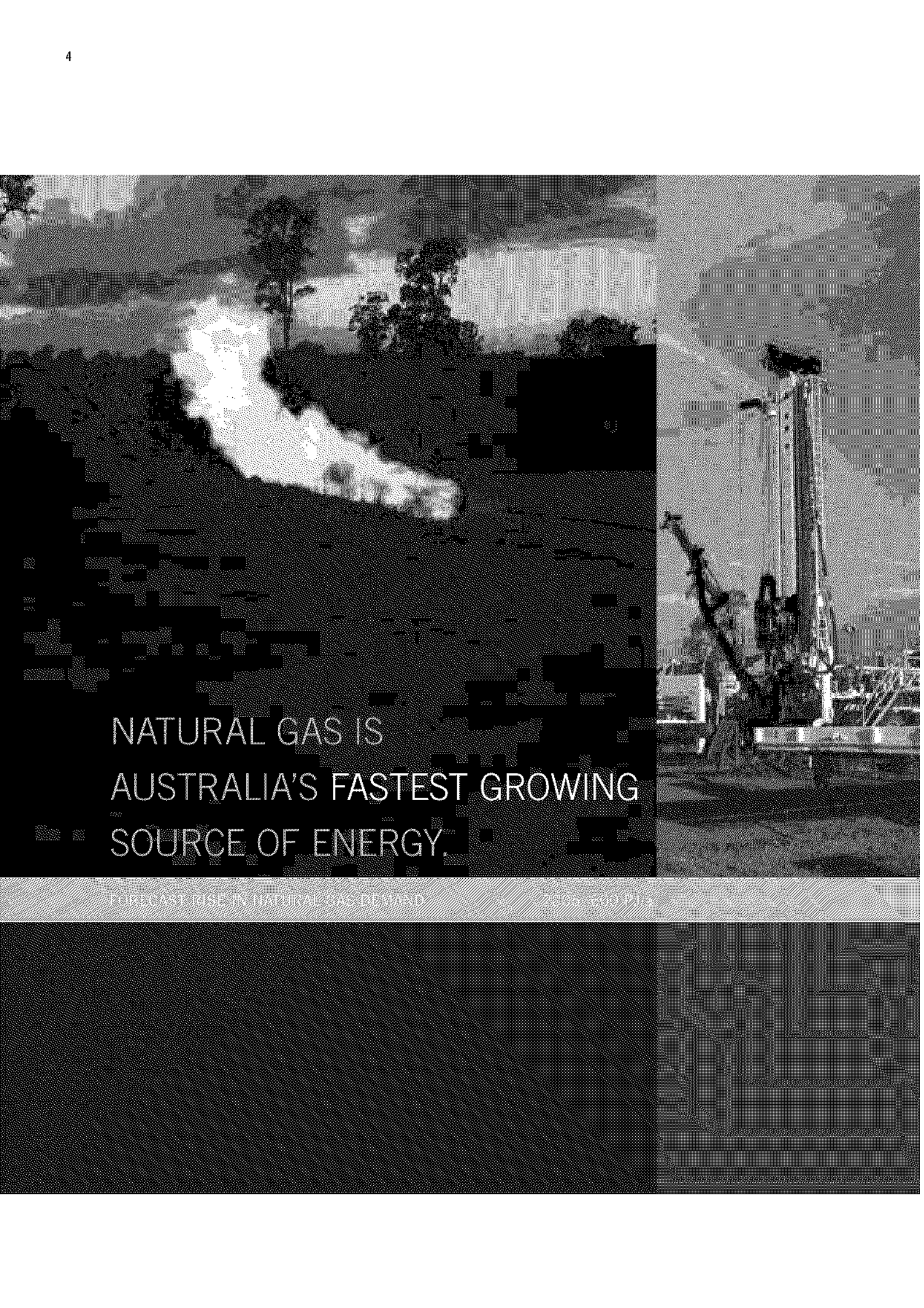
This has been a year of solid accomplishment. The Company is managing its drilling, appraisal and development program with a small, focused team of management and consultants. We are fortunate to have assembled such an experienced and effective team and I would like, on your behalf, to congratulate them for their efforts and achievements over the past year.



DR PETER POWER, CHAIRMAN



"THE BOARD
OF METGASCO
HAS EXTENSIVE
EXPERIENCE IN
CSM EXPLORATION,
GAS PRODUCTION
AND MARKETING."



NATURAL GAS IS
AUSTRALIA'S FASTEST GROWING
SOURCE OF ENERGY.

FORECAST RISE IN NATURAL GAS DEMAND

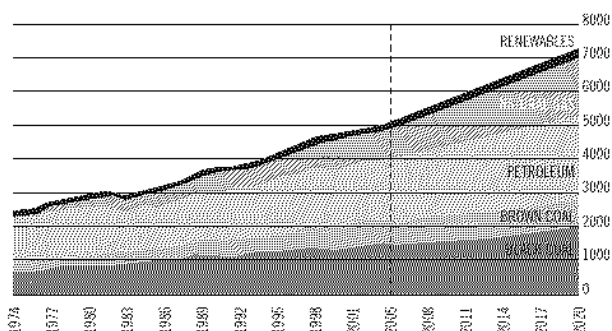
2005-2012

IT'S THE ENERGY IN DEMAND

Natural gas presently accounts for around 20% of Australia's primary energy demand. Demand in the eastern Australian gas market is forecast to double over the next 20 years. Metgasco is well placed to supply gas to meet this demand.

Drilling has confirmed the presence of very gassy coals in PEL16 with a high gas content of between 9.9 bcf/km² (high) and 7.9 bcf/km² (low). Metgasco has estimated gas in place in PEL16 of over 4,000 PJ. This is a substantial resource with the capability of supplying the gas needs of NSW for the next 30 years.

PRIMARY ENERGY TRENDS, BY FUEL (PJ)

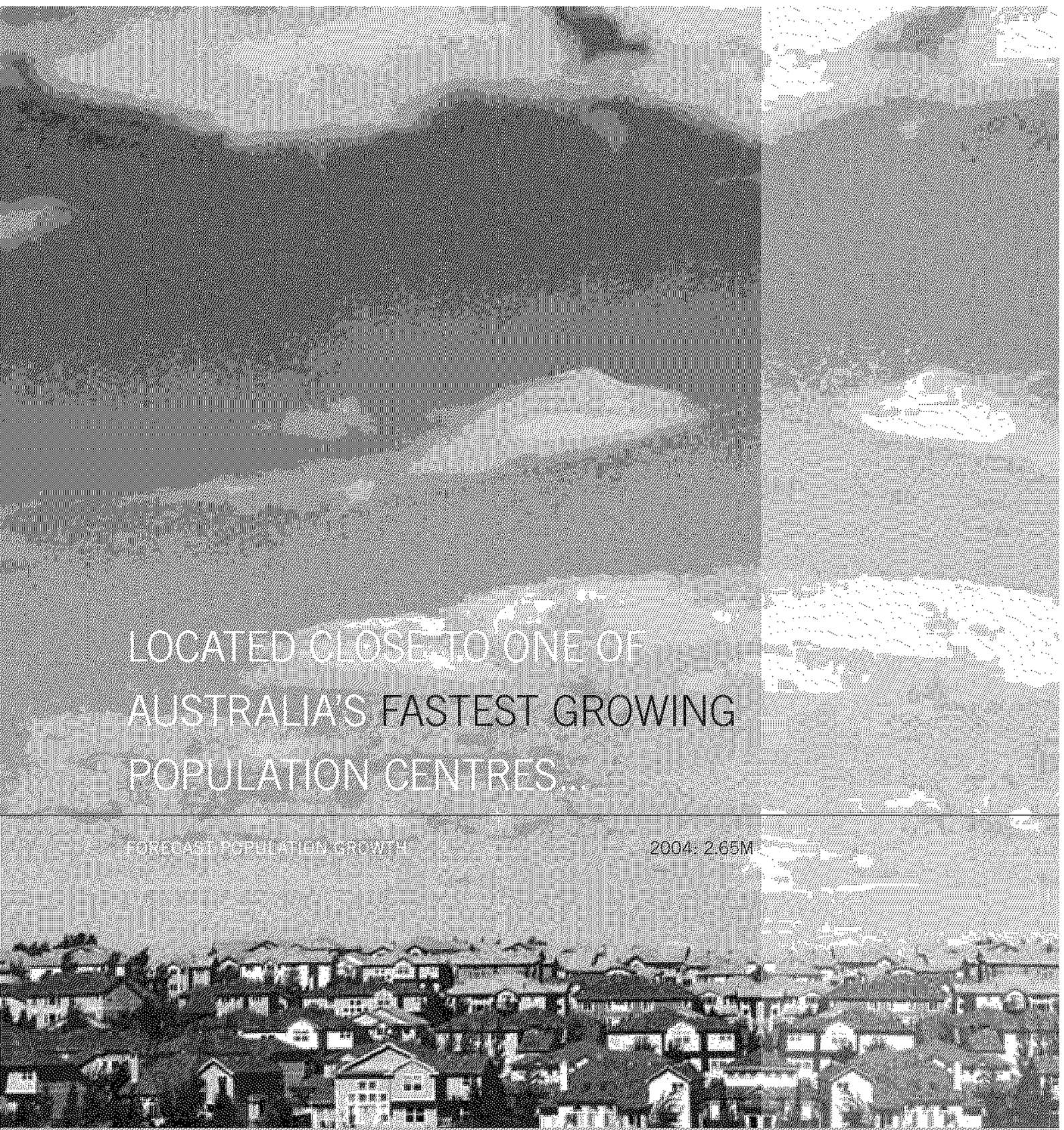


GET IT?

DISCOVER

100% FORECAST

FORECAST GROWTH IN NATURAL GAS DEMAND
Metgasco is well placed to supply gas to meet this demand.



LOCATED CLOSE TO ONE OF
AUSTRALIA'S FASTEST GROWING
POPULATION CENTRES...

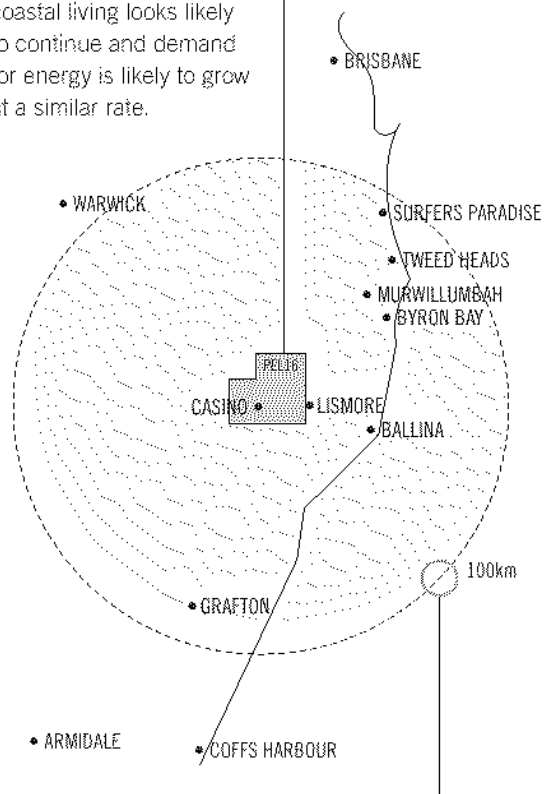
FORECAST POPULATION GROWTH

2004: 2.65M

IT'S STRATEGICALLY LOCATED

South-east Queensland and north-east New South Wales are Australia's fastest growing regions. Their combined population is expected to increase from an estimated 2.65 million in 2004 to 3.7 million by 2026. From 1999 to 2004, the Gold Coast city population grew by 3.5 percent – almost double Brisbane's growth rate of 2.2 percent. The lifestyle shift towards coastal living looks likely to continue and demand for energy is likely to grow at a similar rate.

Metgasco is one of the closest gas suppliers to this fast growing region. It is close to gas pipeline infrastructure and power transmission networks. Metgasco is developing projects to serve the energy needs of the communities in northern New South Wales and south-eastern Queensland well into the future.



44%

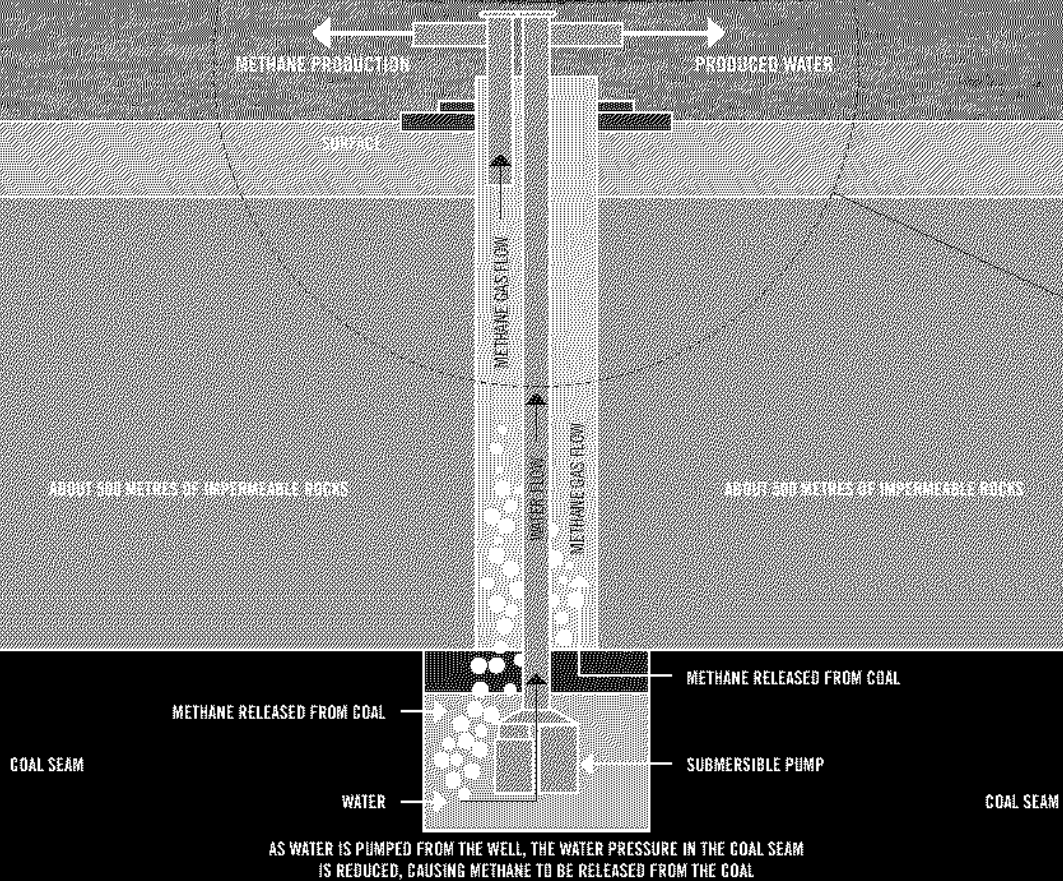
FORECAST GROWTH
ACIL Tasman has estimated that electricity demand within a 100km radius of the drilling location is 450MW and is forecast to grow by 200MW by 2010.

AN AREA WITH
NO EXISTING
LOCAL ENERGY
SUPPLY.

2026:

3.7M

ONE OF THE CLEANEST,
SAFEST AND MOST USEFUL
OF ALL ENERGY SOURCES.



IT'S CLEAN AND GREEN

Coal seam methane is natural gas

Coal seam methane is used like any conventional gas source for gas cooking and water heating in homes and businesses and as a clean source of energy for industry and power generation. Coal seam methane is formed as a by-product of the geological formation of coal seams from organic matter. These seams are typically saturated with water and gas, both of which are held onto the surface of coal by the pressure of being buried deep underground. Because of natural fractures in coal called cleats, coal seams have a large internal surface area. This means that coal can hold many times the volume of gas than conventional sandstone reservoirs.

How is coal seam methane produced?

In Metgasco's project, in order to produce gas, a well is drilled to a depth of approximately 600 metres. By pumping water out of the coal seam, the pressure in it is lowered and gas and water move through the cleats to the well bore. As water production declines, gas production increases. At the surface, methane and water are separated. The gas is collected and piped to a central compressor station. Until the power project is in operation in Casino, gas will be flared from the Metgasco project. Production from a well must be continuous because, if halted, water will re-enter the seam and dewatering must begin again.

Clean air

The quality of gas from PEL16 is extremely high, with a methane content of over 98% methane (CH₄) and low levels of impurities.

Clean water

Water extracted from the coal seam is handled in an environmentally sound manner. This water is not from the shallow water table, which is approximately 10-15 metres below the surface, but is extracted from coal seams at a depth of 500-600 metres. The quality of water from a CSM project can vary from drinkable to saline depending on the project. Evaporation, re-injection into deeper aquifers, flows into natural drainage or local use have all been applied to water disposal from CSM projects overseas and in Australia. Metgasco has built a holding dam on site to retain water from its test production program. Water from the Casino project has been tested and is classified as being of suitable quality for consumption by stock (slightly to moderately saline).

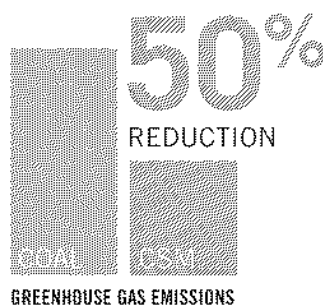
Reduced greenhouse gas emissions

Coal seam methane is considered a green energy source despite being a carbon based fossil fuel. Australia produces one of the highest per capita levels of greenhouse gasses in the world because most of our electricity is generated by coal. Gas fired power emits around half the amount of greenhouse gas of coal fired power. The use of gas for power generation accordingly reduces the amount of greenhouse gases released into the atmosphere. The NSW Government is encouraging investment in gas fired power through the NSW Greenhouse Benchmark Scheme, which requires mandatory reduction in greenhouse gas emissions.

MINIMAL

IMPACT ON ENVIRONMENT

Once wells are producing and the drilling site rehabilitated, producing wells have a minimal visual impact.



MANAGING DIRECTOR'S REVIEW OF OPERATIONS

The past year has been one of rapid progress for Metgasco. I am pleased to report that we are well on the way to meeting the objectives set out in our December 2004 Prospectus.

Following our successful listing on the Australian Stock Exchange in December 2004, we immediately began the preparatory work required for our pilot drilling program. Drilling commenced in March this year and this first stage has now been completed.

Over the next 12 months, we expect to make the transition from “frontier explorer” to “gas producer”.

Our primary goal is to establish the Company as a successful financial enterprise. In order to achieve this goal, we need to develop the gas resource identified in PEL16 and to capture the business opportunities for this resource. To this end we have undertaken considerable exploration and appraisal work within PEL16, including successfully completing our pilot drilling program and re-working available seismic data for the permit. We have made solid progress with plans for a power generating plant located near Casino and are on track for this project to be commissioned within the next 12 months. Metgasco is also in discussions with potential wholesale gas customers in New South Wales and Queensland. Metgasco is in the process of examining options for transporting gas to Queensland and connecting to that State's gas network. We have recently retained an advisor to assist in identifying an optimal pipeline route.

Exploration Activities

The Clarence Moreton Basin has significant hydrocarbon potential and the New South Wales part of the basin is widely recognised as being relatively un-explored. Metgasco holds 100% rights to PEL16, which is a tenement covering 833 square kilometres. Whilst we have made good early progress on developing the coal seam gas resource in PEL16, from an exploration perspective we have barely scratched the surface. Over the coming year we intend to undertake additional drilling to “prove up” coal seam gas reserves and to evaluate the conventional gas and oil potential of PEL16. Our pilot project is located south of the township of Casino. It is approximately 70km from the Gold Coast gas grid and is well located to provide energy to the fast growing regions of northern New South Wales and southern Queensland.

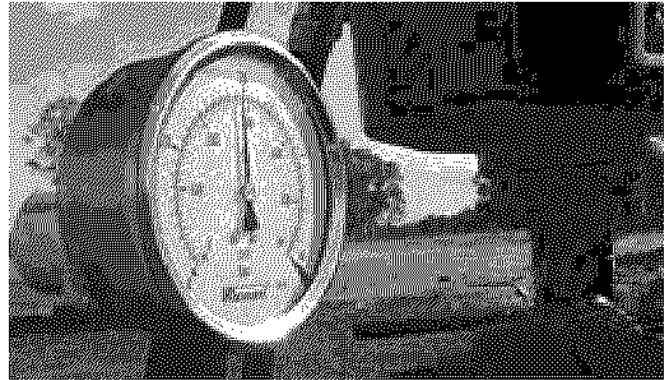
DEVELOPMENT STRATEGY
STAGE 1: DRILL
STAGE 2: APPRAISE
STAGE 3: DEVELOP
STAGE 4: COMMERCIALISE



SITE OF DRILLING LOCATION



WELL HEAD PRESSURE GAUGE



Coal Seam Gas

The Company has now completed its initial pilot production drilling program. This involved the drilling of five production test wells and one pre-collar hole which was drilled to a depth where it could be later completed using a coring rig to collect drill core samples for further tests. The table below summarises data from wells drilled to date.

The preferred drilling approach for these vertical wells was to drill to the top of the coals and then to run and cement production casing. The coals were then drilled and under-reamed, and a pre-perforated liner was run across the coals. A pump and tubing was then installed and dewatering commenced.

The pilot production wells are currently on production test. This has involved drawing water out of the coal reservoirs and monitoring water and gas flow rates several times during the day. The acquisition of this data has allowed the Company to evaluate well performance and assess how well performance rates can be improved.

The Company has retained Denver based independent petroleum reservoir advisors, Malkewicz Hueni Associates ("MHA"), to review the project as a precursor to reserve certification. As part of this review, MHA has undertaken well simulation modelling and

sensitivity testing to evaluate alternative development scenarios for the field. The construction of these development scenarios has identified various alternative approaches which Metgasco may adopt to improve well productivity. The drilling activity completed to date has, together with technical reviews, generated sufficient data to allow the Company to be sufficiently confident that it can undertake commercial development of the Wallow Coal Measures in the area of PEL16. Over the next 6 months, the Company intends to undertake additional drilling and to pursue independent certification of reserves.

Another area in which significant progress has been made has been in the assessment of the quantity of Gas in Place ("GIP") present. Following a review by external consultants of available data from both previous exploration work and the current pilot production drilling, the current GIP estimate was upgraded from 5.14Bcf/km² to between 7.89Bcf/Km² and 9.9Bcf/Km². The acquisition of further seismic data and reprocessing it has, together with previous drilling, allowed the company to increase the GIP estimate from 1.05Tcf to between 3.8Tcf and 4.8Tcf. This is a substantial volume of gas with the potential to supply the NSW gas market for the next 30 years.

SOUTH CASINO PILOT PRODUCTION PROJECT – WELLS DRILLED TO DATE

WELL	SPUD DATE	WELL TYPE	TOTAL DEPTH (m)	NET COAL THICKNESS (m)	WELL STATUS
MSC-03	30.03.05	Development	680	14	Pilot Production Test
MSC-04	15.04.05	Development	684	15	Pilot Production Test
MSC-05	04.05.05	Development	680	15	Pilot Production Test
MSC-06	29.05.05	Development	671	20	Pilot Production Test
MSC-07	10.06.05	Development	680	29	Pilot Production Test
MSC-08	21.06.05	Pre-Collar	483	not measured	Cased & Suspended

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

FLARING OF GAS AT CASINO



DRILLING CREW



Conventional Gas and Oil

The Company believes that PEL16 has significant conventional hydrocarbon potential in addition to the coal seam gas resources identified to date.

The Clarence Moreton basin is approximately 2,500m deep and PEL16 is located in the area of the mid basin high. Stratigraphic units lower in the sequence have known lateral equivalents in the Surat Basin in Queensland, a number of which host commercial oil and gas reservoirs. To date, there has not been a single conventional exploration well drilled for oil and gas in PEL16. During the year, Metgasco completed the re-processing of pre-existing seismic data. Interpretation of this re-processed data is currently underway and initial results indicate that viable drilling targets may be identified.

A decision on the most appropriate way of testing any targets identified will be made once interpretations are completed and evaluated.

Power Development

The Company has commenced the formal planning process for a power generating plant in the Casino region of northern New South Wales. We are working closely with our engineering consultants Burns and Roe Worley to develop detailed engineering designs and planning schedules to allow for rapid development of power generation facilities.

The development of a power generating operation in the Casino region has important implications for the Company. It will allow us to generate cash flow from our significant coal seam gas resource. This will enable the Company to use internal sources of capital to develop

its resources to the extent that larger scale activities either in power or gas sales can be contemplated. These activities would be on a more significant scale. The generation of power into the area will also solve an emerging problem in the region, which is currently experiencing supply constraints.

Management

The Metgasco team has managed our pilot drilling program in an exemplary manner. As part of the project, the team has consulted with local landholders, local Council and the New South Wales Department of Minerals. In addition, we have held a number of open community consultation meetings to ensure that the local community is fully informed with respect to operations. We have complied with all statutory and environmental obligations.

The Company maintains a strict cash flow budgeting regime and undertakes detailed forward planning to ensure that we are able to effectively manage our growth through this critical stage of the Company's development. The Board recently approved a detailed strategic plan for the Company for the next 12 months. In addition, the Company regularly reviews its risk management, financing and contracting strategy.

We are committed to delivering commercial gas flows from PEL16, obtaining defined reserve estimates and negotiating, building, financing and commissioning a gas fired power plant at Casino. We are fully aware that the successful completion of these tasks will require a high level of focus from management.

We look forward to reporting on positive developments in the coming year.

DAVID JOHNSON, MANAGING DIRECTOR

DIRECTORS

Dr Peter Power B.Sc, PhD **Non-Executive Chairman**

Appointed: 12 September 2002

Dr Peter Power has almost fifty years experience in hydrocarbon exploration worldwide, in senior management positions with major international companies. He was previously Managing Director of Ampoex 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. He has been a consultant since 1997 and is currently a non-executive Director of Petsec Limited.

David WG Johnson B.App.Sc(Geology), MBA, MAusIMM **Managing Director**

Appointed: 23 June 1999

David 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.

Glenda McLoughlin B.Ec, MBA **Chief Financial Officer & Company Secretary**

Appointed: 29 April 2002

Glenda 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. Ms McLoughlin is currently a non-executive Director of Elk Petroleum.

Rick Wood B.Eng(Mining) **Director, Engineering & Operations**

Appointed: 1 May 2004

Rick Wood has over thirty 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 Ampoex Limited. As General Manager Operations for Ampoex 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. Mr Wood is currently non-executive Chairman of Elk Petroleum.

(left to right)

DAVID WG JOHNSON
Managing Director

RICK WOOD
Director, Engineering &
Operations

DR PETER POWER
Chairman

GLENDA McLOUGHLIN
Chief Financial Officer



DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2005

Your Directors
present their report on
Metgasco Limited
for the year ended
30 June 2005.

Directors

The following persons were Directors of Metgasco Limited during the whole of the financial year and up to the date of this report:

Dr Peter Edward Power

Mr David William Granger Johnson

Ms Glenda Ann McLoughlin

Mr Richard Orme Wood

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. During the past year, the Company became a publicly traded company on the Australian Stock Exchange.

Principal Activities

The principal activities during the year were investment in hydrocarbon exploration, appraisal, and development (principally coal bed methane).

Operating Result for the Year

The net result of operations was a net loss of \$899,640.

Dividends

The Directors do not propose to pay a dividend in respect of the year ended 30 June 2005. This is in line with Prospectus forecasts and disclosures.

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 100% of the rights to PEL16 located in the Clarence Moreton Basin. Further details of operations are included in the Managing Director's Review of Operations.

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2005

Capital Structure

During the year, following shareholder approval, the existing capital of the Company was restructured from 50 cents per share to 20 cents per share. This resulted in the issue of additional shares to existing shareholders as at 20 October 2004 in proportion to the 50 cent shares held at that date. At the date of the initial public offering there were 40,000,000 ordinary shares on issue.

On the 16th of December 2004, the Company issued 25,715,000 shares, raising \$5,143,000.

During the year, the shareholder meeting approved the issue of 14,561,869 options to Directors convertible at 30 cents on or before 30 June 2009. An additional 2,000,000 options convertible at 30 cents on or before 30 June 2009 were issued to Taylor Collison Nominees Pty Ltd on 15 January 2005 as part payment for broking services related to the Company's initial public offering as described in the Prospectus dated 11 November 2004.

Significant Changes in the State of Affairs

During the year ended 30 June 2005, Metgasco completed its pilot production drilling program at the South Casino location.

Significant Events after Balance Date

There have been no significant events after balance date.

Likely Developments and Expected Results

Metgasco expects to complete the drilling, dewatering and production test stages of its South Casino Project. It then expects to obtain an independent assessment of gas reserves achieved from this drilling program. Reserves from this pilot drilling program are to be used to supply a proposed 12MW power project located near the town of Casino in New South Wales. 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.

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.

Meetings of Directors

The number of meetings of Directors held during the financial year ended 30 June 2005 and the number of meetings attended by each Director were:

	Attended	Held
P Power	10	10
D Johnson	10	10
G McLoughlin	10	10
R Wood	10	10

Retirement and Election of Directors

All Directors have acted as Directors of the Company for the whole of the financial year under review.

Indemnification and Insurance of Directors and Officers

During the year, the Company provided Directors' and Officers' Liability Insurance to its Directors and Company Officers. The insurance policy has a liability limit of \$2 million on any one claim and in aggregate. The total amount of the insurance premium was \$17,850, with an excess of \$50,000 payable by the Company and nil by the insured person.

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2005

Directors' and Officers' Remuneration Report

The Board is responsible for determining and reviewing compensation arrangements for the Director's and the executive team. The Board assesses the appropriateness of the nature and amount of remuneration of Directors and officers on a periodic basis by reference to relevant market conditions. Remuneration and other terms of employment for the Managing Director and certain other senior executives are formalised in service agreements. All Directors

and employees have the opportunity to qualify for participation in the Employee Share Ownership Scheme which provides incentives based upon share price growth. Details regarding the issue of share options under the plan are provided in the Prospectus lodged by the Company with ASIC and dated 11 November 2004. No Director has any interest in any contract or proposed contract with the Company as at 30 June 2005 other than employment agreements as discussed below.

Details of Remuneration

Details of the nature and amount of each element of remuneration of each Director of the Company for the year ended 30 June 2005 are as follows:

Name	Annual Remuneration		Superannuation	Equity		Option Value	Total
	Director's Fee	Salary		Shares	No of Options		
	\$	\$	\$	\$		\$	\$
P Power	17,393	—	1,565		4,480,575	0	18,958
D Johnson	—	99,388	8,945	80,000	4,480,575	0	188,333
G McLoughlin	—	84,480	7,603	120,000	4,480,575	0	212,083
R Wood	—	74,451	6,709	37,500	1,120,144	0	118,660
Total	17,393	258,319	24,822	237,500	14,561,869	0	538,034

- (1) Mr P Power's remuneration is from 1 January 2005.
 (2) Mr D Johnson's salary payment is from 1 January 2005, remuneration prior to this date for the financial year ended 30 June 2005 was received via the issue of ordinary shares which were approved at the Annual General Meeting of shareholders held on 20 October 2004.
 (3) Ms G McLoughlin's salary payment is from 1 January 2005, remuneration prior to this date for the financial year ended 30 June 2005 was received via the issue of ordinary shares which were approved at the Annual General Meeting of shareholders held on 20 October 2004.
 (4) Mr R Wood's salary payment is from 1 January 2005, remuneration prior to this date for the financial year ended 30 June 2005 was received via the issue of ordinary shares which were approved at the Annual General Meeting of shareholders held on 20 October 2004.
 (5) On 20 October 2004, shareholders approved the issue of share options to Directors as a long term incentive as part of their remuneration packages. The valuation of options has been calculated by the Company's auditor using the Black Scholes valuation method.
 (6) All options are subject to escrow until 23 December 2006.

Details of Employment Agreements

The Company has entered into Employment Agreements with David Johnson (Managing Director), Gienda McLoughlin (Chief Financial Officer) and Richard Wood (Director, Engineering and Operations).

Each of these agreements is for a term of three (3) years and cannot be terminated by the Company without cause on less than twelve (12) calendar months' notice or payment in lieu thereof.

The remuneration payable under these agreements is as follows:

David Johnson – \$200,000 per annum
 Gienda McLoughlin – \$170,000 per annum
 Richard Wood – \$150,00 per annum
 Plus statutory superannuation contributions.

Corporate Governance

In recognising the need for the highest standard of corporate behaviour and accountability, the Directors of Meigasco Ltd support and have adhered to the principles of sound corporate governance. The Company's Corporate Governance Statement is contained in a later section of this Annual Report.

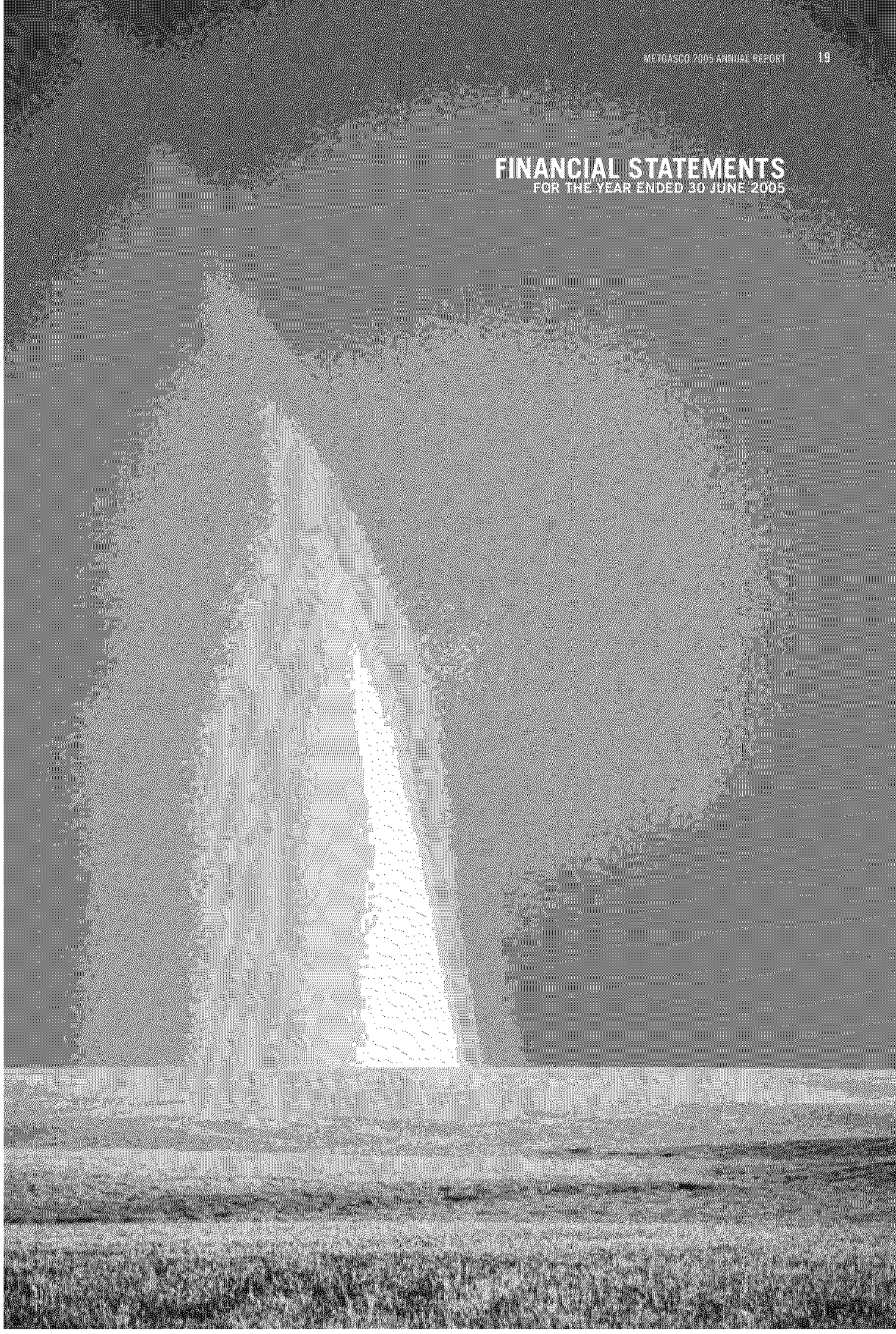
Signed in accordance with a resolution of the Directors.



DR PETER POWER, CHAIRMAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005



STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$	2004 \$
Revenues from ordinary activities	2	128,033	4,374
Classification of expenses by function:			
Administration costs	3	1,027,673	11,906
Loss from ordinary activities before income tax expense		899,640	7,532
Income tax expense relating to ordinary activities	4	Nil	Nil
Loss for ordinary activities after related income tax expense		899,640	7,532
Net loss		899,640	7,532
Net loss attributable to members of Metgasco Limited		899,640	7,532

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$	2004 \$
Current Assets			
Cash assets		2,713,902	357
Security Deposits		81,067	
Prepayments		97,195	
Receivables	5	229,828	20,812
TOTAL CURRENT ASSETS		3,121,992	21,169
Non Current Assets			
Exploration and evaluation expenditure	6	2,506,481	412,888
Fixed Assets	7	81,948	
Security Deposits		80,000	25,000
Total non current assets		2,668,429	437,888
TOTAL ASSETS		5,790,421	459,057
Current Liabilities			
Accounts payable	8	999,648	85,264
Other	9	–	56,380
Total current liabilities		999,648	141,644
Total liabilities		999,648	141,644
NET ASSETS		4,790,773	317,413
Equity			
Contributed equity	10	5,727,154	354,154
Accumulated profits (losses)	11	(936,381)	(36,741)
TOTAL EQUITY		4,790,773	317,413

The accompanying notes form part of these accounts.

STATEMENT OF CASH FLOWS

AS AT 30 JUNE 2005

	2005	2004
	\$	\$
Cash Flows From Operating Activities		
Payments to suppliers	(1,107,494)	(15,961)
Interest received	128,033	4,272
GST Paid	(206,807)	(22,166)
Interest Paid	(354)	
GST Refunded	75,624	11,617
Debtors collection	10,026	
Net movement Creditors	(58,521)	
TOTAL OPERATING CASH FLOWS	(1,159,493)	(22,238)
Cash Flows From Investing Activities		
Expenditure on exploration	(1,337,065)	(207,537)
R & D grant received	114,535	16,641
Security Deposits	(136,067)	(10,000)
Fixed Asset expenditure	(84,985)	
TOTAL INVESTING CASH FLOWS	(1,443,582)	(200,896)
Cash Flows From Financing Activities		
Issue of shares	5,373,000	170,000
Repayment of loan	(56,380)	(50,000)
TOTAL FINANCING CASH FLOWS	5,316,620	120,000
NET MOVEMENT	2,713,545	(103,134)
Cash at 1st July, 2004	357	118,491
Reclassification under mining	-	(15,000)
Adjusted opening cash	357	103,491
CASH AT 30 JUNE 2005	2,713,902	357

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

Note 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 area 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.

Research and Development grants received by the Company in respect of technical evaluation of the Walloon Coal Measures in the Clarence Moreton Basin (NSW) are offset against the deferred evaluation expenditure.

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 the area of interest.

(d) Business undertakings

The company intends to conduct certain gas and oil exploration activities.

(e) Revenue and expenses

Revenue is recognised on delivery of the good or service to the customer. Interest revenue is recognised on the basis of when the interest was derived with regard to proportionality of interest rates and applicable time horizon associated with the investment.

Expenses are recognised on an accruals basis.

All revenue and expenses are stated on the net amount after adjustment for applicable goods and services tax (GST).

(f) Earnings per share

- (i) Basic earnings (loss) per share:
Basic earnings (loss) per share is determined by dividing the operating profit after income tax by the weighted average number of ordinary shares outstanding during the financial year.
- (ii) Diluted earnings (loss) per share:
Diluted earnings per share adjusts the figures used in determining earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year. 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.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	\$	\$

Note 2

Revenue

Operating activities:

Interest received from other persons	128,033	4,374
--------------------------------------	---------	-------

Note 3

Expenses

Expenses from Administration

Accounting, Compliance, Legal & Professional	44,543	6,093
Insurance	50,380	
Interest	354	
Capital raising	521,112	
Depreciation	3,036	
Director Fees	19,075	
Employee Remuneration	290,904	
Other	98,269	
Total	1,027,673	

Note 4

Income Tax Expense

Operating loss	899,640	7,532
Income benefit at 30% (2004, 30%)	269,892	2,260
Less tax effects of permanent differences (change in tax rate)	Nil	Nil
Future income tax benefit not brought to account	269,892	2,260

As at 30 June, 2005 the Company has unconfirmed carry forward tax benefits of \$286,213 (2004 \$16,321) with respect to un-recouped tax losses of \$954,042 (2004 \$54,402).

The taxation benefits will only be obtained 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 and with respect to the above, the company has not brought the tax benefit to account.

Note 5

Receivables

Other debtors	Nil	10,026
GST refunds due	229,828	10,786
Total	229,828	20,812

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	\$	\$
Note 6		
Exploration and Evaluation Expenditure		
Exploration and evaluation expenditure at cost	2,511,103	412,888
Movement during the financial period (at cost):		
Opening balance	412,888	128,815
Capitalised exploration expenditure	2,218,051	293,996
R&D Grant	(124,458)	(9,923)
Exploration expenditure written off on tenements	Nil	Nil
Carrying amount at reporting date	2,506,481	412,888

The company has also entered into an agreement with Country Energy relating to the potential sale of certain product from PEL16 depending upon economic quantity produced.

Note 7

Fixed Assets

Office Equipment (at Cost)	22,343	-
Less Accumulated Depreciation	(461)	-
	21,882	-
Computer Equipment	31,385	-
Less Accumulated Depreciation	(1,077)	-
	30,308	-
Equipment at cost	11,809	-
Less Accumulated Depreciation	(221)	-
	11,588	-
Total Fixed Assets	81,948	-

Note 8

Accounts Payable

Sundry creditors and accruals	999,648	85,264
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Note 9

Other

Loan – Other Company	-	50,000
Loan from director – unsecured		6,380
		56,380

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	\$	\$

Note 10

Equity

Ordinary shares

65,715,000 ordinary shares fully paid	5,727,154	354,154
Balance at beginning of reporting period:	354,154	184,154
Shares issued during the period for cash:	5,373,000	170,000
Balance at reporting date	5,727,154	354,154

	No. of shares	No. of shares
Balance at beginning of reporting period:	3,350,164	3,010,164
Shares issued during the period:	62,364,836	340,000
– 20 October 2004 – restructure	36,649,836	
– 23 December 2004 – public issue	25,715,000	
Balance at reporting date	65,715,000	3,350,164

Ordinary shares have the right to participate in dividends, voting entitlement, and 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 16,561,869 options on issue.

These options are not quoted on the ASX.

	2005	2004
	\$	\$

Note 11

Accumulated Losses

Accumulated losses at beginning of the period	36,741	29,209
Net loss	899,640	7,532
Accumulated losses at end of the financial period	936,381	36,741

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

Note 12

Remuneration of Directors

The names of the Directors who have held office during the year are:

Peter Edward Power

David William Granger Johnson

Glenda Ann McLoughlin

Richard Orme Wood

(i) Directors' remuneration

Total remuneration to directors in respect of the 2005 financial year is as follows:

	\$
Directors fees	17,393
Other fees	-
Total	17,393

(ii) Retirement and Superannuation Payments

There were no amounts paid or payable in respect to any prescribed benefit during the period by the company or a related party to a director or superannuation fund in connection with retirement from a prescribed office.

(iii) Executive remuneration

There were no payments received or receivable by executive officers of the company or related party for the management of the affairs of the company other than as disclosed in the Remuneration section of Director's Report in this document.

Note 13

Remuneration of Auditors

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

	2005 \$	2004 \$
Audit of accounts	18,000	3,000
Investigating Accountants report in relation to Initial Public Offering on ASX	15,000	-
Total	33,000	3,000

Note 14

Economic Dependency

During the period under review, the Company's principal activity has been that of an exploration company, predominantly maintaining its tenements and carrying out exploration and evaluation. The Company does not derive any income from trading activity and is dependent upon the support of shareholders for funds to finance its intended exploration activities.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

Note 15

Related Party Transactions

Related party transactions have been set out above under Note 12.

(a) Directors' transactions in shares:

During the period to 30 June 2005, the shareholders approved the issue of the following shares to Directors. These shares were issued in lieu of remuneration, prior to the initial public offering in December 2004, for services rendered to the Company:

	2005
David Johnson	1,493,525
Glenda Ann McLoughlin	2,240,288
Richard Wood	700,090

(b) Directors' holding of shares

Directors and Director-related entities hold directly, indirectly or beneficially as at the reporting date, equity in 19,690,914 ordinary shares.

Note 16

Contingent Liabilities And Assets

At the date to which these accounts are made up the Directors are not aware of any contingent liabilities other than stated elsewhere in the Notes to these accounts.

Note 17

Capital Commitments

Other than budgeted exploration and evaluation expenditure on PEL16, and remuneration agreements disclosed in the Director's Report the Company does not have any capital commitments.

Note 18

Segment Reporting

During the period, the Company was solely involved in exploration and evaluation activities associated with PEL16 located in Northern New South Wales.

Note 19

Events Subsequent to Balance Date

There were no significant events subsequent to balance date.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	\$	\$
Note 20		
Cash Flow Statement		
Reconciliation of Cash Flows from operations with operating loss		
Loss from ordinary activities after income tax	899,640	7,532
Non cash flows in operating loss		
– Depreciation	3,036	
– Increase in pre-payments	(90,213)	
– Increase in creditors	347,030	14,706
Cash flows used in operating activities	1,159,493	22,238

Financing Facilities

The Company does not have any formal loan facilities in place as at the date to which these accounts are made up.

Note 21

Earnings Per Share

	2005	2004
	\$	\$
Basic loss per share	1.4c	0.23c
Diluted loss per share	1.4c	0.23c
Operating loss after income tax and earnings used in the calculation	899,640	7,532
Weighted average number of ordinary		
Shares used in the calculation	65,715,000	3,284,208

As described in Note 10, 16,561,869 options were issued during the year. These potential shares are not considered dilutive and have not been used to calculate diluted loss per share.

Note 22

International Financial Reporting Standards (IFRS)

Metgasco has assessed the impact of adopting Australian Equivalents to International Reporting Standards (AIFRS) and has made an initial assessment of the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 – First-time adoption of Australian Equivalents to International Reporting Standards. These choices have been analysed to determine the most appropriate accounting policy for the consolidated entity.

The impacts on the financial statements of the adoption of AIFRS, which are known or can be reliably estimated for the year ended 30 June 2005, are provided below:

(a) Share-based compensation

Under AIFRS, Accounting Standard AASB2 Share Based Payment is an expense which is recognised in the statement of financial performance for share-based compensation granted to an employee or a Director. The share-based compensation is measured by reference to the fair value of the equity instruments at the grant date (when the terms are agreed between the employer and the employee) and recognised as an expense over the periods during which the services are received from the employee vesting date. If the policy required under AIFRS has been applied during the year ended 30 June 2005 there would have been no impact on consolidated general & administrative expenses and the corresponding adjustment to the share-based payment reserve.

(b) Other

Other than the above, based on present knowledge and estimates, it is not considered that the adoption of AIFRS is likely to have any material effect on the financial statements for the year ended 30 June 2005.

DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2005

In the Director's opinion:

- (a) The financial statements and notes set out on pages 19 to 29 are in accordance with the *Corporations Act 2001* including:
- a. Complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. Giving a true and fair view of the Company's financial position as at 30 June 2005 and of its performance, as represented by the results of operations and cash flows, for the financial year ended on that date.
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Made in accordance with a resolution of the Directors.



DR P POWER,
CHAIRMAN

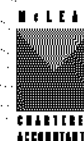


D JOHNSON,
MANAGING DIRECTOR

Sydney

23 September 2005

INDEPENDENT AUDIT REPORT FOR THE YEAR ENDED 30 JUNE 2005



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 2005. 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.

The company's activities are those of exploration and development of the resource located at PEL16. The ability of the Company to meet its commitments as and when they fall due, to finance its operations and continue exploration and development is dependent upon the ongoing support of shareholders.

Independence

In conducting my audit I have followed applicable independence requirements of the Australian professional and ethical pronouncements and the *Corporations Act 2001*.

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, 2005 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.

A handwritten signature in black ink, appearing to read 'GREGORY McLEAY', written over a horizontal line.

GREGORY McLEAY,
CHARTERED ACCOUNTANT

Dated this 14th day of September 2005.
Sydney

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2005

The Board of Directors of Metgasco has adopted Corporate Governance policies and procedures broadly in line with the ASX Corporate Governance Council's published guidelines as set out in its "Principles of Good Corporate Governance" and Best Practice Recommendations".

Responsibilities of the Board

The Board of Directors ultimately takes responsibility for corporate governance and operates in accordance with the Company's Constitution. 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. 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 Board accepts that it is responsible for:

- * Setting the strategic direction and establishing the policies of the Company;
- * Ensuring the Company is effectively managed and directed on behalf of shareholders;
- * Ensuring that appropriate internal control procedures are established and complied with;
- * Ensuring that risks are monitored and assessed by the Company;
- * Appointing, monitoring and managing the performance of the Managing Director; and
- * Reviewing the composition of the Board.

The day to day management of the Company is delegated to the Managing Director.

Board Structure

The Board comprises Directors with an appropriate range of skills, experience and qualifications. The details of the expertise of the Directors and the term of office of each Director, as at the date of this report, is set out in the Directors section of this Annual Report. The Board is comprised of four directors, of which one is independent.

Committees

Due to the small size of the Board and the Company, the Board meets as a committee of the whole to deal with the matters of Audit, Risks, Nominations and Remuneration.

Audit and Risks

The Board ensures that it meets its responsibilities relating to the Company's financial statements, financial and market reporting processes, internal accounting and financial control systems, internal audit, external audit, risk management and other such matters. The Board ensures the following:

- * The adequacy and effectiveness of the Company's accounting and financial policies and controls, and risk management systems and compliance with relevant regulatory and statutory requirements;
- * The completeness of the Company's financial and other reporting to Shareholders;
- * The appointment of the external auditor;
- * The scope and plan for external audit;
- * The risk management framework of the Company, and review of relevant risk management reports;
- * That free and open communications with the external auditors and management are maintained; and
- * That full access to the Company's records, personnel and any required external support is maintained.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2005

Remuneration

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.

Continuous Disclosure

The Directors are committed to keeping the market fully informed of material developments to ensure compliance with ASX Listing Rules and the Corporations Act. At each Board meeting specific consideration is given as to whether any matters should be disclosed under the Company's continuous disclosure policy.

Share Trading

Directors, management and other employees as nominated are only permitted to trade in the securities of Metgasco during a four week period commencing immediately after the announcement to ASX of the 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.

Related Party Matters

Directors and Senior Management are required to advise the Chairman of any related party contract or potential contract. The Chairman will inform the Board and the reporting party will be required to remove himself/herself from all discussions and decisions involving the matter. The Board may, in extreme cases, take further action.

Shareholder Relations

The Directors aim to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Company. Information on all major developments affecting the Company is to be communicated to the shareholders through:

- * The Annual Report;
- * The Half Yearly report;
- * Quarterly Cash Flow and Activities Reports;
- * The Annual General Meeting and other meetings called to obtain approval for Board action as appropriate. All shareholders who are unable to attend these meetings will be encouraged to communicate issues or ask questions by writing to the Company;
- * The Company's web site; and
- * Continuous disclosure to the ASX.

STOCK EXCHANGE INFORMATION

The shareholder information set out below was applicable as at 19 September 2005.

Distribution of Equity Securities

Analysis of numbers of equity security holders by size of holding

Number of fully paid ordinary shares held	Shareholders	Optionholders
1-1,000	0	
1,001 – 5,000	34	
5,001 – 10,000	77	
10,001 – 100,000	329	
100,001 and over	40	5

Details of options over unissued fully paid ordinary shares are set out in the Director's Report. These options are unquoted securities.

There were 2 holders of less than a marketable parcel of 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
Mr David Smith	3,360,432	5.11%
Lost Ark Nominees Pty Ltd	3,304,628	5.03%
Magnim Pty Ltd	3,267,366	4.97%
Cydac Pty Ltd	3,173,741	4.83%
Mr Norman Longworth	2,489,520	3.79%
National Nominees	2,436,000	3.71%
Nicollette Birkholt	933,453	1.42%
Mr Dennis Moore	880,713	1.34%
Mr Dale Newman	560,072	0.85%
Mr Tony Woodhill	560,072	0.85%
White Sand Investments Pty Ltd	500,000	0.76%
Mr John Wood	466,727	0.71%
Equity Power Pty Ltd	353,909	0.54%
Mr Maurice Frederick Holley	350,000	0.53%
Mousetrap Nominees	325,460	0.50%
Dagres Pty Ltd	321,521	0.49%
Foresight Pty Ltd	304,750	0.46%
MK Ricketts Nominees Pty Ltd	300,000	0.46%
Mr Simon O'Loughlin	300,000	0.46%
Mr Ronald Richard Bentley	250,000	0.38%
Top 20 holders of Fully Paid Ordinary Shares as at 19 September 2005	65,715,00	100.00%

STOCK EXCHANGE INFORMATION

Substantial shareholders

As at 19 September 2005 there were (5) substantial shareholders in the Company. Mr David Johnson has provided a substantial shareholding notice in relation to a relevant interest in 12,269,399 shares in the Company. Ms McLoughlin has provided a substantial shareholding notice in relation to a relevant interest in 5,787,971 shares in the Company of which 2,240,288 are held directly and 3,547,683 are held indirectly. Mr Tony Woodhill has provided a substantial shareholding notice in relation to a relevant interest in 4,087,722 shares in the Company. Mr David Smith has provided a substantial shareholding notice in relation to a relevant interest in 3,360,432 shares in the Company. Mr Peter Grey has provided a substantial shareholding notice in relation to an interest in 3,329,628 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.

Restricted Securities

There were 19,690,914 fully paid ordinary shares on issue subject to voluntary escrow until 23 December 2006 which were unquoted on ASX. There were 16,561,869 options on issue subject to voluntary escrow until 23 December 2006 which were unquoted on ASX.

Interest in Mining Tenements

Metgasco holds 100% of and is the operator of New South Wales Petroleum Exploration Licence 16 (PEL16), located in the Clarence-Moreton Basin of northern NSW.

Use of Funds from Initial Public Offering

Proceeds from funds raised from the initial public offering have been solely applied to: drilling and appraisal, administration and working capital and costs of the offer as described in the Prospectus lodged with ASIC on 11 November 2004.

GLOSSARY OF TERMS

Adsorption	The attraction exerted by the surface of coal for a liquid or gas with which there is contact
Ash	In coal, the inorganic residue after burning
ASX	Australian Stock Exchange Limited
Basin	A segment of the earth's crust that has down-warped and in which sediments have accumulated
Bcf	Billion cubic feet (10^9 cubic feet)
Bituminous	Coal that contains between 15% and 20% volatile matter
Cleat	A joint or system of joints along coal fractures
CO ₂	Carbon Dioxide
Core	A cylindrical piece of rock taken as a sample
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
Km ²	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 (10^6 cubic feet)
MW or Megawatt	One million watts of power
MWh	Megawatt hour
PEL	Petroleum Exploration License
PEL16	Petroleum Exploration License 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
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

CORPORATE DIRECTORY

Principal and Registered Office

Level 3, 32 Walker Street
North Sydney NSW 2062

Mailing Address

PO BOX 517
North Sydney NSW 2060

Casino Office

153 Barker Street
Casino NSW 2470

Directors

Dr Peter Edward Power (Chairman)
David William Granger Johnson
Glenda Ann McLoughlin
Richard Orme Wood

Company Secretaries

Glenda Ann McLoughlin
Nicholas John Victor Geddes

Home Stock Exchange

Australian Stock Exchange
4 Bridge Street
Sydney NSW 2000

ASX Symbol

MEL

Auditor

McLeay Chartered Accountants
Suite 201, 105 Pitt Street
Sydney NSW 2000

Solicitors

O'Loughlins Lawyers
Level 2, 55 Hunter Street
Sydney NSW 2000

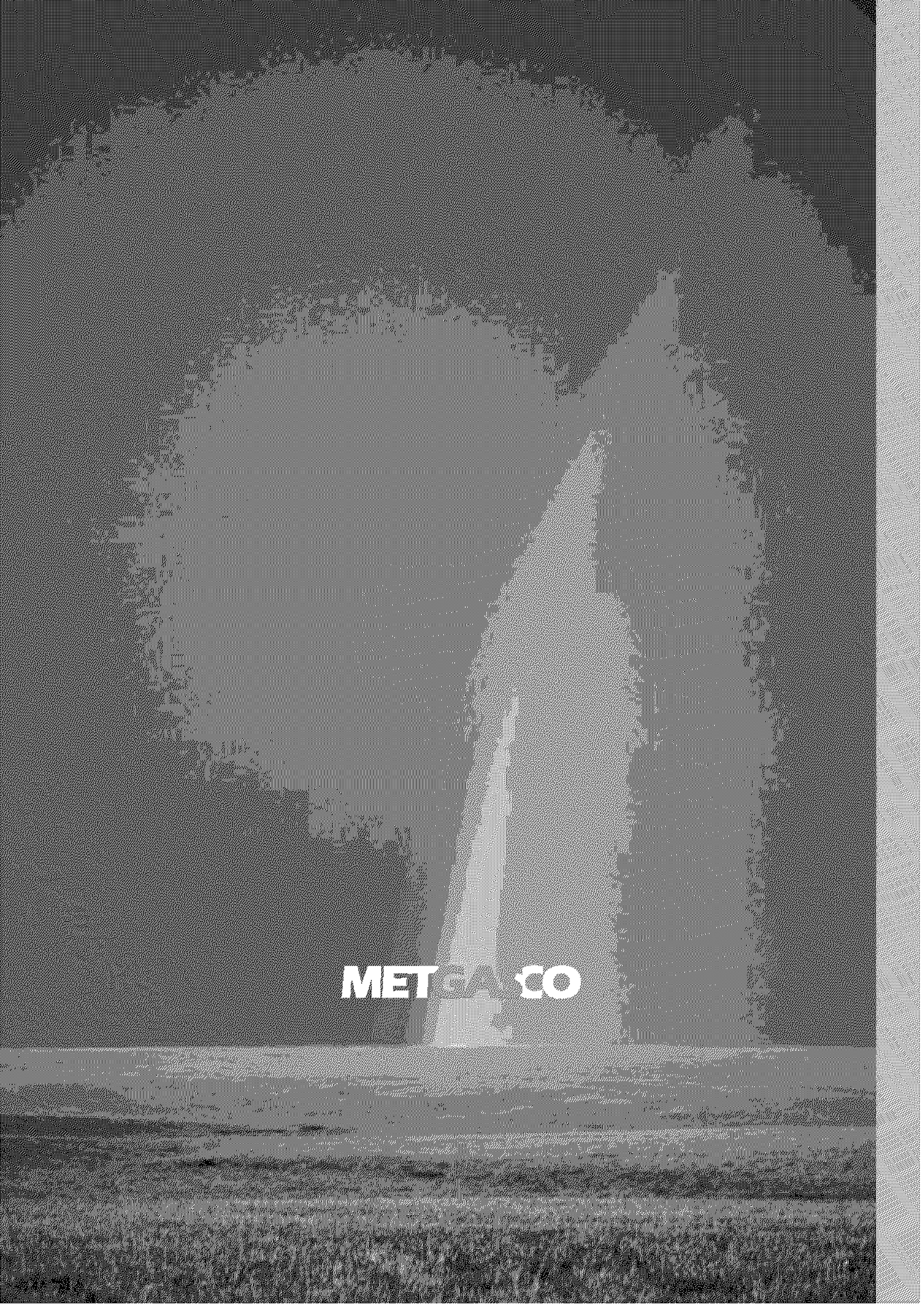
Share Registry

Computershare Investor Services
Pty Limited
GPO BOX 7115
Sydney NSW 2001

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