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**METGASCO LIMITED
AND THE ENTITIES IT CONTROLLED
ACN 088 196 383**

**CONSOLIDATED FINANCIAL REPORT
HALF YEAR ENDED
31 DECEMBER 2016**

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1. REVIEW OF ACTIVITIES

The following is an overview of the Company's activities during the half year ended 31 December 2016.

The Company progressed its staged investment into Byron Energy Limited (**Byron**) (ASX:BYE) announcing:

- a) the signing of the Funding Agreement and execution of the Convertible Note Deed and General Security Deed, as announced to the market on 22 July 2016;
- b) notice to Byron on 28 July 2016 of our intention to farm into the Bivouac Peak, Louisiana USA, prospect (**Bivouac Peak**); and
- c) execution of the Bivouac Peak Participation Agreement on 22 September 2016.

On 12 September 2016, shareholders approved a Return of Capital in the amount of \$0.025 per share totalling \$9,961,649. As advised to the market on 27 September 2016, the Return of Capital was dependent on the receipt of an appropriate Class Ruling from the Australian Taxation Office (**ATO**). The Company received the Class Ruling from the ATO on 7 November 2016 confirming that the Return of Capital would not be deemed to be a dividend in the hands of shareholders and as such the Return of Capital payment was made on 16 November 2016.

During the period, there was a significant change in the Company's top 20 shareholders with a new shareholder, M&A Advisory Pty Ltd, acquiring in late August, a relevant interest of circa 19.2% in the Company's issued capital. M&A Advisory Pty Ltd nominated Andrew Purcell as a director and following the Company's director appointment process, as set out in the Company's Corporate Governance Statement, Mr Purcell was appointed as a director on 26 September 2016.

Another significant shareholder, Keybridge Capital Limited (ASX:KBC), with a relevant interest of circa 10.54% in the Company's issued capital, nominated John Patton as a director and following the Company's director appointment process, Mr Patton was appointed as a director on 19 September 2016.

On 22 December 2016, the Company was successful in its bid for tender areas PLR 2015-5-16 and PLR 2015-5-19 which were offered under a competitive tender by the Queensland Government in the Cooper/Eromanga Basins. Metgasco's move into the Cooper Basin secures high quality exploration opportunities proximal to delivery infrastructure in mature producing basins. The permits will be granted after Native Title agreements and other environmental approvals have been finalised. Metgasco has engaged expert consultants to assist in timely and effective engagement with the Wongkumara community as well as with the application for an Environmental Authority licence.

Concurrent with the above activities, Metgasco has continued with its strategy of reviewing a number of opportunities in the Oil & Gas sector, with each opportunity has been reviewed for its potential to deliver short term reliable returns, long term growth opportunities and an appropriate risk / reward balance.

2. DIRECTORS' REPORT

Your Directors present their report together with the consolidated financial statements of Metgasco Limited ("Metgasco" or "Company") and its controlled entities for the half year ended 31 December 2016.

Directors

The names of persons who were Directors of Metgasco at any time during the half year and up to the date of this report are as follows:

Mr Alexander Lang - Executive Chairman

Mr Philip Amery - Non-Executive Director

Mr Terry White - Non-Executive Director

Mr John Patton - Non-Executive Director (Appointed 19 September 2016)

Mr Andrew Purcell - Non-Executive Director (Appointed 26 September 2016).

Principal Activities

Metgasco's principal activity is the exploration, appraisal, development and commercialisation of hydrocarbon assets. The Company is now seeking additional investment opportunities.

Review of Operations

Information related to the operational performance of the Company is provided on pages 3 to 5 of this Half Year Report.

Financial Results

The operating loss incurred by the Company in the period was \$423,856. The Company ended the period with a cash balance of \$18.134 million and no debt. The cash balances are held as cash at bank and term deposits. The cash backing as at 31 December 2016 was \$0.0455 per share.

Likely Developments

The Company continues to seek new exploration, development and production opportunities and, subject to opportunities being suitably attractive, plans to commit to new opportunities within the first half of 2017. During this period in which the Company is seeking further business opportunities, the Company will continue to focus strongly on cost minimisation and capital management.

Significant Events Subsequent to 31 December 2016

There have been no significant events after the reporting date other than the drawdown by Byron Energy of the Convertible Note Facility on 20 January 2017 for \$8,000,000 as previously advised to the market.

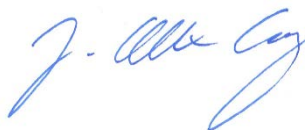
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Auditor's Independence Declaration

A copy of the independence declaration by the lead auditor under Section 307C is included on page 6 to this Half Year Report.

Signed in accordance with a resolution of the Directors.

Dated at Sydney this 8th day of March 2017.



Alexander Lang
Executive Chairman

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Auditor's Independence Declaration To The Directors of Metgasco Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Metgasco Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



P J Woodley
Partner – Audit & Assurance

Sydney, 8 March 2017

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3. CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Consolidated Entity	
	Half Year	
	31 December 2016	31 December 2015
	\$	\$
Other income	477,519	25,334,171
Employment expenses	(200,108)	(543,883)
Professional fees	(270,929)	(304,617)
Impairment of inventory	-	(186,737)
Exploration activities expensed	-	(522,633)
Administration expenses	<u>(430,338)</u>	<u>(491,481)</u>
(Loss) / profit before income tax expense	<u>(423,856)</u>	<u>23,284,820</u>
Income tax expense	-	-
Net (Loss) / profit after tax from continuing operations	<u>(423,856)</u>	<u>23,284,820</u>
Other comprehensive income	-	-
Total comprehensive income for the half year	<u>(423,856)</u>	<u>23,284,820</u>
Earnings per share attributable to ordinary equity holders of Metgasco Limited		
	\$	\$
Basic (loss) / profit per share	(0.001)	0.05
Diluted (loss) / profit per share	(0.001)	0.05

The above Consolidated Statement of Profit or Loss and other Comprehensive Income should be read in conjunction with the accompanying notes.

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4. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Consolidated Entity	
	31 December 2016 \$	30 June 2016 \$
Assets		
Current assets		
Cash and cash equivalents	18,134,740	17,741,979
Short term investments	-	10,907,399
Trade and other receivables	159,148	346,179
Total current assets	<u>18,293,888</u>	<u>28,995,557</u>
Non-current assets		
Exploration and evaluation expenditure	109,908	-
Other receivables	38,182	11,000
Total non-current assets	<u>148,090</u>	<u>11,000</u>
Total assets	<u>18,441,978</u>	<u>29,006,557</u>
Liabilities		
Current liabilities		
Trade and other payables	73,352	259,841
Provisions	4,307	-
Total current liabilities	<u>77,659</u>	<u>259,841</u>
Non-current liabilities		
Provisions	10,439	7,331
Total non-current liabilities	<u>10,439</u>	<u>7,331</u>
Total liabilities	<u>88,098</u>	<u>267,172</u>
Net assets	<u>18,353,880</u>	<u>28,739,385</u>
Equity		
Contributed equity	111,562,703	121,524,352
Share option reserve	-	8,652
Accumulated losses	(93,208,823)	(92,793,619)
Total equity	<u>18,353,880</u>	<u>28,739,385</u>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

5. CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Consolidated Entity	
	Half Year	
	31 December 2016	31 December 2015
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(1,169,664)	(1,288,700)
Disposal of permits	-	25,000,000
Other income	197,300	252,000
Interest received	<u>553,283</u>	<u>82,171</u>
Net cash (outflow) / inflow from operating activities	<u>(419,081)</u>	<u>24,045,471</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditure on exploration, evaluation and decommissioning	(109,908)	(413,117)
Redemption and sale of short term investments	10,907,399	-
Security bond movement	<u>(24,000)</u>	<u>324,173</u>
Net cash inflow / (outflow) from investing activities	<u>10,773,491</u>	<u>(88,944)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of borrowings	-	(17,039)
Return of capital	(9,961,649)	-
Finance costs paid	-	<u>(7,386)</u>
Net cash (outflow) from financing activities	<u>(9,961,649)</u>	<u>(24,425)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS HELD	392,761	23,932,102
Net cash at beginning of period	<u>17,741,979</u>	<u>7,655,361</u>
NET CASH AT END OF PERIOD	<u>18,134,740</u>	<u>31,587,436</u>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

6. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	<i>Contributed Equity</i>	<i>Accumulated Losses</i>	<i>Share Option Reserve</i>	<i>Total Equity</i>
	\$	\$	\$	\$
At 1 July 2015	123,990,967	(116,157,645)	389,423	8,222,745
Profit for the period	-	23,284,820	-	23,284,820
Transactions with owners in their capacity as owners				
Share based payment expense	-	-	39,942	39,942
At 31 December 2015	123,990,967	(92,872,825)	429,365	31,547,507
Loss for the period	-	(232,786)	-	(232,786)
Transactions with owners in their capacity as owners				
Share based payment expense	-	-	(108,721)	(108,721)
Transfer share option reserve to accumulated losses	-	311,992	(311,992)	-
Share buyback	(2,266,370)	-	-	(2,266,370)
Unmarketable parcel buyback	(200,245)	-	-	(200,245)
At 30 June 2016	121,524,352	(92,793,619)	8,652	28,739,385
Loss for the period	-	(423,856)	-	(423,856)
Transactions with owners in their capacity as owners				
Share based payment expense	-	8,652	(8,652)	-
Return of capital	(9,961,649)	-	-	(9,961,649)
At 31 December 2016	111,562,703	(93,208,823)	-	18,353,880

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

7. NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

Note 1. Summary of Significant Accounting Policies

These general purpose financial statements for the half year reporting period ended 31 December 2016 have been prepared in accordance with AASB134 "Interim Financial Reporting" and the Corporations Act 2001. They are presented in Australian Dollars (\$) which is the functional currency of the parent company. The historical cost basis has been used.

These interim financial statements do not include all the notes of the type normally included in annual financial statements and therefore cannot be expected to provide a full understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the annual financial statements. Accordingly, these half year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2016 and any public announcements made by Metgasco during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in these half year financial statements as those employed in Metgasco's annual financial statements for the year ended 30 June 2016.

The judgements, estimates and assumptions applied in the interim financial statements including the key sources of estimation uncertainty were the same as those applied in the Company's last annual financial statements for the year ended 30 June 2016.

The interim Financial Statements have been approved and authorised by the board of directors on 8 March 2017.

Note 2. Significant Events and transactions

The Company progressed its staged investment into Byron Energy Limited (**Byron**) (ASX:BYE) announcing:

- d) the signing of the Funding Agreement and execution of the Convertible Note Deed and General Security Deed, as announced to the market on 22 July 2016;
- e) notice to Byron on 28 July 2016 of our intention to farm into the Bivouac Peak, Louisiana USA, prospect (**Bivouac Peak**); and
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On 12 September 2016, shareholders approved a Return of Capital in the amount of \$0.025 per share totalling \$9,961,649. As advised to the market on 27 September 2016, the Return of Capital was dependent on the receipt of an appropriate Class Ruling from the Australian Taxation Office (**ATO**). The Company received the Class Ruling from the ATO on 7 November 2016 confirming that the Return of Capital would not be deemed to be a dividend and the Capital Return payment was made on 16 November 2016.

During the period, there was a significant change in the Company's top 20 shareholders with a new shareholder, M&A Advisory Pty Ltd, acquiring in late August, a relevant interest of approx. 19.2% in the Company's issued capital. M&A Advisory Pty Ltd nominated Andrew Purcell as a director and following the Company's director appointment process, as set out in the Company's Corporate Governance Statement, Mr Purcell was appointed as a director on 26 September 2016.

Another significant shareholder, Keybridge Capital Limited (ASX:KBC), with a relevant interest of circa 10.54% relevant interest in the Company's issued capital, nominated John Patton as a director and following the Company's director appointment process, Mr Patton was appointed as a director on 19 September 2016.

On 22 December 2016, the Company was successful in its bid for tender areas PLR 2015-5-16 and PLR 2015-5-19 which were offered under a competitive tender by the Queensland Government in the Cooper/Eromanga Basins. Metgasco's move into the Cooper Basin secures high quality exploration opportunities proximal to delivery infrastructure in mature producing basins. The permits will be granted after Native Title agreements and other environmental approvals are finalised. Metgasco has engaged expert consultants to assist in timely and effective engagement with the Wongkumara community as well as with the application for an Environmental Authority licence.

Note 3. Segment Information

The operations of the Group were conducted wholly within Australia.

The group has adopted AASB 8 *Operating Segments* from 1 July 2009 whereby segment information is presented using a 'management approach', i.e. segment information is provided on the same basis as information used for internal reporting purposes by the executive management team that makes strategic decisions.

The Company is operated under one business segment which is the exploration, appraisal, development and commercialisation of hydrocarbon assets.

Note 4. Other Income

Other Income is comprised of:

	31 December 2016 \$	31 December 2015 \$
Cancellation of permits / settlement of court dispute	-	25,000,000
Recovery of legal fees	-	250,000
Interest income	280,219	82,171
Other Investment income	197,300	-
Disposal of surplus inventory	-	2,000
	<u>477,519</u>	<u>25,334,171</u>

Note 5. Individually Significant Items

There were no individually significant items during the half year.

Note 6. Contingent Assets and Liabilities

An amount of \$38,182 is included in the consolidated statement of financial position under Trade and other receivables, relating to security deposits held by multiple unrelated parties. This amount is also disclosed as a contingent liability because these amounts may become payable if the Company does not meet certain conditions contained in legal agreements. The detail of the contingent liability is as follows.

Classed as Trade and Other Receivables - Non-current

Security bonds non-current \$38,182

Note 7. Contributed Equity

Ordinary Shares	No of Shares		Value	
	Half Year Ended 31 Dec 2016	Year Ended 30 June 2016	Half Year Ended 31 Dec 2016	Year Ended 30 June 2016
Opening Balance	401,108,520	444,004,548	121,524,352	123,990,967
Shares cancelled	2,643,697	1,524,877	-	-
Return of capital /buyback	-	41,371,151	9,961,649	2,466,615
Closing Balance	398,464,823	401,108,520	111,562,703	121,524,352

Options (not quoted on ASX)	No of Options Half Year Ended 31 Dec 2016	No of Options Year Ended 30 June 2016
Opening balance	99,057	4,168,573
Exercised by employees	-	-
Options lapsed	(99,057)	(4,069,516)
Closing balance	-	99,057

Note 8. Interests in Tenements

At 31 December 2016 the Company did not have any interest in licences or tenements.

Note 9. Events after the Reporting Date

There have been no significant events after the reporting date other than the drawdown by Byron Energy of the Convertible Note Facility on 20 January 2017 for \$8,000,000 as previously advised to the market.

8. DECLARATION BY DIRECTORS

The Directors of Metgasco Limited declare that:

1. The financial statements comprising the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity and notes to the consolidated financial statements of the consolidated entity are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards AASB134 Interim Financial Reporting; and
 - (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half year ended on that date.
2. 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.

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:



Alexander Lang
Executive Chairman

Sydney, 8 March 2017

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Independent Auditor's Review Report To the Members of Metgasco Limited

We have reviewed the accompanying half-year financial report of Metgasco Limited (the Company), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-year Financial Report

The Directors of Metgasco Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Metgasco Limited consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Metgasco Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Metgasco Limited is not in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



P J Woodley
Partner - Audit & Assurance

Sydney, 8 March 2017

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10. CORPORATE DIRECTORY

Directors:	Alexander Lang	Executive Chairman
	Philip Amery	Non-Executive Director
	Terry White	Non-Executive Director
	John Patton	Non-Executive Director
	Andrew Purcell	Non-Executive Director
Company Secretary:	Philip Mackey	
Home Stock Exchange:	Australian Securities Exchange (ASX) 4 Bridge St Sydney NSW 2000	
ASX Symbol:	MEL	
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	Email	info@metgasco.com.au
Share Registry:	Registry Direct Pty Ltd PO Box 18366 Collins Street East Melbourne, VIC 8003	
Auditors:	Grant Thornton Audit Pty Ltd Level 17, 383 Kent Street Sydney NSW 2000	
Bankers:	National Australia Bank Level 17, 500 Oxford St Bondi Junction NSW 2022	
Australian Company Number:	ACN 088 196 383	
Australian Business Number:	ABN 24 088 196 383	
Date and Place of Incorporation:	22 June 1999, Sydney, Australia	