

Annual Report 2011

**unlocking value . . .**



**MEOAustralia**

energy for the future







## **... inherent within an expanded international portfolio**

In the last 12 months, we have tripled the number of exploration permits we have under tenure. In addition to four new Australian permits (all at 100% interest), we have acquired two Indonesian PSCs (one at 100%) from which we aim to build an inventory of attractive future drilling candidates.

## **... featuring multiple hydrocarbon discoveries**

We deliberately targeted permits with proven hydrocarbon potential. The Marina condensate rich gas discovery in WA-454-P (100%), coupled with the Kuala Langsa and Gurame gas discoveries in the Seruway PSC (100%) provide a solid foundation upon which we can build.

## **... and significant exploration upside**

Each new permit has been selected with specific exploration play concepts or targets in mind which will initially be the subject of a comprehensive seismic acquisition program.

## **... using our highly talented team of professionals**

We have added considerable talent to our core technical and commercial teams whose diligence delivered Eni Australia as our farm-in partner to progress the Heron and Blackwood gas discoveries towards potential commercial development.

## **... to build sustainable shareholder value**

The culture of excellence we have developed at MEO has delivered a portfolio with considerable potential value. We will continue to selectively add high quality New Venture opportunities. The goal of the board and executive management team together with the team of talented professionals and support staff is to unlock that potential value and convert it to sustainable, shareholder value.



# Directory

## Directors

Nicholas M Heath (*Chairman*)  
Jürgen Hendrich (*Managing Director and Chief Executive Officer*)  
Gregory A Short  
Michael J F Sweeney  
Stephen W Hopley

## Company Secretary

Colin H Naylor

## Registered Office & Principal Operations Office

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Facsimile +61 (3) 9615 9921

## Auditor

Ernst & Young  
8 Exhibition Street  
Melbourne, Victoria 3000 Australia

## Stock Exchange Listing

ASX Limited  
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525 Collins Street  
Melbourne, Victoria 3000 Australia  
ASX Code: MEO  
OTC Code: MEOAY  
Website [www.meoaustralia.com.au](http://www.meoaustralia.com.au)  
Incorporated 14 September 1994  
Victoria, Australia



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## FORWARD LOOKING STATEMENTS

This Financial Report includes certain forward-looking statements that have been based on current expectations about future acts, events and circumstances. These forward-looking statements are, however, subject to risks, uncertainties and assumptions that could cause those acts, events and circumstances to differ materially from the expectations described in such forward-looking statements.

These factors include, among other things, commercial and other risks associated with the meeting of objectives and other investment considerations, as well as other matters not yet known to the Company or not currently considered material by the Company.



## Highlights 2010/11

- Received US\$39 million in cash from Petrobras and full carry for Artemis-1 drilling
- Raised \$32.6 million during drilling of Artemis-1
- Significantly expanded our technical and commercial capability
- Farmed out 50% interest in NT/P68 to Eni Australia for multi-well carry
- Added four new exploration permits offshore Northern Australia
- Acquired two Indonesian PSCs in first move overseas



## Chairman's Message

**Nicholas Heath**

The Timor Sea remains a key focus area for MEO. Over the past year the company has continued to actively engage with organisations holding resources in this area with a view to securing gas feedstock for our proposed Tassie Shoal gas processing projects. In my report to you last year I referred to MEO's need for a strong balance sheet and a broader portfolio.

During the past year we have been successful in further addressing these issues and your company is in a strong financial position with attractive acreage in the Carnarvon Basin, the Timor Sea and more recently, Indonesia. MEO's organisational strength has been carefully increased to manage these new venture areas.

In our exploration permit, NT/P68, we concluded a very successful farm-out program during the year which resulted in Eni farming into the permit. The terms provide for MEO to be free carried through potentially two wells at Heron and seismic and one well at Blackwood for Eni to earn 50% in both discoveries. Eni also has an option to increase its interest to 75% in one or both of these discoveries by carrying MEO's share of expenditure through to FID if a commercial development takes place in the permit. MEO's current best estimate puts the prospective recoverable raw gas resource of the Greater Heron structure at 4.96 TCF, sufficient to support an LNG export project.



We are very fortunate to have attracted an international company of Eni's stature as a joint venture partner and as operator of the permit. We have been working closely with Eni to firm up the drilling plans and we look forward to a successful drilling campaign in 2012. Recognition must be given to MEO's technical and commercial teams for such a successful farm-out program. The Eni farmout again evidences MEO's stated objective of using its expertise to identify prospects and commercialise them in a way that spreads risk and enables the further development and diversification of its portfolio.

Timor Sea remains a key focus area for MEO. Over the past year the company has continued to actively engage with organisations holding resources in this area with a view to securing gas feedstock for our proposed Tassie Shoal gas processing projects. Our offshore development approach has a number of significant cost and operational advantages over land based developments. While we have advanced third party discussions, none has yet been concluded successfully.

In the second half of calendar 2010, all attention was focussed on the drilling of Artemis-1 in WA-360-P. To the credit of MEO's operations team, the well was drilled without incident, on time and under budget, despite having to deal with a rig evacuation due to a weather alert. The follow-up technical review of the data obtained from this well has been extensive. Our principal joint venture partner, Petrobras, has continued to work with us to understand the implications of this well result and to determine what other potential remains in the permit. We approach permit renewal in late 2011.

Whilst the Artemis-1 well was dry, reflecting the high risk that we deal with in our industry, the success of the identification of the prospect and de-risking it via the successful farmout has meant that MEO is well placed to pursue its strategy for developing a broader range of exploration and production assets from which we can deliver sustainable shareholder value. Your Board believes that this in turn can serve to reduce share price volatility and risk associated with single binary outcome events such as we saw with Artemis-1.

Our existing permit WA-361-P was renewed for another five year term and we intend to conduct further studies and obtain new seismic. MEO continues to see the potential for commercial petroleum to be discovered within this permit.

Over the last two years considerable effort has been expended on searching out new business opportunities where our technical and commercial teams should have the ability to add creative value. To this end, MEO acquired permits AC/P50 and AC/P51 in late 2010 and recently acquired two new Australian exploration permits, AC/P53 and WA-454-P through the government gazettal process. While the related acquisition costs and work commitments are relatively modest, we see these permits as quite prospective and look forward to acquiring seismic and conducting studies to determine whether we can develop drillable prospects.

In late June, we announced that MEO had acquired exploration assets in Indonesia. The purchase of all of the shares in Transworld Seruway Exploration Limited (TSEL) has provided MEO with a 100% interest in the offshore Seruway PSC containing two existing gas discoveries and an attractive exploration fairway in close proximity to the giant Arun LNG project. In addition, MEO acquired a 30% interest in the South Madura PSC (through the acquisition of South Madura Exploration Company). The TSEL acquisition also came with an established Jakarta office and key local staff. From this sound basis, our geoscience team, who are familiar with exploration in this region, were keen to get straight to work. We immediately began preparation for the acquisition of new 3D seismic data which we felt was needed to identify the most prospective new drilling locations. Furthermore, the owners of adjacent acreage are intending to develop discoveries similar to ours, so clearly, we will not only be exploring, but also looking for ways to commercialise the existing gas resources.

In late 2010 the company received approximately US\$39 million from Petrobras under the terms of the WA-360-P farm-in agreement. A month later, the company raised additional capital of \$32 million in the light of very strong interest shown

by overseas institutions in the Artemis-1 prospect. With this additional capital, the company is now in a much stronger cash position than it was a year earlier and the board is conscious of the strategic value of this cash to the company at a time of international market uncertainty.

Over the past twelve months we have carefully added strength to the MEO executive team to match the increase in assets under management. The company is fortunate to have been able to attract some very capable people, both in our Melbourne office as well as our Jakarta office. As a small company we have to compete head-to-head with the majors to recruit quality staff. Consequently, building a strong team is quite a challenge. I was pleased to confirm in mid-year that our Managing Director, Jürgen Hendrich, agreed to renew his employment contract with the company on an ongoing basis. We have benefited from Jürgen's leadership of the executive team over the past three years and we look forward to continuing growth at MEO.

MEO will continue to seek out attractive new exploration and production opportunities to achieve long term growth. The near term will involve a considerable effort on the part of the MEO executive team, given the extent of the work commitments which have been made to secure our current exploration portfolio. Hopefully, the new seismic and studies will lead to the drilling of a number of important new wells such as with the planned Heron drilling program in 2012.

I would like to thank my fellow directors for their strong support during the year and in particular to acknowledge the efforts of Greg Short who has assisted greatly with the identification and assessment of several new venture opportunities.

**Nicholas Heath**  
Chairman

Melbourne, 9 September 2011



## Activity Report

**Jürgen Hendrich**

Last year we were poised to drill Artemis-1 with our new joint venture partner, Petrobras. We flagged that we would expand our portfolio and selectively add to staffing levels to ensure that we could continue to offer high quality drillable prospects to major industry players and provide MEO shareholders with an opportunity for a material increase in the value of their investment. Regrettably, Artemis-1 did not deliver on its pre-drill promise. However, largely as a result of the identification of the Artemis prospect and de-risking it via the successful farmout, we finished calendar 2010 with a healthy cash position with which to pursue new opportunities in line with the Company's strategy.

Concurrent with drilling preparations, our technical and commercial teams were busy farming out NT/P68. Eni Australia Ltd (Eni) executed binding agreements in May 2011 to become our farm-in partner in a deal that gives them options over both the Heron and Blackwood gas discoveries while providing MEO considerable upside in the event of drilling success. MEO is delighted with this partnership, in particular Eni's experience in the region and track record of fast-tracking project development. Plans for drilling Heron-3 are progressing and efforts to secure a rig are well advanced. Heron-3 has the potential to define a substantial gas resource potentially suitable for conversion to LNG and is expected to be drilled around 2Q-2012.

During the reporting period, MEO expanded its portfolio from three exploration permits to nine, adding four permits in Australian waters and two Indonesian Production Sharing Contracts (PSCs), one onshore and one offshore. MEO will operate seven of the nine permits. Commensurate with this acreage increase, MEO selectively recruited a number of professional staff, largely in the geoscience area and continues to seek specific skills to complement our talented technical and commercial teams.

The year ahead will bring new challenges and opportunities as we manage the increased acreage under tenure including a material investment in new seismic, together with the integration of a new office in Jakarta. Our goal is to discover and monetise material volumes of hydrocarbons. In 2012 MEO shareholders will have exposure to at least two high quality drillable prospects in calendar 2012. The costs associated with Heron-3 will be fully carried by Eni, while we will likely seek a partner to drill the 2012 commitment well in our recently acquired, 100% owned, Seruway PSC, offshore North Sumatra.

## PETROLEUM EXPLORATION ACTIVITIES

### Bonaparte Basin

#### NT/P68 (MEO 100%<sup>1</sup>)

In May 2011, MEO executed binding farm-in agreements with Eni. Under the agreements, Eni will earn 50% interest in the Heron gas discovery by funding two wells. In the event the first well is unsuccessful, after the first well is drilled Eni has the right to withdraw from the permit. Eni has an option to increase its interest to 75% in the Heron area by funding all activities required to achieve a Final Investment Decision (FID) including the drilling of any additional wells. Upon achievement of FID, MEO will receive a one-off US\$75m cash bonus.

In addition to the Heron area farm-in, Eni also has an option to acquire a 50% interest in the Blackwood area by funding a minimum 500km<sup>2</sup> 3D seismic survey and the drilling of one well. Eni has an option to increase its interest in the Blackwood area to 75% by funding all activities required to achieve FID including drilling of any additional wells. Upon achievement of FID, MEO would receive a one-off US\$75m cash bonus. The payment of a US\$75m cash bonus will only apply once – to either the Heron or Blackwood area.

The farm-out agreement with Eni for NT/P68 represents a very attractive deal for MEO shareholders. The transaction has minimised any medium term expenditure obligations to MEO in relation to the permit and in a success case MEO will retain a 25% interest in two fully appraised gas discoveries progressed to FID and will have an additional US\$75 million in cash to contribute towards development costs.

### New Ventures

The Company has been successful in expanding its exploration portfolio through the award of Australian government gazettal blocks and acquisition of acreage in Australia and Indonesia. The Company continues to examine exploration opportunities in South East Asia.

#### WA-454-P (MEO 100%)

In June 2011, MEO was awarded 100% interest in WA-454-P. The permit contains a gas/condensate discovery in five horizons made by Marina-1 drilled by ExxonMobil and Drillsearch in 2007. The permit is prospective for condensate rich gas and its proximity to the existing Blacktip gas development (Eni 100%) and the proposed development (GDF Suez – 60%) of the Petrel, Tern & Frigate gas discoveries via floating LNG technology, makes any material gas discovery in this permit potentially quite valuable.

#### Vulcan Sub-Basin

#### AC/P50 & 51 (MEO 100%<sup>2</sup>)

In late 2010, MEO acquired AC/P50 and 51 from Silver Wave Energy for US\$270,000. The permits were granted in April 2009 and are currently in their third permit year which requires the acquisition of 3D (200km<sup>2</sup> in AC/P50) and 2D (1,000 line km's in AC/P51) seismic surveys. These permits are situated in an area of modest sized, shallow oil discoveries and are also on trend with the deeper Crux gas/condensate field which is slated for a liquids stripping development project.

#### AC/P53 (MEO 100%)

This permit was offered to MEO and accepted in June 2011 and officially awarded by the Government in early July 2011. It is contiguous with our AC/P50 and 51 permits thereby adding acreage to an already identified play fairway.

1 The farm-in transaction with Eni comprises a series of options to earn initially a 50% interest in each of the Heron and Blackwood area gas discoveries, and subsequently up to 75% interest upon meeting certain obligations. Refer ASX release dated 18th May 2011.

2 Silver Wave Energy has an option to purchase a 10% working interest in each permit prior to the end of Permit Year 3. RedRock Energy Pte Ltd has an option to acquire a 5% carried interest in each permit. Refer MEO ASX release of 15th November, 2010.

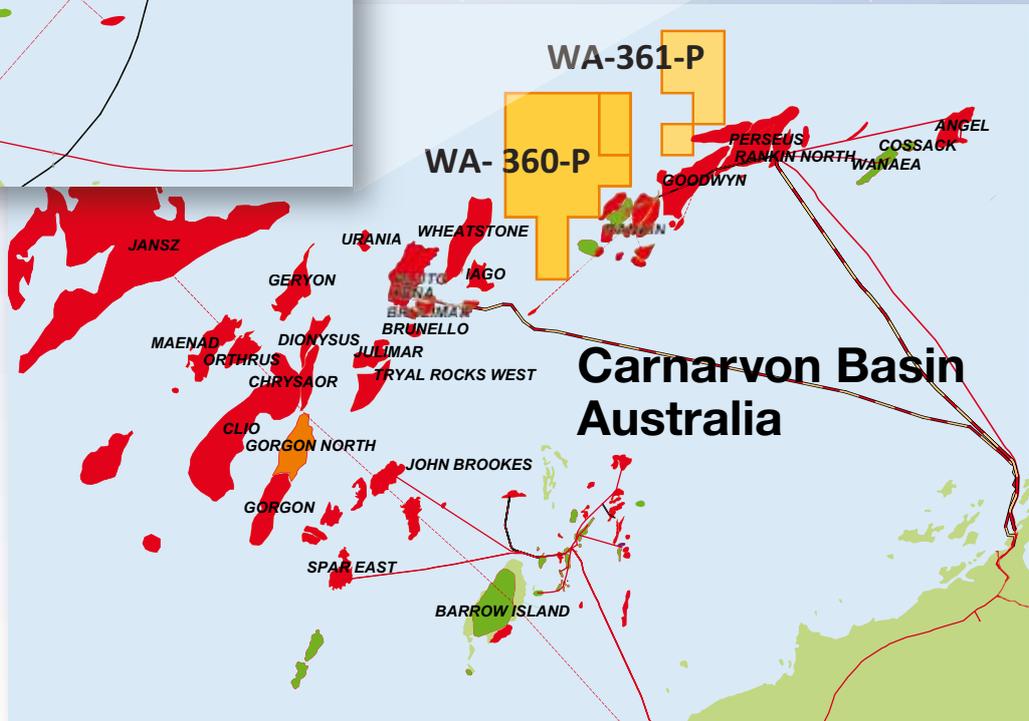


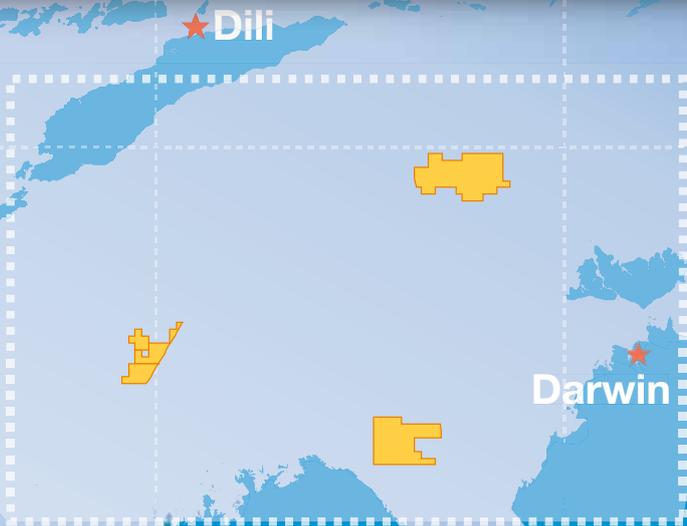


Kuala Lumpur



Jakarta





# Our Key Ventures

in South East Asia





## INDONESIA

### South Madura PSC (MEO 30%)

In June 2011, MEO closed a transaction to acquire all of the shares in South Madura Exploration Company (SMEC) which holds a 30% interest in the South Madura PSC, Madura Island. Consideration for the acquisition was US\$0.5 million.

### Seruway PSC (MEO 100%)

In June 2011, MEO closed a transaction to acquire all of the shares in Transworld Seruway Exploration Limited (TSEL) which holds a 100% interest in the Seruway PSC, offshore North Sumatra, from Transworld Exploration Limited (TEL). This PSC currently covers an area of approximately 3,635km<sup>2</sup> and contains the Gurame and Kuala Langsa gas discoveries. It also contains an attractive exploration fairway that is the subject of a 700km<sup>2</sup> 3D seismic survey in late 2011. MEO also acquired an office in Jakarta along with a core team as part of the transaction. Consideration for acquisition was US\$5.0 million cash. In the event of commercial production from the PSC, the acquisition arrangements provide for past cost recovery and net profit interest payments to TEL to be paid out of production revenue.

A commitment well is due to be drilled prior to the end of calendar 2012. It is currently MEO's intention to seek a partner to fund the drilling of this well.

The Seruway transaction exemplifies the type of opportunity we are seeking. Prospective acreage, high initial equity position, low entry cost, nearby infrastructure and a modest work program which is suitable for farming out to a major industry player.

## NORTH WEST SHELF EXPLORATION PERMITS, CARNARVON BASIN, WESTERN AUSTRALIA

### WA-360-P (MEO 25%)

In mid October 2010, all conditions precedent to the farm-in agreement with Petrobras were satisfied. MEO received approximately US\$39 million cash comprising approximately US\$7.5 million in seismic related back costs and a US\$31.5 million bonus payment. MEO subsequently acquired a further 5% participating interest in the permit from Moby Oil and Gas Pty Ltd for US\$7.5 million cash consideration.

The Songa Venus semi submersible drilling rig was handed over to MEO on 14th November and commenced its tow to the Artemis-1 location. The rig arrived on location on 23rd November and Artemis-1 was spudded on 24th November. The well reached a total depth of 3,500m MDRT. No hydrocarbons were present in the target horizon and the well was plugged and abandoned. The Songa Venus was released on 26th December.

WA-360-P is currently in its final Permit Year. A thorough analysis of the well results has been integrated with the existing seismic data. Our technical team has worked to identify the remaining potential in the permit ahead of a planned renewal application which involves a mandatory relinquishment of 50% of the permit area.

### WA-361-P (MEO 50%)

In January 2011, the permit was renewed for an additional five years. Permit Year 2 commencing January 2012, requires a 150km<sup>2</sup> 3D seismic survey to be acquired. Planning for this survey acquisition has commenced.

## Tassie Shoal Development Projects

MEO has Commonwealth environmental approvals to construct, install and operate a 3 Mtpa LNG plant known as the Timor Sea LNG Project (TSLNGP) and two methanol plants collectively referred to as the Tassie Shoal Methanol Project (TSMP) on Tassie Shoal, an area of shallow water in the Australian waters of the Timor Sea approximately 275 km north-west of Darwin. Tassie Shoal is strategically located within 150km of all the undeveloped gas fields in the region. The Tassie Shoal projects can cater for gas with a range of CO<sub>2</sub> qualities and are designed to share infrastructure, logistic support systems and benefit from a number of production process synergies. The environmental approvals are valid until November 2052

### Tassie Shoal Methanol Project (TSMP, MEO 100%<sup>3</sup>)

MEO proposes the staged construction of two large natural gas reforming and methanol production plants, each with an annual production capacity of 1.75 million tonnes on its own concrete gravity structure (CGS). Each completed plant would be towed to Tassie Shoal and grounded for operation using sea water as ballast. Each plant requires approximately 1.3 Tcf of raw gas, ideally containing up to 25% CO<sub>2</sub>.

The TSMP was developed with a view to commercialise the nearby Evans Shoal gas discovery containing around 28% CO<sub>2</sub>. During the reporting period, the Operator of NT/P48 containing the Evans Shoal discovery was engaged in a process to sell their equity in the permit, but was unable to close a transaction. NT/P48 is scheduled to expire in late 2012 at which time the Joint Venture partners: a) relinquish the permit, b) apply for a production licence or c) apply for a retention licence. MEO remains keen to see gas from Evans Shoal developed via the TSMP. The value of the TSMP approvals should become evident during 2012 as the permit expiry date approaches.

<sup>3</sup> MEO and Air Products and Chemicals Inc (Air Products) entered into a Joint Development Agreement (JDA) in March 2004. Under the JDA, Air Products may acquire a 50% interest in the Methanol Project by funding agreed development costs associated with the Methanol Project. The JDA was amended in April 2006 and suspended pending resolution of a gas supply.

## Timor Sea LNG Project (TSLNGP, MEO 100%)

The TSLNGP requires approximately 3 Tcf of clean, low CO<sub>2</sub> (<4%) gas to operate for 20 years. Gas supply for the LNG plant could come from MEO's own Heron gas discovery subject to successful appraisal drilling or alternatively one or more of the neighbouring undeveloped gas fields which are facing economic challenges imposed by long distances from land and high construction costs.

## CORPORATE

In August, 2010, MEO divested the remaining 10,122,918 treasury shares raising gross proceeds of approximately \$3.4 million. The Treasury Stock Scheme which had been in place since August 2000 was allowed to expire on 25th August 2010.

In November 2010, MEO raised \$32.6 million before transaction costs by issuing 62.8 million shares at a price of \$0.52 per share to predominantly institutional investors in North America and the United Kingdom. The capital raising was conducted in response to demand stimulated by the drilling of Artemis-1 and increased MEO's cash reserves to approximately \$100 million.

## SUMMARY

The reporting period can be almost equally divided into the pre and post Artemis-1 period. It is obvious to the board of directors and the executive team that the company cannot continue with a strategy of delivering shareholders a single binary event per year and hope to build a sustainable business by discovering and commercialising hydrocarbons. It is equally obvious that the opportunity set in Australia where MEO can effectively compete with a limited balance sheet is too small.

Since mid 2008, we have effectively mitigated all contingent liabilities in the existing portfolio and increased cash reserves during 2010 to approximately \$100 million. The Company drilled two unsuccessful wells in our North West Shelf acreage, funded largely by third parties. This leaves the Tassie Shoal projects and the two gas discoveries in NT/P68 from the portfolio in place since October 2007.

The farm-out agreement with Eni for NT/P68 completes a series of transactions relating to the existing exploration portfolio. Our challenge going forward is to judiciously and selectively add high quality projects to the portfolio. These projects must be capable of delivering a meaningful increase in shareholder value in the event of success. MEO is ideally seeking low entry cost opportunities to which it can add value technically ahead of attracting a funding partner that will cover the costs associated with drilling.

For these reasons, MEO has expanded its geographic footprint to South East Asia. The in-house technical capability is very broad and South East Asia is very familiar territory to the team. While we will consider opportunities outside this geographic area, they will need to be exceptional.

Since late 2010, MEO has tripled the number of permits under tenure. The workload associated with operating these new permits has increased accordingly and we have selectively added high calibre people to our technical and commercial teams. This new acreage provides the foundation for new prospects and leads with which to forge new partnerships aimed at delivering sustainable, long term shareholder value.

It is now incumbent upon the executive team to unlock the potential value inherent in the newly expanded portfolio. I thank shareholders for their patience during 2011, a year in which we replenished our portfolio and laid the foundations for an active drilling campaign in calendar 2012.





Left to Right: Michael J F Sweeney,  
Stephen W Hopley, Nicholas M Heath,  
Gregory A Short, Jürgen Hendrich



# Directors' Report

For The Year Ended 30 June 2011

The directors of MEO Australia Limited (variously the "Company", "MEO" and "MEO Australia") submit their report for the financial year ended 30 June 2011. MEO Australia is a company limited by shares, incorporated and domiciled in Australia.

## 1/ DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. The directors were in office during the entire period unless otherwise stated.

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**Nicholas M Heath** B.Eng (Chem) (Hons)  
Chairman (*Appointed independent  
Non-Executive Director 12 May 2008,  
appointed Chairman 13 November 2008*)

Mr Heath is a chemical engineer with over 36 years industry experience in Australian and international energy markets gained through senior management positions with ExxonMobil in Australia and overseas. He was a Director of ExxonMobil Australia Pty Ltd, the holding company for all of ExxonMobil's Australian assets and had specific responsibility for the marketing of natural gas and natural gas liquids throughout Australia. Mr Heath served as Chairman of the Australian Petroleum Production and Exploration Association (APPEA) from 1997-99. His depth of industry experience brings valuable expertise to the Board of MEO Australia Limited. Mr Heath also serves as Chairman on the Board of ASX listed coal seam gas company – Metgasco Limited (ASX: MEL).

Mr Heath is Chairman of the Remuneration and Nomination Committee.



**Jürgen Hendrich** B.Sc. (Geology) (Hons), PDM  
Chief Executive Officer (*Appointed  
16 June 2008*) and Managing Director  
(*Appointed 25 July 2008*)

Mr Hendrich brings over 25 years experience as a petroleum geologist and investment banker to MEO Australia. He began his career with Esso Australia as a petroleum geologist and progressed from technical roles to commercial roles including strategic planning, Joint Venture relations and business evaluation. His investment banking career began with JB Were (now Goldman Sachs & Partners Australia) where he became a top rated Energy Analyst prior to moving into funds management and eventually his own consulting practice specialising in providing strategic advice to emerging companies. He was a Director, Corporate Finance with Tolhurst for two years prior to joining MEO.

**Gregory A Short** B.Sc (Geology) (Hons)  
Independent Non-Executive Director  
(*Appointed 14 July 2008*)

Mr Short retired from ExxonMobil in 2006 after a 33 year career as a geologist. He has extensive international experience in predominantly managerial roles in Malaysia, Africa and North America and spent the last 15 years of his career in management assignments that included Exploration Manager for USA, Chad and Nigeria as well as serving seven years in Angola as Geoscience Director. Mr Short brings valuable experience in taking several start-up ventures from exploration through to development and production start-up to MEO Australia.

In January 2010, Mr Short became a non-executive director of Pryme Oil and Gas Limited (ASX: PYM) and in July 2010 Mr Short joined the Board as a non-executive director of Po Valley Energy Limited (ASX: PVE).

Mr Short is a member of the Audit Committee.

**Stephen W Hopley**, PhC (Vic), DipFP(Deakin),  
GMQ (AGSM), MAICD  
Independent Non-Executive Director  
(*Appointed 1 October 2008*)

Mr Hopley brings over 19 years experience in Financial Services including a 14 year career with Macquarie Bank from 1989 until his retirement in 2003. For the last 4 years of his career, Mr Hopley acted as Division Director of the Financial Services Group with responsibility for Advisor Relationships and Distribution. Mr Hopley successfully developed and implanted a range of new products for distribution and led a number of sales teams that achieved outstanding sales results and was responsible for the two largest retail cash products in the industry.

Mr Hopley has served on a number of Boards, foundations, committees and not for profit organisations. He is a past Board member of the Education Foundation of Australia, the Lord Mayor's Charitable Fund and is a past Securities Industry Education Chair of Task Forces in relation to final subjects in the Graduate Diploma in Financial Planning. He devotes part of his time as a business coach and mentor to a number of early stage enterprises.

Mr Hopley is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committee.

**Michael J F Sweeney** LLB, FAIMA, FCIArb,  
Chartered Arbitrator  
Independent Non-Executive Director  
(*Appointed 1 October 2008*)

Mr Sweeney practices as a Barrister at the Victorian Bar, Melbourne, specialising in the fields of energy and resources law, competition law/third party access regimes, joint ventures and generally in commercial and contract law. He also specialises in alternative disputes resolution, particularly arbitration both as qualified arbitrator and as counsel in arbitrations.

Mr Sweeney was the senior managing executive (prior to this, general counsel and company secretary) of the Mitsubishi and Mitsui interests (MIMI) in the Australian North West Shelf (NWS) Gas Joint Venture from 1986 to 1996. He served as a member of the NWS Joint Venture Project Committee and was deputised to the Board of the North West Shelf LNG Shipping Company. He was a member of the Tokyo based Operating Committee responsible for overseeing MIMI's investments in Australia. Mr Sweeney is Chairman of non listed entity, Territory Biofuels Limited.

Mr Sweeney is a member of the Remuneration and Nomination Committee and Audit Committee.

### Interests in the shares and options of the company

As at the date of this report, the relevant beneficial and non-beneficial interests of each of the directors in the shares and share options in the Company were:

	Ordinary Shares	30 September 2011 Options	Managing Director Options
N M Heath	1,135,088	-	-
S W Hopley	100,000	1,000,000	-
J Hendrich	1,261,000	-	3,100,000
G A Short	307,444	-	-
M J F Sweeney	139,984	1,000,000	-

The terms of the options are set out in Note 24 to the consolidated financial statements. Details, including fair value at date of grant of the options granted to directors, are set out in the Remuneration Report.



## 2/ COMPANY SECRETARY

Mr Colin Naylor was appointed MEO Australia Limited Chief Financial Officer on 5 February 2007 and Company Secretary on 23 February 2007. Mr Naylor has previously worked in senior financial roles in major resource companies and is a Fellow of CPA Australia.

## 3/ DIVIDENDS

No dividend has been paid, provided or recommended during the financial year and to the date of this report (2010: nil).

## 4/ PRINCIPAL ACTIVITIES

The principal activities during the year of the entities within the consolidated entity were the development of the Tassie Shoal Methanol Project, the Timor Sea LNG Project and oil and gas exploration in offshore Australia and offshore and onshore oil and gas exploration in Indonesia.

The Company had 23 employees at 30 June 2011 including directors (2010:10). The Company also engages a number of full and part time consultants to assist in the development and management of its various activities.

## 5/ REVIEW OF OPERATIONS

### Environment, Health and Safety

The Group believes that workplace injuries are avoidable. It has implemented policies and procedures to ensure employees and contractors conduct their activities in a safe manner. Directors specifically addressed Health, Safety and Environment issues at each Board meeting. MEO has adopted an environmental, health and safety policy and conducts its operations in accordance with the Plastics and Chemicals Industries Association (PACIA) and Australian Petroleum Production & Exploration Association (APPEA) Codes of Practice.

The upstream activities by the Group of seismic surveys, well site surveys and drilling operations all require Commonwealth and/or State/Territory approvals of environment plans and safety

cases and the preparation of Environment Plans to manage the conduct of the activities and the contractors engaged by the Group to undertake the work.

A Health and Safety advisor was engaged specifically for the drilling of the Artemis-1 well. There were no reported environmental incidents or Lost Time Injuries (LTI's) during the drilling of the Artemis-1 exploration well (43 days on contract) in WA-360-P.

The Group's development activities on Tassie Shoal are subject to environment conditions specified in the Offshore Petroleum and Greenhouse Gas Storage Act (2006), associated Regulations and Directions, as well as the Environment Protection and Biodiversity Conservation (EPBC) Act (1999). During the year there were no known contraventions of any relevant environmental regulations.

### North West Shelf Exploration Permits, Carnarvon Basin, Western Australia

#### WA-360-P (MEO 25%)

In mid October 2010, all conditions precedent to the farm-in agreement with Petrobras were satisfied. MEO received \$39,406,597 (consisting of US\$37,853,277 and A\$1,224,943) cash comprising \$7,633,335 (US\$6,353,277 and A\$1,224,943) in seismic related back costs and a \$31,773,262 (US\$31,500,000) bonus payment. MEO subsequently acquired a further 5% participating interest in the permit from Moby Oil and Gas Pty Ltd for \$7,451,744 (US\$7,500,000) cash consideration.

The Songa Venus semi submersible drilling rig was handed over to MEO on 14th November and commenced its journey to the Artemis-1 location. The rig arrived on location on 23rd November and Artemis-1 was spudded on 24th November. The well reached a total depth of 3,500m MDRT. No hydrocarbons were present in the target horizon and the well was plugged and abandoned. The Songa Venus was released on 26th December.

WA-360-P is currently in its final Permit Year. A thorough analysis of the well results has been integrated with the existing seismic data. Our technical team has worked to identify the remaining potential in the permit ahead of a planned renewal application which involves a mandatory relinquishment of 50% of the permit area.

#### WA-361-P (MEO 50%)

The permit was renewed for five years in January 2011. Permit Year 2 commencing January 2012, requires a 150km<sup>2</sup> 3D seismic survey to be acquired. Planning for this survey acquisition has commenced.

### Bonaparte Basin

#### NT/P68 (MEO 100%<sup>4</sup>)

In May 2011 MEO executed binding farm-in agreements with Eni. Under the agreements, Eni will earn 50% interest in the Heron gas discovery by funding two wells. In the event the first well is not successful, after the first well is drilled Eni has the right to withdraw and the equity all remains with MEO. In a success case, Eni has an option to increase its interest to 75% in the Heron area by funding all activities required to achieve a Final Investment Decision (FID) including drilling of any additional wells. Upon achievement of FID, MEO would receive a one-off US\$75m cash bonus.

In addition to the Heron area farm-in, MEO also granted Eni an option to acquire a 50% interest in the Blackwood area by funding a minimum 500km<sup>2</sup> 3D seismic survey and the drilling of one well. Eni also has an option to increase its interest in the Blackwood area to 75% by funding all activities required to achieve a Final Investment Decision (FID) including drilling of any additional wells. Upon achievement of FID, MEO would receive a one-off US\$75.0m cash bonus.

The payment of a US\$75.0m cash bonus will only apply once – to either the Heron or Blackwood area.

<sup>4</sup> The farm-in transaction with Eni comprises a series of options to earn initially a 50% interest in each of the Heron and Blackwood area gas discoveries, and subsequently up to 75% interest upon meeting certain obligations. Refer ASX release dated 18th May 2011.



## New Ventures

The Company has been successful in expanding its exploration portfolio through the award of Australian government gazettal blocks and acquisition of acreage in Australia and Indonesia. The Company continues to examine exploration opportunities in South East Asia.

### Vulcan Sub-Basin

#### AC/P50 & AC/P51 (MEO 100%<sup>5</sup>)

MEO acquired these permits from Silver Wave Energy in late 2010 for US\$270,000. The permits were granted in April 2009 and are currently in their third permit year in which 3D (200km<sup>2</sup> in AC/P50) and 2D (1,000 line km's in AC/P51) seismic acquisition is planned. These permits are situated in an area of small, shallow oil discoveries and also on trend with the Crux gas/condensate field which is slated for a liquids stripping development project.

#### AC/P53 (MEO 100%)

This permit was offered to MEO and accepted in June 2011 and officially awarded by the Government in early July 2011. It is contiguous with our AC/P50 and AC/P51 permits thereby adding acreage to an already identified play fairway.

#### WA-454-P (MEO 100%)

In June 2011, MEO was awarded 100% interest in WA-454-P. The permit contains a gas/condensate discovery in five horizons made by Marina-1 drilled by ExxonMobil and Drillsearch in 2007. Clearly, the permit is prospective for condensate rich gas. Its proximity to the existing Blacktip gas development (Eni 100%) and the proposed development of the Petrel, Tern and Frigate gas fields via Floating LNG technology, makes any material gas discovery in this permit potentially very valuable.

## Indonesia

### South Madura PSC (MEO 30%)

In June 2011, MEO closed a transaction to acquire all of the shares in South Madura Exploration Company (SMEC) which holds a 30% interest in the South Madura PSC, Madura Island. Consideration for the acquisition was \$479,617 (US\$500,000).

### Seruway PSC (MEO 100%)

In June 2011, MEO closed a transaction to acquire all of the shares in Transworld Seruway Exploration Limited (TSEL) which holds a 100% interest in the Seruway PSC, offshore North Sumatra, from Transworld Exploration Limited (TEL). MEO also acquired an office in Jakarta along with a core team as part of the transaction. Consideration for acquisition was \$4,796,165 (US\$5,000,000) cash.

### Tassie Shoal Development Projects

MEO has Commonwealth environmental approvals to construct, install and operate an LNG plant known as the Timor Sea LNG Project (TSLNGP) and two methanol plants collectively referred to as the Tassie Shoal Methanol Project (TSMP) on Tassie Shoal, an area of shallow water in the Australian waters of the Timor Sea approximately 275km north-west of Darwin, Northern Territory. Tassie Shoal is strategically located within 150km of all the undeveloped gas fields in the region. The Tassie Shoal projects can cater for a range of gas qualities and are designed to share infrastructure, logistic support systems and benefit from a number of production process synergies. The environmental approvals are valid until May 2052.

#### Tassie Shoal Methanol Project (TSMP, MEO 100%<sup>6</sup>)

MEO proposes the staged construction of two large natural gas reforming and methanol production plants, each with an annual production capacity of 1.75 million tonnes on its own concrete gravity structure (CGS). Each completed plant will be towed to Tassie Shoal and grounded for operation using sea water as ballast. Each plant requires approximately 1.3 Tcf of raw gas, ideally containing up to 25% CO<sub>2</sub>.

The TSMP was developed with a view to commercialise the nearby Evans Shoal gas discovery containing around 28% CO<sub>2</sub>. During the reporting period, the Operator of NT/P48 containing the Evans Shoal discovery was engaged in a process to sell their equity in the permit, but was unable to close a transaction. NT/P48 expires at the end of 2012 at which time the Joint Venture partners: a) relinquish the permit, b) apply for a production licence or c) apply for a retention licence. MEO remains keen to see gas from Evans Shoal developed via the TSMP.

#### Timor Sea LNG Project (TSLNGP, MEO 100%)

The TSLNGP requires approximately 3 Tcf of clean, low CO<sub>2</sub> (<4%) gas to operate for 20 years. Gas supply for the LNG plant could come from MEO's own Heron gas discovery subject to successful appraisal drilling or alternatively one or more of the neighbouring undeveloped gas fields which are facing economic challenges imposed by long distances from land and high construction costs.

### Corporate

In November 2010, MEO raised \$32,599,999 (before transaction costs of \$1,752,357) from issuing 62,692,305 shares at a price of \$0.52 per share predominantly to international institutional investors.

In August 2010 the Trustee of the MEO Trustee Share Plan, Doravale Enterprises Pty Ltd, sold 10,122,918 MEO shares at \$0.34 per share, raising \$3,441,792 (before costs). The sale of these shares represented the remaining shares in the Scheme and The Trustee Share Plan scheme was closed on 25th August 2010.

<sup>5</sup> Silver Wave Energy has an option to purchase a 10% working interest in each permit prior to the end of Permit Year 3. RedRock Energy Pte Ltd has an option to acquire a 5% carried interest in each permit. Refer MEO ASX release of 15th November, 2010.

<sup>6</sup> MEO and Air Products and Chemicals Inc (Air Products) entered into a Joint Development Agreement (JDA) in March 2004. Under the JDA, Air Products may acquire a 50% interest in the Methanol Project by funding agreed development costs associated with the Methanol Project. The JDA was amended in April 2006 and suspended pending resolution of a gas supply.



### Results for the year

The net profit of the Group for the financial year, after provision for income tax, was \$13,707,010 (2010: loss after tax of \$4,825,821).

The successful drilling and commercialisation of any commercial oil and gas discoveries in the offshore Australian exploration permits and Indonesian Production Sharing Contracts and/or the development of the Group's methanol and LNG Projects could ultimately lead to the establishment of a profitable business. While the Group is in the exploration/appraisal stage of drilling for hydrocarbons in the offshore Australian exploration permits and Indonesian Production Sharing Contracts and in the project development phase, funding will be provided by equity capital raised from the issue of new shares and/or farm-out or joint development arrangements with other companies.

### Review of Financial Condition

At balance date the Group held cash and cash equivalents of \$90,253,634. During the year the Group increased the cash balance by \$56,795,388 (before foreign exchange fluctuations) following net capital raisings of \$34,289,434, proceeds of \$39,406,597 from sale of 50% interest in WA-360-P and interest received of \$2,362,459 which were used to meet exploration, investment and capital cash outflows of \$14,455,654 and net corporate costs of \$4,807,448.

### Share Issues

During the year the Company raised a total of \$32,599,999 (before transaction costs of \$1,752,357) from the issue of 62,692,305 shares at \$0.52 per share.

### 6/ SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity increased to \$209,936,130 from \$160,658,245, an increase of \$49,277,885. The movement was mainly due to net equity injections totalling \$34,801,048 and net profit of \$13,707,010. The net profit is mainly due to the gain on disposal of 50% interest in WA-360-P (\$29,611,847).

### 7/ SIGNIFICANT EVENTS AFTER THE BALANCE DATE

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 Group, the results of those operations, or state of affairs of the Group, in future financial years.

### 8/ LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company has previously advised on the details of the NT/P68 farmout agreement with Eni. During the 2011/2012 financial year, Eni are expected to secure a drilling rig with the target of drilling a well in NT/P68 during April – June 2012. During 2011/2012 the Group will undertake a number of 3D seismic acquisition programmes in Australia and Indonesia and continue to pursue new venture opportunities as appropriate.

## 9/ SHARE OPTIONS AND SHARE PERFORMANCE RIGHTS

### Options granted to directors and executives of the Company

During and since the end of the financial year 4,100,000 options were granted by the Company to employees and contractors.

### Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry Date	Exercise Price	Number of Shares
30 September 2011	\$1.20	1,100,000
30 September 2011	\$1.00	2,000,000
30 September 2011	\$0.50	2,000,000
30 June 2012	\$0.50	2,700,000
4 October 2015	\$0.50	1,500,000
1 March 2016	\$0.50	900,000
4 April 2016	\$0.50	1,200,000
1 July 2016	\$0.50	500,000

All options expire on the earlier of their expiry date or termination of the employee's employment. In addition, the ability to exercise the options is conditional on meeting the vesting conditions. These options do not entitle the holder to participate in any share issue of the Company.

### Shares issued on the Exercise of Compensation Options

During or since the end of the financial year, there has been no issue of ordinary shares as a result of the exercise of options.

## 10/ INDEMNIFICATION AND INSURANCE OF DIRECTORS

The Company paid a premium in respect of a contract insuring all directors of the Company against legal costs incurred in defending proceedings as permitted by Section 199B of the *Corporations Act 2001*. Disclosure of premium details is prohibited under the policy.

## 11/ BOARD AND COMMITTEE MEETINGS

The following table sets out the members of the Board of Directors and the members of the Committees of the Board, the number of meetings of the Board and of the Committees held during the year and the number of meetings attended during each director's period of office.

	Board of Directors		Audit Committee		Remuneration and Nomination Committee	
	A	B	A	B	A	B
N M Heath	15	15	2	2	3	3
J Hendrich	15	15	-	-	-	-
S W Hopley	15	15	3	3	1	1
G A Short	15	15	3	3	-	-
M J F Sweeney	15	15	1	1	3	3

**A** - Number of meetings attended.

**B** - Number of meetings held during the time the director held office during the year.

In addition to the formally constituted Board of Directors meetings set out above, Directors held a risk management workshop with the executive team and held frequent informal meetings during the drilling of the Artemis-1 exploration well, ME0 being the Operator of exploration permit WA-360-P.

## 12/ AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors have received the independence declaration from the auditor, Ernst & Young, set out on page 18.

### Non Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	\$
Risk management workshops	22,844
Tax services	3,116
Due diligence services	33,264



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## Auditor's Independence Declaration to the Directors of MEO Australia Limited

In relation to our audit of the financial report of MEO Australia Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A stylized signature of the auditor, written in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Matthew A. Honey'.

Matthew A. Honey  
Partner  
9 September 2011



### 13/ REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2011 outlines the remuneration arrangements of the Company in accordance with the requirements of the *Corporations Act 2001* and its regulations.

The information provided in this Remuneration Report has been audited as required by Section 308 (3C) of the *Corporations Act*. This Remuneration Report forms part of the Directors' Report.

The remuneration report details the remuneration arrangements for Key Management Personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the group, directly and indirectly, including any director (whether executive or otherwise) of the parent company.

The remuneration report is presented under the following sections:-

1. Individual key management personnel disclosures
2. Board oversight of remuneration
3. Non-executive director remuneration arrangements
4. Executive remuneration arrangements
5. Executive contractual arrangements
6. Equity instruments
7. Company performance

#### 1/ Individual key management personnel disclosures

##### Key Management Personnel (KMP)

###### (i) Directors

N M Heath	Chairman (independent non-executive)
J Hendrich	Managing Director and Chief Executive Officer
G A Short	Director (independent non-executive)
S W Hopley	Director (independent non-executive)
M J F Sweeney	Director (independent non-executive)

###### (ii) Executives

C H Naylor	Chief Financial Officer and Company Secretary
R J D Gard	Commercial Manager

###### (iii) Consultants holding key management positions

K Hendrick	Implementation Manager
D Maughan	Exploration Manager

#### 2/ Board oversight of remuneration

##### Remuneration and nomination committee

The Remuneration and Nomination Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, including the managing director and chief executive officer and making recommendations to the board.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of high quality directors and the managing director and chief executive officer.

##### Remuneration approval process

The board approves the remuneration arrangements of the managing director and chief executive officer and awards under short term and long term incentive arrangements following recommendations from the Remuneration and Nomination Committee. The Board also sets the remuneration of non executive directors which is within the aggregate amount approved by shareholders.

The managing director and chief executive officer approves the annual extension of consultant's contracts and their consulting fees and will make recommendations to the board of directors for granting of awards to executives and contractors under the short term and long term incentive arrangements.

##### Remuneration strategy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- Offer competitive remuneration benchmarked against the external market to attract high calibre executives;
- Where appropriate, provide executive rewards linked to shareholder value; and
- Encourage non-executive directors to hold shares in the Company through a Share Savings Plan.

##### Remuneration structure

In accordance with best practice corporate governance, the structure of non executive director remuneration and executive remuneration is separate and distinct.



## 13/ REMUNERATION REPORT (AUDITED) (CONTINUED)

### 3/ Non-executive director remuneration arrangements

#### Remuneration policy and structure

The Board seeks to set remuneration at a level which provides the Company with the ability to attract and retain directors of high calibre, at a cost which is acceptable to shareholders.

The amount of aggregate remuneration approved by shareholders and the fee structure is reviewed annually by the Remuneration and Nomination Committee against fees paid to non-executive directors of comparable companies. The Remuneration and Nomination Committee receive independent remuneration reports when undertaking this annual review process.

Each director has entered into an agreement as to the terms of their appointment as a director of the Company and (other than the Managing Director) receives remuneration as a director, by way of fee and/or superannuation. Under such agreements current at the date of this report, there are no annual, long service leave or other termination entitlements.

The Constitution and ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by members in general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. At the Annual General Meeting held on 18 November 2010 shareholders approved an increase in the aggregate annual remuneration to \$500,000 per year, with effect from the financial year commencing 1 July 2010 (previously \$300,000).

Non-executive directors are encouraged by the Board to hold shares in the Company. The Company facilitates this through the Directors' Share Savings Plan. Under the plan, non-executive directors are eligible to take up to 100% of their director fees in the form of shares in the Company. The shares are purchased on market at the prevailing market share price. During the period of the WA-360-P farmout and the drilling of the Artemis-1 exploration well, the Board suspended the trading of shares under the Share Savings Plan.

Non-executive directors have been granted options, through the Senior Executive and Officers Option Plan to further align their interests as directors with those of shareholders. Directors may consider the granting of options in the future, subject to shareholder approval at a General Meeting.

No additional remuneration is paid to directors for service on board committees or on the boards of wholly owned subsidiaries.

In addition, the directors are entitled to be paid all travelling and other expenses they incur in attending to the Company's affairs, including attending and returning from general meetings of the Company or meetings of the directors or of committees of the directors.

The remuneration of non-executive directors for the year ended 30 June 2011 and 30 June 2010 is detailed in Table 1 and Table 2 of this report.

### 4/ Executive remuneration arrangements

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- ensure total remuneration is competitive by market standards;
- reward executives for exceptional individual performance; and
- align the interests of executives with those of shareholders.

#### Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Executive contracts of employment do not include any guaranteed base pay increases.

The fixed component of executives' remuneration is detailed in Table 1 and Table 2 of this report.

#### Variable Remuneration – Short Term Incentives

MEO does not have a formal Short Term Incentive Program, however the Company does recognise exceptional individual performances in any financial year through the award of a bonus.

In the 2010-2011 financial year the Board approved a bonus of \$150,000 to the Managing Director largely in recognition of the significance to the Company of the Petrobras farm-in to WA-360-P. The \$39.4 million cash received from the farm-in resulted in a strengthening of the financial position of the Company which was further increased with a share placement prior to the drilling of the Artemis-1 exploration well. The farm-in is aligned with the corporate strategy of building shareholder value through the development of a portfolio of opportunities and strengthening the Company's financial position.

#### Variable Remuneration – Long Term Incentives

MEO considers the retention of high calibre staff as essential to the growth of the Company. Therefore as an incentive to recruit high calibre individuals to MEO or retain high calibre staff the Board will grant share options which have time based vesting conditions. The conditions of these options require staff to remain employed with the Company through to the vesting date of the share options, which is usually for a period of twelve months and/or twenty four months.

The exercise price of share options granted in 2010-2011 is \$0.50. This exercise price is higher than the prevailing MEO share price and therefore provides an incentive for staff to build shareholder value and strive to grow the Company.

Each option entitles the holder to one fully paid ordinary share in the Company.

See page 24 for details of options granted to executive directors and other key management personnel during the financial year.



## 13/ REMUNERATION REPORT (AUDITED) (CONTINUED)

### Consultants

The managing director and chief executive officer approves the terms and conditions of consultant's contracts including fees, taking into account market conditions for the services that are provided. Consultant contracts do not include any guaranteed fee increases.

### Hedging of equity awards

The Company prohibits executives from entering into arrangements to protect the value of invested share options. The prohibition includes entering into contracts to hedge their exposure to options awarded as part of their remuneration package.

### 5/ Executive contractual arrangements

Remuneration arrangements for Key Management Personnel are formalised in employment agreements. Details of these contracts are provided below.

#### Managing Director and Chief Executive Officer Remuneration

On 16 June 2008, Mr Jürgen Hendrich joined MEO in the role of Chief Executive Officer, and on 25 July 2008 assumed the position of Managing Director and Chief Executive Officer. Mr Hendrich entered into an executive service agreement dated 20 May 2008, which commenced on 16 June 2008 and continued until 1 July 2011. A new executive agreement has been entered into with Mr Hendrich which contains the following major terms:-

- **Term:** From 1 July 2011 until either the Company or Mr Hendrich terminates the Agreement
- **Notice:** The Company may terminate the Agreement at any time by giving 3 Months' notice in writing. Mr Hendrich may terminate the Agreement at any time by giving 3 Months' notice in writing to the Company or immediately upon giving notice that a "fundamental change" to his employment has occurred. The Company may terminate without notice in the event of serious misconduct. The Company may elect to pay Mr Hendrich in lieu of part or all of any notice period.
- **Base Salary:** From 1st July 2011, the Total Fixed Remuneration is \$495,000 per annum (including compulsory superannuation) which will be reviewed on an annual basis with effect from 1st July.
- **Deferred Compensation:** Subject to shareholder approval at the 2011 Annual General Meeting, Mr Hendrich will be granted 3.0 million share options at an exercise price of \$0.50 per share option. See the 2011 Notice of Annual General Meeting for further information.

- **Short Term Incentive (STI):** Mr Hendrich will be eligible to participate in the Company's short term incentive arrangements each year (or part thereof) during the Term. The Executive's participation in the STI arrangements, and all payments and benefits are at the absolute discretion of the Board.
- **Long Term Incentive (LTI):** Subject to receiving any required or appropriate shareholder approvals, Mr Hendrich will be eligible to participate in the Company's long term incentive arrangements (as amended or replaced) from time to time on terms to be decided by the Board.
- **Payments on Termination:** Where the Company terminates Mr Hendrich's employment (except in circumstances of serious misconduct) or Mr Hendrich's employment ceases because of a "fundamental change", Mr Hendrich is entitled to a lump sum payment of up to 12 months Total Fixed Remuneration (inclusive of any amount payable to Mr Hendrich in lieu of notice).

### Other Executives

All executives have standard employment contracts. Each executive is employed until such time as the Company or the executive terminate by giving notice. The Company may terminate the executive's employment agreement by providing written notice (ranging from 4 weeks notice to 3 months notice) or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). The executive may terminate by giving notice under the employment contract, ranging from 4 weeks notice to 2 months notice. On termination of notice by the Company or the executive, any options that have vested or that will vest during the notice period will be released. Options that have not vested will be forfeited. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

### Consultants

The Company has secured the services for Mr Maughan and Mr Hendrick via consulting agreements. These agreements set out the services to be provided, the contract term (typically twelve months) and the day rate for services provided. A meeting is held with each consultant prior to the conclusion of their agreement to resolve any extension or renewal of the agreement, if required, and the relevant terms and conditions of any such extension or renewal.

## 13/ REMUNERATION REPORT (AUDITED) (CONTINUED)

### 5/ Executive contractual arrangements (Continued)

Remuneration of key management personnel and the five highest paid executives of the Company

Table 1: Remuneration for the year ended 30 June 2011

	Short term			Post employment	Share-based payment	Long term	Total	Performance related
	Directors fees \$	Salary and fees \$	STI cash bonus \$	Super-annuation benefits \$	*Options \$	Long service leave \$		%
<b>Non-executive directors</b>								
N M Heath	83,000	-	-	7,470	-	-	90,470	-
S W Hopley	28,000	-	-	41,630	-	-	69,630	-
G A Short	14,250	-	-	47,880	-	-	62,130	-
M J F Sweeney	57,000	-	-	5,130	-	-	62,130	-
<b>Sub-total non-executive directors</b>	<b>182,250</b>	<b>-</b>	<b>-</b>	<b>102,110</b>	<b>-</b>	<b>-</b>	<b>284,360</b>	<b>-</b>
<b>Executive director</b>								
J Hendrich ***	-	423,150	150,000	34,650	400,856	13,122	1,021,778	53.9
<b>Other key management personnel and five highest paid executives of the Company</b>								
C H Naylor	-	209,998	-	50,000	29,797	8,585	298,380	10.0
R J D Gard	-	225,000	-	20,250	29,797	4,253	279,300	10.7
<b>Sub-total executive</b>	<b>-</b>	<b>858,148</b>	<b>150,000</b>	<b>104,900</b>	<b>460,450</b>	<b>25,960</b>	<b>1,599,458</b>	<b>38.2</b>
<b>Consultants holding key management positions</b>								
D Maughan**	-	299,000	-	-	14,899	-	313,899	4.7
K Hendrick**	-	452,475	-	-	14,899	-	467,374	3.2
<b>Sub-total consultants</b>	<b>-</b>	<b>751,475</b>	<b>-</b>	<b>-</b>	<b>29,798</b>	<b>-</b>	<b>781,273</b>	<b>3.8</b>
<b>TOTAL</b>	<b>182,250</b>	<b>1,609,623</b>	<b>150,000</b>	<b>207,010</b>	<b>490,248</b>	<b>25,960</b>	<b>2,665,091</b>	<b>24.0</b>

\* Refer Note 24 to the consolidated financial statements for fair value calculation of options.

\*\* Represents fees paid/payable for services provided by entities of the consultants.

\*\*\* In the 2010-2011 financial year the Board approved a bonus of \$150,000 to the Managing Director largely in recognition of the significance to the Company of the Petrobras farm-in to WA-360-P. The \$39,406,597 cash received from the farm-in resulted in a strengthening of the financial position of the Company which was further increased with a share placement prior to the drilling of the Artemis-1 exploration well. The farm-in is aligned with the corporate strategy of building shareholder value through the development of a portfolio of opportunities and strengthening the Company's financial position. The bonus was paid in December 2010. A minimum level of performance was required to be achieved before the Board decided to award the bonus. Therefore, the minimum potential value of the award in respect of the year was nil. The maximum value of the grant awarded to the managing director and chief executive officer is the actual amount paid. The percentage of the managing director and chief executive officer remuneration comprising of options was 39.2%.



## 13/ REMUNERATION REPORT (AUDITED) (CONTINUED)

### 5/ Executive contractual arrangements (Continued)

Remuneration of key management personnel and the five highest paid executives of the Company

Table 2: Remuneration for the year ended 30 June 2010

	Short term			Post employment	Share-based payment	Long term	Total	Performance related
	Directors fees \$	Salary and fees \$	STI cash bonus \$	Super-annuation benefits \$	*Options \$	Long service leave \$		%
<b>Non-executive directors</b>								
N M Heath	60,000	-	-	27,200	-	-	87,200	-
S W Hopley	-	-	-	43,600	9,550	-	53,150	18.0
G A Short	10,000	-	-	33,600	5,333	-	48,933	10.9
M J F Sweeney	10,000	-	-	33,600	9,550	-	53,150	18.0
<b>Sub-total non-executive directors</b>	<b>80,000</b>	<b>-</b>	<b>-</b>	<b>138,000</b>	<b>24,433</b>	<b>-</b>	<b>242,433</b>	<b>10.1</b>
<b>Executive director</b>								
J Hendrich	-	400,000	-	36,000	573,803	16,303	1,026,106	55.9
<b>Other key management personnel and five highest paid executives of the Company</b>								
C H Naylor	-	190,000	-	50,000	77,986	9,724	327,710	23.8
R J D Gard***	-	211,065	50,000	18,996	77,986	5,626	363,673	35.2
<b>Sub-total executive KMP</b>	<b>-</b>	<b>801,065</b>	<b>50,000</b>	<b>104,996</b>	<b>729,775</b>	<b>31,653</b>	<b>1,717,489</b>	<b>45.4</b>
<b>Consultants holding key management positions</b>								
D Maughan**	-	253,000	-	-	38,993	-	291,993	13.4
K Hendrick**	-	295,600	-	-	38,993	-	334,593	11.7
<b>Sub-total consultants</b>	<b>-</b>	<b>548,600</b>	<b>-</b>	<b>-</b>	<b>77,986</b>	<b>-</b>	<b>626,586</b>	<b>12.4</b>
<b>TOTAL</b>	<b>80,000</b>	<b>1,349,665</b>	<b>50,000</b>	<b>242,996</b>	<b>832,194</b>	<b>31,653</b>	<b>2,586,508</b>	<b>34.1</b>

\* Refer Note 24 to the consolidated financial statements for fair value calculation of options.

\*\* Represents fees paid/payable for services provided by entities of the consultants.

\*\*\* In the 2009-2010 financial year the managing director and chief executive officer approved a bonus of \$50,000 to the commercial manager, Mr R J D Gard in recognition of his contribution to secure Petrobras as a WA-360-P Joint Venture Partner. The bonus was paid in June 2010. A minimum level of performance was required to be achieved before the managing director and chief executive officer approved award of the bonus. Therefore, the minimum potential value of the award in respect of the year was nil. The maximum value of the grant awarded to the commercial manager is the actual amount paid. The percentage of the commercial manager remuneration comprising of options was 21.4%.

## 13/ REMUNERATION REPORT (AUDITED) (CONTINUED)

### 6/ Equity instruments

Table 3: Options awarded and vested during the year

	Terms and conditions for each Grant during the year							Options vested during the year	
	Options awarded during the year No.	Award date	Fair value per option at award date (\$) (note 24)	Exercise price (\$) (note 24)	Expiry date	First exercise date	Last exercise date	No.	%
<b>Executives</b>									
C H Naylor	-							450,000	50%
R J D Gard	-							450,000	50%
D Maughan	-							225,000	50%
K Hendrick	-							225,000	50%
<b>TOTAL</b>	<b>-</b>							<b>1,300,000</b>	

Table 4: Value of options awarded, exercised and lapsed during the year

	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$
J Hendrick	-	-	342,100

For details on the valuation of the options, including models used and assumptions used please refer to note 24 to the consolidated financial statements.

Table 5: Share issued on exercise of options

There was no exercise of compensation options during the reporting period.

### 7/ Company performance

The remuneration of MEO executives and contractors is not linked to financial performance measures of the Company. In accordance the Section 300A of the *Corporations Act 2001* the following table summarises MEO's performance over a five year period:-

Measure	2011	2010	2009	2008	2007
Net profit/(loss) - \$000	13,707	(4,826)	(28,185)	(1,871)	(3,371)
Basic earnings/(loss) per share - cents per share	2.67	(1.07)	(6.76)	(0.51)	(1.56)
Share price at the beginning of year - \$	0.25	0.23	0.50	1.39	0.22
Share price at end of year - \$	0.18	0.25	0.23	0.50	1.39
Dividends per share - cents	Nil	Nil	Nil	Nil	Nil

Signed in accordance with a resolution of the directors



**J HENDRICK**  
Managing Director and Chief Executive Officer

Melbourne, 9 September 2011



# Corporate Governance Statement

In accordance with ASX Listing Rule 4.10.3, MEO is required to provide a statement in the annual report disclosing the extent to which the Company has followed the ASX Corporate Governance Council - Corporate Governance Principles and Recommendations, as updated in August 2007 and amended in June 2010 (with effect from 1 January 2011). The recommendations from the ASX Corporate Governance Council - Corporate Governance Principles and Recommendations are set out below. MEO is required to disclose the corporate governance recommendations that have not been adopted and to state reasons why the recommendations have not been adopted.

Further information on the Company's corporate governance practices and policies is contained in the Corporate Governance section of the Company's website.

## PRINCIPLE 1/ LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

**Recommendation 1.1 Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.**

The Board's primary role is the setting of the Company's values, direction, strategies and financial objectives and ensuring effective monitoring of corporate performance, capabilities and management of risk consistent with creating long term shareholder value and maintaining effective corporate governance. The Board is also responsible for the appointment and monitoring the performance of the managing director & chief executive officer.

The Board operates in accordance with the Company Constitution and has adopted a Board charter which outlines a framework for the Board's operation, the matters reserved to the Board and the functions delegated to management. The charter is posted under the 'Corporate Governance'

section on the Company's website. The Board formally reviews all corporate governance policies and guidelines once a year to ensure they remain appropriate and relevant to the governance of the company's activities.

**Recommendation 1.2 Companies should disclose the process for evaluating the performance of senior executives**

Through the Chairman, the Board conducts an annual review of the performance of the managing director & chief executive officer. The Board has completed a review of the performance of the managing director & chief executive officer in June 2011. The Board evaluation included consideration of the performance of the managing director & chief executive officer through:-

- the WA-360-P farm-out process culminating in the farm-out to Petrobras;
- the NT/P68 farm-out process culminating in the farm-out to Eni Australia;
- the drilling of the Artemis-1 well with no safety or environmental incidents;
- identification of new venture opportunities resulting in acquisitions in Indonesia;
- potential acquisition of stranded gas fields in the Timor Sea as feedstock for the Tassie Shoal Projects;
- investor relations activities and stewardship of the company's financial resources.

Given the small executive team, there is no formalised process for evaluating performance of executives reporting to the Managing Director and Chief Executive Officer. Newly appointed executives receive formal letters of appointment describing their terms of appointment, duties, rights and responsibilities.

**Recommendation 1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.**

Information provided in response to Recommendations 1.1 and 1.2 is in accordance with the disclosures indicated in the Guide to reporting on Principle 1.

## PRINCIPLE 2/ STRUCTURE THE BOARD TO ADD VALUE

**Recommendation 2.1 A majority of the board should be independent directors**

**Recommendation 2.2 The chair should be an independent director**

**Recommendation 2.3 The role of chair and chief executive officer should not be exercised by the same individual**

### Board composition

At the date of this report, the Board comprises 5 directors, 1 of whom is an executive director - Mr J Hendrich who was appointed managing director on 25 July 2008.

The independent non-executive directors are:

Mr N M Heath - Chairman  
Mr G A Short  
Mr S W Hopley  
Mr M J F Sweeney

The Directors' Report sets out the attendance of directors at meetings of the Board and its committees during the year, and the skills, experience, expertise and term of appointment of each Board member. Directors are appointed by the Board subject to election by shareholders at the next annual general meeting. No director, excluding the managing director & chief executive officer, may hold office without re-election after three years or beyond the third Annual General Meeting following the meeting at which the director was last elected or re-elected (whichever is the later).



### **Independence**

Directors of MEO are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of independence, “materially” is considered from both the Group and individual director perspective. The determination of the Company’s materiality thresholds requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount.

During the year Mr G A Short provided the Company with advice regarding certain exploration ventures in the east Asia region where he has had prior experience.

The Board completed an annual assessment procedure to establish the independence of directors and has determined that during the year all non-executive directors were independent having taken into account the independence factors listed in Box 2.1 of the ASX Corporate Governance Council - Corporate Governance Principles and Recommendations.

### **Independent advice**

The Board or individual directors (with the approval of the Board which will not be unreasonably withheld) may obtain independent professional advice it considers necessary at the expense of the Company.

### **Chairman of the board**

On 13 November 2008 Mr N M Heath, an independent non-executive director, was appointed Chairman of the Board.

The role of the managing director & chief executive officer is separate to the role of the Chairman and are not exercised by the same individual.

### **Recommendation 2.4 The Board should establish a nomination committee**

#### **Remuneration and nomination committee**

The Board has adopted a charter for the role and responsibilities of the Remuneration and Nomination (R&N) Committee, which is posted in the corporate governance section on the Company’s website. The committee comprised the following non-executive and independent directors for the year:

Mr N M Heath  
(Independent Chair of the Committee)

Mr M J F Sweeney

Mr S W Hopley  
(appointed 29 April 2011)

The Directors’ Report sets out the attendance of the committee members at meetings of the R&N committee.

### **Recommendation 2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors**

The Chairman conducted the annual evaluation of directors during June 2011 with completion of a structured questionnaire and interviews with each director to discuss their individual contribution to Board performance and to obtain their suggestions regarding improving overall performance of the Board. The Board as a whole meet and discuss the feedback from these interviews conducted by the Chairman. These performance evaluations incorporate a review of individual directors, the Board as a whole and the Board committees.

### **Recommendation 2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2.**

Information provided in response to Recommendations 2.1 to 2.5 is in accordance with the disclosures indicated in the Guide to reporting on Principle 2.

## **PRINCIPLE 3/ PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

### **Recommendation 3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:**

- the practices necessary to maintain confidence in the company’s integrity;
- the practices necessary to take into account their legal obligations and the reasonable expectations of their shareholders;
- the responsibility and accountability and investigating reports of unethical practices

The corporate goal of the Company is to build an energy business providing lasting growth in shareholder value while at the same time maintaining a reputation for integrity and fairness. The Company has posted on its website “A Code of Conduct” that clarifies the standards of ethical behaviour required of directors, officers and employees. In summary this includes respect for the law; not allowing personal interests to result in a conflict of interest; responsible use of the Company’s assets; acting with integrity, honesty, fairness and with dignity towards others; acting with responsibility and accountability for one’s actions. Failure to comply with the Code of Conduct is taken very seriously by the Company and may result in the Board requiring the resignation of the director, officer or employee who breached the Code of Conduct.

*ASX Listing Rule 12.9 - An entity must have a trading policy that complies with the requirements of ASX Listing Rule 12.12. An entity must give its trading policy to the companies’ announcements office for release to the market*

MEO has a Trading Policy that affirms the position of the Company concerning the trading by directors and employees in Company securities. Details of the Policy are posted on the Company’s website. A copy of the Trading Policy has also been lodged with the ASX.



**Recommendation 3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.**

**Recommendation 3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.**

**Recommendation 3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.**

From 1 January 2011, the ASX Corporate Governance Principles and Recommendations were amended to introduce new requirements seeking to address diversity concerns, in particular the under representation of women on boards and in senior management. These new requirements apply to the Company's first financial year commencing after 1 January 2011 (i.e. to the 2012 financial year).

The Company recognises that people are its most important asset and is committed to the maintenance and promotion of workplace diversity. Diversity drives the Company's ability to attract, retain and develop the best talent, create an engaged workforce and continue to grow the business. Diversity incorporates a number of different factors, including gender, ethnicity, disability, age and educational experience.

The Board and management are formulating the Company's Diversity Policy.

**Recommendation 3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3.**

Information provided in response to Recommendations 3.1 to 3.4 is in accordance with the disclosures indicated in the Guide to reporting on Principle 3.

## PRINCIPLE 4/ SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

**Recommendation 4.1 The board should establish an audit committee**

The Board has an Audit Committee.

**Recommendation 4.2 The audit committee should be structured so that it:**

- consists of only non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair who is not a chair of the board; and
- has at least 3 members

During the year the composition of the Audit Committee increased to three non-executive independent directors with the appointment of Mr M J F Sweeney on 22 February 2011. The number of meetings attended by members is set out in the Directors' Report.

The Chair of the Audit Committee is Mr Stephen Hopley who has substantial accounting/financial experience. The other members of the Committee, Mr Greg Short has industry experience and Mr Michael Sweeney has legal experience. Further details of the qualifications of each member of the Audit Committee are set out in the Directors' Report.

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

The charter for the role and responsibilities of the Audit Committee is posted in the corporate governance section on the Company's website.

**Recommendation 4.4 Provide the information indicated in Guide to reporting on Principle 4.**

Information provided in response to Recommendations 4.1 to 4.3 is in accordance with the disclosures indicated in the Guide to reporting on Principle 4.

## PRINCIPLE 5/ MAKE TIMELY AND BALANCED DISCLOSURE

**Recommendation 5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose policies or a summary of those policies.**

The Company has established policies and procedures designed to ensure compliance with the ASX Listing Rule requirements such that:

- all investors have equal and timely access to material information concerning the Company, including its financial position, performance, ownership and governance; and
- company announcements are factual and presented in a clear and balanced way.

During the year the Chairman, Managing Director and Company Secretary authorised all disclosures necessary for compliance with ASX Listing Rule disclosure requirements. For announcements such as the NT/P68 farm-out, drilling of the Artemis-1 exploration well and acquisition of Indonesian acreage, Board of Director approval was given.

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

Information provided in response to Recommendations 5.1 is in accordance with the disclosures indicated in the Guide to reporting on Principle 5.



## PRINCIPLE 6/ RESPECT THE RIGHTS OF SHAREHOLDERS

**Recommendation 6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.**

The Company has established a process for communicating with shareholders:

- using the Company's website to promote and to facilitate shareholder communications;
- using quarterly, half yearly and annual reports;
- placing all shareholder related information and Company ASX announcements promptly onto the website in an accessible manner;
- encouraging shareholders at annual and other general meetings to ask questions of the directors regarding the Company's governance and business performance, and of the auditor regarding the conduct of the audit and the contents of the audit report.

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

Information provided in response to Recommendations 6.1 is in accordance with the disclosures indicated in the Guide to reporting on Principle 6.

## PRINCIPLE 7/ RECOGNISE AND MANAGE RISK

**Recommendation 7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.**

The Board is responsible for overseeing the effectiveness of risk management systems. The identification and effective management of risk, including calculated risk taking is viewed as an essential part of the Company's approach to creating long term shareholder value.

In recognition of this, the board determines the company's risk profile and is responsible for overseeing and approving risk management strategy and policy, internal compliance and internal control. In doing so the board has taken the view that it is crucial for all board members to be part of this process and as such, has not established a separate risk management committee.

In May 2011, the board, in conjunction with the executive team, completed a facilitated risk management workshop which was designed to update the key risks facing the company following the risk management workshop held in June 2010. The result of the workshop was a comprehensive updated list of risks which were categorised as to importance. Risk mitigation strategies, as appropriate, are being developed for each risk and reporting on each risk by management is a standing agenda item at board meetings. The identification and reporting of key risks is an ongoing process.

The Company's activities are currently centred on progressing the commercialisation of its upstream assets and advancement of its projects to the financial commitment stage, processes, which for the Company have both uncertainty and moderate to high risk. Existing policies and procedures are appropriate for the business at this stage of its development. At each major milestone of these processes, specific risk oversight and management policies will be developed consistent with activities at that time.

The systems of internal financial control have been determined by the Board as adequate to provide appropriate, but not absolute, protection against fraud, material misstatement or loss.

**Recommendation 7.2 The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.**

Given the size of MEO, the Board does not consider it appropriate to have separate standalone risk management and control systems designed by management which are reported to the Board.

The Board defines the risk to be any event that, if it occurs, will have a material impact (whether financial or non-financial) on the Company's ability to achieve its objectives. The Board has established various policies and practices designed to identify and manage significant business risks, including:

- (i) Company business plan and approval of budgets;
- (ii) Detailed monthly financial and operational reporting to the Board;
- (iii) Policies regarding internal controls, authority levels for expenditure;
- (iv) Policies and procedures relating to health, safety and environment;
- (v) Policies and procedures in relation to financial controls and treasury matters; and
- (vi) Day to day responsibility for risk oversight and management is delegated to the chief executive officer & managing director, who is primarily responsible for identifying, monitoring and communicating risk events to the Board and responding to risk events.



**Recommendation 7.3** *The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.*

The Board received statements in writing from the managing director and chief executive officer (CEO) and chief financial officer (CFO) that the integrity of MEO's financial position is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Management has also completed an internal control questionnaire in support of the CEO and CFO certification.

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

Information provided in response to Recommendations 7.1 to 7.3 is in accordance with the disclosures indicated in the Guide to reporting on Principle 7.

## **PRINCIPLE 8/ REMUNERATE FAIRLY AND RESPONSIBLY**

**Recommendation 8.1** *The Board should establish a remuneration committee.*

The Board has a Remuneration and Nomination (R&N) Committee.

**Recommendation 8.2** *The remuneration committee should be structured so that it:*

- consists of a majority of independent Directors;
- is chaired by an independent chair; and
- has at least 3 members

As disclosed above, the Remuneration and Nomination (R&N) Committee consists of three independent Non-Executive Directors' - Mr Nicholas Heath (independent Chair of the Committee), Mr Stephen Hopley and Mr Michael Sweeney. The number of meetings attended by members is set out in the Directors' Report.

The R&N Committee has an established Charter which sets out the roles and responsibilities, composition, structure and membership requirements, details of which are available in the corporate governance section of the MEO website.

**Recommendation 8.3** *Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.*

The R&N Committee is responsible for determining and reviewing compensation arrangements for directors and managing director and chief executive officer. The Company distinguishes the remuneration structure of non-executive directors from the structure of the managing director and chief executive officer remuneration package. The Committee assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

The Remuneration Report on pages 19 to 24 outlines the Company's remuneration arrangements in place for directors and executives. The Non-Executive Directors do not receive any retirement benefits, apart from statutory superannuation. Further details regarding the remuneration of the Non-Executive Directors, the managing director & chief executive officer and other senior executives are set out in the Remuneration Report. The Remuneration Report on page 21 also outlines the Company's policy on prohibiting key management personnel from hedging remuneration that is unvested or is vested but subject to a holding lock.

**Recommendation 8.4** *Companies should provide the information indicated in the Guide to reporting on Principle 8.*

Information provided in response to Recommendations 8.1 and 8.3 is in accordance with the disclosures indicated in the Guide to reporting on Principle 8.



# Financial Report

## For The Year Ended 30 June 2011

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 June 2011

	Note	2011 \$	2010 \$
Interest income		3,266,789	1,215,044
Gain on disposal of 50% interest in WA-360-P		29,611,847	-
<b>Total income</b>		<b>32,878,636</b>	<b>1,215,044</b>
Depreciation and amortisation expense		(139,170)	(116,040)
Directors, employees and consultants	4	(5,079,433)	(3,642,082)
Exploration expenditure written-off		(8,817,390)	(338,617)
Foreign exchange losses		(2,530,979)	(67,435)
Other expenses	4	(1,508,774)	(1,302,375)
Share of losses of an associate		(600,000)	-
<b>Profit/(loss) before income tax</b>		<b>14,202,890</b>	<b>(4,251,505)</b>
Income tax expense	5	(495,880)	(574,316)
<b>Net profit/(loss) for the period</b>		<b>13,707,010</b>	<b>(4,825,821)</b>
<b>Other comprehensive income</b>			
Net fair value gains on available-for-sale financial assets		52,445	-
Income tax on items of other comprehensive income	5	(15,734)	-
<b>Other comprehensive income for the period, net of tax</b>		<b>36,711</b>	<b>-</b>
<b>Total comprehensive income/(loss) for the period</b>		<b>13,743,721</b>	<b>(4,825,821)</b>
Basic earnings/(loss) per share (cents per share)	6	2.67	(1.07)
Diluted earnings/(loss) per share (cents per share)	6	2.67	(1.07)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
as at 30 June 2011

	Note	2011 \$	2010 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	90,253,634	35,989,225
Trade and other receivables	8	1,456,184	1,129,835
<b>TOTAL CURRENT ASSETS</b>		<b>91,709,818</b>	<b>37,119,060</b>
<b>NON-CURRENT ASSETS</b>			
Investment in associate	9	-	-
Property, plant and equipment	10	171,064	132,662
Motor vehicle	11	81,806	-
Leasehold improvements	12	-	411
Intangible assets	13	295,917	93,307
Exploration and evaluation costs	14	118,677,023	124,217,572
Available for sale financial assets	15	755,207	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>119,981,017</b>	<b>124,443,952</b>
<b>TOTAL ASSETS</b>		<b>211,690,835</b>	<b>161,563,012</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	1,568,530	776,256
Provisions	17	95,401	69,263
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,663,931</b>	<b>845,519</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	17	90,774	59,248
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>90,774</b>	<b>59,248</b>
<b>TOTAL LIABILITIES</b>		<b>1,754,705</b>	<b>904,767</b>
<b>NET ASSETS</b>		<b>209,936,130</b>	<b>160,658,245</b>
<b>EQUITY</b>			
Contributed equity	18	240,650,334	205,849,286
Reserves	18	1,557,151	1,129,424
Accumulated losses	18	(32,271,355)	(46,320,465)
<b>TOTAL EQUITY</b>		<b>209,936,130</b>	<b>160,658,245</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.





## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 30 June 2011

	Issued capital	Share based payments reserve	Net unrealised gains reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2010</b>	<b>205,849,286</b>	<b>1,129,424</b>	-	<b>(46,320,465)</b>	<b>160,658,245</b>
Net profit for the period	-	-	-	13,707,010	13,707,010
Other comprehensive income	-	-	36,711	-	36,711
<b>Total comprehensive income for the year</b>			36,711	13,707,010	13,743,721
<b>Transactions with owners in their capacity as owners:</b>					
Cost of share based payments	-	733,116	-	-	733,116
Shares sold by Trustee of Trustee Share Scheme	3,441,792	-	-	-	3,441,792
Share issues	32,599,999	-	-	-	32,599,999
Costs of issues (net of tax)	(1,240,743)	-	-	-	(1,240,743)
Transfer of equity instruments expired unvested	-	(342,100)	-	342,100	-
<b>At 30 June 2011</b>	<b>240,650,334</b>	<b>1,520,440</b>	<b>36,711</b>	<b>(32,271,355)</b>	<b>209,936,130</b>

	Issued capital	Share based payments reserve	Net unrealised gains reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2009</b>	<b>179,492,194</b>	<b>1,162,356</b>	-	<b>(42,359,770)</b>	<b>138,294,780</b>
Net loss for the period	-	-	-	(4,825,821)	(4,825,821)
<b>Total comprehensive loss for the year</b>	-	-	-	(4,825,821)	(4,825,821)
<b>Transactions with owners in their capacity as owners:</b>					
Cost of share based payments	-	832,194	-	-	832,194
Share issues	26,954,273	-	-	-	26,954,273
Costs of issues (net of tax)	(597,181)	-	-	-	(597,181)
Transfer of equity instruments expired unvested	-	(865,126)	-	865,126	-
<b>At 30 June 2010</b>	<b>205,849,286</b>	<b>1,129,424</b>	-	<b>(46,320,465)</b>	<b>160,658,245</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the year ended 30 June 2011

	2011 \$	2010 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees	(5,896,270)	(4,810,601)
Cost recovery from joint venture partners	1,088,822	133,522
Interest received	2,362,459	967,505
<b>Net cash (used in) operating activities (note 19)</b>	<b>(2,444,989)</b>	<b>(3,709,574)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditure on plant and equipment	(97,412)	(46,587)
Expenditure on motor vehicle	(90,184)	-
Expenditure on computer software	(273,981)	(38,145)
Investment in associate	(600,000)	-
Purchase of available for sale financial assets	(95,207)	-
Expenditure on exploration tenements	(13,298,870)	(3,132,291)
Proceeds from sale of 50% interest in WA-360-P	39,406,597	-
<b>Net cash from (used in) investing activities</b>	<b>24,950,943</b>	<b>(3,217,023)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from share issues	32,599,999	26,954,273
Transaction costs on issue of shares	(1,752,357)	(1,171,497)
Proceeds from sale of trustee shares	3,441,792	-
<b>Net cash from financing activities</b>	<b>34,289,434</b>	<b>25,782,776</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>56,795,388</b>	<b>18,856,179</b>
Cash and cash equivalents at beginning of period	35,989,225	17,200,481
Net foreign exchange differences	(2,530,979)	(67,435)
<b>Cash and cash equivalents at end of period (note 7)</b>	<b>90,253,634</b>	<b>35,989,225</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.





## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 30 June 2011

### NOTE 1/ CORPORATE INFORMATION

The financial report of MEO Australia Limited ("MEO Australia", or the "Company") for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 9 September 2011.

MEO Australia Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on Australian Stock Exchange.

The nature of operations and principal activities of the Group are described in Note 3.

### NOTE 2 / SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, and is presented in Australian dollars. The financial report has also been prepared on a historical cost basis.

#### (b) Compliance with IFRS

The financial report complies with Australian Accounting Standards issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### (c) New Accounting Standards and Interpretations

The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2010. These changes have no current material impact for the Group as at 30 June 2011:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project;
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2];
- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132];
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]; and
- Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments.

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2011. These changes have no current material impact for the Group as at 30 June 2011:

- AASB 9 Financial Instruments;
- AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12];
- AASB 124 (Revised) Related Party Disclosures (December 2009);
- AASB 2009-12 Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052];
- AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement;
- AASB 1053 Application of Tiers of Australian Accounting Standards;
- AASB 1054 Australian Additional Disclosures;
- AASB 2010-2 Amendments to Australian Accounting Standards arising from reduced disclosure requirements;
- AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13];
- AASB 2010-5 Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042];
- AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7];
- AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127];
- AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112];
- AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113];



## NOTE 2/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) New Accounting Standards and Interpretations (Continued)

- AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101, AASB 1054];
- AASB 10 Consolidated Financial Statements;
- AASB 11 Joint Arrangements;
- AASB 12 Disclosure of Interests in Other Entities; and
- AASB 13 Fair Value Measurement.

### (d) Basis of consolidation

The consolidated financial statements comprise the financial statements of MEO Australia Limited and its subsidiaries as at 30 June 2011 and the results of all the subsidiaries for the year then ended (the Group).

Subsidiaries are all those entities over which the group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income, expenses and profits and losses from intra group transactions, have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

### (e) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on judgements, estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

#### Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share options is determined by an external valuer using a binomial option pricing model, and using the assumptions detailed in note 24.

### Exploration and evaluation costs

Exploration and evaluation costs are accumulated separately for each area of interest and carried forward provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development or sale; or
- exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Significant judgement is required in determining whether it is likely that future economic benefits will be derived from the capitalised exploration and evaluation expenditure. In the judgement of the Directors, at 30 June 2011 exploration activities in each area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. Active and significant operations in relation to each area of interest are continuing and nothing has come to the attention of the Directors to indicate future economic benefits will not be achieved. The Directors are continually monitoring the areas of interest and are exploring alternatives for funding the development of areas of interest when economically recoverable reserves are confirmed. If new information becomes available that suggests the recovery of expenditure is unlikely, the amounts capitalised will need to be reassessed at that time.

### (f) Segment reporting

Operating segments are reported in a manner which is materially consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

### (g) Foreign currency translation

#### (i) Functional and presentation currency

Both the functional currencies of the entities in the Group and the presentation currency of the Group is Australian dollars (\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency and translated to the presentation currency as appropriate at year end.

#### (ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated report are taken to profit or loss.



## NOTE 2/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at bank and in hand and short-term deposits that are readily convertible to a known amount of cash and used for meeting short term cash needs.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### (i) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Certain derivatives do not qualify for hedge accounting and changes in the fair value are recognised immediately in profit or loss in other revenues and expenses. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives, except those that qualify as cash flow hedges are taken directly to profit or loss for the year.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

### (j) Investment and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

#### Available-for-sale-financial assets

Available-for-sale financial assets are those non-derivative financial assets, principally equity securities that are designated as available-for-sale or not classified as any of financial assets at fair value through profit and loss; held-to-maturity investments or loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis, and option pricing models, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

### (k) Investments in associates

The Group's investment in its associates is accounted for using the equity method of accounting in the consolidated financial statements and at cost in a subsidiary company. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

The Group generally deems they have significant influence if they have over 20% of the voting rights.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at costs plus post-acquisition changes in the Group's share of net assets of the associates.

The Group's share of an associate's profit or losses is recognised in the statement of comprehensive income, and its share of movements in reserves is recognised in reserves. The cumulative movements are adjusted against the carrying amount of the investment.

### (l) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets which range from 4 to 15 years.

### Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is written down to its recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.



## NOTE 2/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Plant and equipment (Continued)

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

### (m) Methanol and LNG project costs

Research and feasibility costs are expensed as incurred. Development expenditure incurred on a project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future revenue from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

### (n) Exploration and evaluation costs

Exploration and evaluation expenditure is carried at cost. If indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Exploration and evaluation costs are accumulated separately for each current area of interest and carried forward provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development or sale; or
- exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

### Impairment of exploration and evaluation costs

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits/(losses) and net assets will be varied in the period in which this determination is made.

### Farm-outs

The Group will account for farm-out arrangements as follows:

- The Group will not record any expenditure made by the farminee on its behalf;
- The Group will not recognise a gain or loss on the farm-out arrangement but rather will redesignate any costs previously capitalised in relation to the whole interest as relating to the partial interest retained; and
- Any cash consideration to be received will be credited against costs previously capitalised in relation to the whole interest with any excess to be accounted for by the Group as gain on disposal.

### (o) Intangible assets

Intangible assets acquired are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and method for an intangible asset with a finite useful life is reviewed at least annually. Changes in the expected useful life are accounted for by changing the amortisation period or method, which is a change in an accounting estimate. Amortisation expense is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

### (p) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance date which are classified as non-current assets. Loans and receivables are included in receivables in the consolidated statement of financial position.

### Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade date, the date on which the Group commits to purchase or sell the asset.

### Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

### Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

**NOTE 2/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(q) Interests in joint ventures****Jointly controlled assets**

A jointly controlled asset involves joint control and offers joint ownership by the Group and other venturers of assets contributed to or acquired for the purposes of the joint venture, without the formation of a corporation, partnership or entity.

The Group accounts for its share of the jointly controlled assets, and liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

**(r) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependant on the use a specific asset or assets and the arrangement conveys a right to use the asset.

Leases under which the lessor retains substantially all of the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised in the statement of comprehensive income on a straight-line basis over the lease term.

**(s) Trade and other payables**

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of the goods and services.

**(t) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

**(t) Provisions (Continued)****Employee leave benefits*****Wages, salaries, annual leave and sick leave***

Liabilities for wage and salaries, including non-monetary benefits and annual leave entitlements expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' service up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

***Long service leave***

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date in national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

**(u) Share-based payment transactions**

The Group provides benefits to employees (including directors) of, and consultants to, the Group in the form of share-based payment transactions, whereby services are rendered in exchange for shares or rights over shares ('equity-settled transactions'). There are currently two plans in place to provide these benefits:

- (i) Senior Executives and Officers Option Plan, which provides benefits to directors and senior executives, and
- (ii) MEO Australia Performance Plan which provides benefits to senior executives and consultants.

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value of options and performance rights with market based performance criteria is determined by an external valuer using a binomial option pricing model. The fair value of performance plan rights with non-market performance criteria is determined by reference to the Company's share price at date of grant.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the recipient becomes fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors, based on the best available information at balance date, will ultimately vest.



**NOTE 2/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(u) Share-based payment transactions (Continued)**

No adjustment is made for the likelihood of market conditions being met as the effect of these conditions is included in determination of fair value at grant date. The charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

**(v) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(w) Reserved shares**

Own equity instruments reacquired for later payment as employee share-based payment awards (treasury shares) are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the Group's own equity instruments.

**(x) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Specific recognition criteria must also be met:

**Interest income**

Revenue is recognised as the interest accrues using the effective interest method.

**(y) Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date.

Deferred income tax is provided on all temporary differences at balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be used, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when the deductible temporary differences is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be applied.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it is has become probable that future taxable profit will allow the deferred tax asset to be recovered.



## NOTE 2/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (y) Income tax (Continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right of set off exists to set off current tax assets against current liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxable authority.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

### Tax consolidation legislation

MEO Australia Limited and its wholly owned subsidiaries have implemented the tax consolidation legislation as of 1 July 2004.

The head entity, MEO Australia Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current tax and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, MEO Australia Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

### (z) Goods and services tax

Revenues, expenses and assets are recognised net of GST, except receivables and payables which are stated with GST included. Where GST incurred on a purchase of goods or services is not recoverable from the taxation authority, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (aa) Earnings per share

Basic earnings per share is calculated as net profit/(loss) attributable to members divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit/(loss) attributable to members divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

### (ab) Parent entity financial information

The financial information for the parent entity, MEO Australia Limited, disclosed in note 27 has been prepared on the same basis as the consolidated financial statements, except as set out below.

### (i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less accumulated impairment losses in the financial statements of MEO Australia Limited.



### NOTE 3/ SEGMENT INFORMATION

The Group's reportable segments are confined to development of methanol and LNG projects and petroleum exploration.

The following tables represent revenue, profit/(loss) information and certain asset and liability information regarding operating segments for the years ended 30 June 2011 and 30 June 2010.

Business Segments	Methanol & LNG Development		Petroleum Exploration		Consolidated	
	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$
<b>Revenue:</b>						
Segment income	-	-	29,611,847	-	29,611,847	-
Interest income					3,266,789	1,215,044
<b>Total consolidated revenue</b>					<b>32,878,636</b>	<b>1,215,044</b>
<b>Result:</b>						
Segment profit/(loss)	(18,204)	(423,519)	20,794,457	(338,617)	20,776,253	(762,136)
Non-segment revenue/(expenses):						
- Interest income					3,266,789	1,215,044
- Depreciation and amortisation					(139,170)	(116,040)
- Directors, employees and consultants					(5,061,229)	(3,218,563)
- Other					(1,508,774)	(1,302,375)
- Share of losses of an associate					(600,000)	-
- Foreign exchange (losses)					(2,530,979)	(67,435)
Profit (loss) before income tax					14,202,890	(4,251,505)
Income tax expense					(495,880)	(574,316)
<b>Net profit (loss) for the year</b>					<b>13,707,010</b>	<b>(4,825,821)</b>

**NOTE 4/ EXPENSES**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Directors, Employees and Consultants</b>		
Consultants fees and expenses	1,925,521	846,301
Tassie Shoal Project expenses	18,204	423,519
Directors remuneration (non-executive) including superannuation	284,360	218,000
Directors insurance	116,626	39,000
Fringe benefits tax	57,460	27,683
Payroll tax and workcover	152,586	121,657
Provision for annual and long service leave	57,664	57,855
Salaries (including executive director)	1,608,330	989,314
Share based payments	733,116	832,194
Superannuation	125,566	86,559
	5,079,433	3,642,082
<b>Other expenses</b>		
Administration and other expenses	338,460	244,755
Audit costs	86,700	66,500
Operating lease expenses	108,107	90,175
Stock exchange registry and reporting costs	235,346	294,910
Travel and corporate promotion costs	740,161	606,035
	1,508,774	1,302,375

## NOTE 5/ INCOME TAX

	Consolidated	
	2011 \$	2010 \$
<b>Statement of Comprehensive Income</b>		
<i>Current income tax</i>		
Current income tax credit/(expense)	(10,726,043)	1,758,431
Adjustment in respect of current income tax of previous years	-	161,596
Tax losses not recognised as not probable	-	(1,753,893)
Tax losses recognised and utilised	7,105,442	-
	(3,620,601)	166,134
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	3,124,721	(740,450)
	3,124,721	(740,450)
Income tax expense reported in the Statement of Comprehensive Income	(495,880)	(574,316)
<b>Statement of Changes in Equity</b>		
<i>Deferred income tax related to items charged or credited directly to equity</i>		
Unrealised gain on available-for-sale investments	(15,734)	-
Share issue costs	525,707	351,449
Not recognised as not probable	(315,424)	(210,870)
Amount recognised in respect of prior years share issue costs now considered probable	301,331	433,737
Income tax benefit reported in equity	495,880	574,316
<b>Tax Reconciliation</b>		
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit (loss) before tax	14,202,890	(4,251,505)
At the Group's statutory 30% tax rate (2010: 30%)	(4,260,867)	1,275,452
Adjustment in respect of current income tax of previous years	-	161,596
Taxable gain on farm-in of WA-360-P	(3,112,940)	-
Share based payment expense	(219,935)	(249,658)
Non-deductible expenses	(7,580)	(7,813)
Tax losses recognised and utilised	7,105,442	-
Tax losses not brought to account	-	(1,753,893)
Income tax expense reported in the Statement of Comprehensive Income	(495,880)	(574,316)

**NOTE 5/ INCOME TAX (CONTINUED)**

	Statement of Financial Position		Profit or Loss	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>Deferred Income Tax</b>				
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED				
<i>Deferred tax liabilities</i>				
Interest receivable	(354,805)	(83,506)	(271,299)	(74,261)
Available-for-sale investments	(15,734)	-	-	-
Exploration and evaluation costs	(34,081,759)	(37,265,272)	3,183,513	(626,510)
Gross deferred income tax liabilities	<u>(34,452,298)</u>	<u>(37,348,778)</u>		
<i>Deferred tax assets</i>				
Investment in associate	180,000	-	180,000	-
Accruals	165,311	150,102	15,209	(40,068)
Provisions	55,853	38,553	17,300	389
Share issue costs	827,038	981,232	-	-
Temporary differences not recognised as not probable	(315,424)	(477,206)	-	-
Tax losses brought to account to offset net deferred tax liability	33,539,520	36,656,097	(3,620,603)	166,134
Gross deferred income tax assets	<u>34,452,298</u>	<u>37,348,778</u>		
Net Deferred Tax Asset	-	-		
Deferred tax expense			<u>(495,880)</u>	<u>(574,316)</u>

**Tax consolidation**

(i) Members of the tax consolidated group

MEO Australia Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2004. MEO Australia Limited is the head entity of the tax consolidated group.

(ii) Tax effect accounting by members of the tax consolidated group

*Measurement method adopted under UIG 1052 Tax Consolidated Accounting*

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the principles in AASB 112 *Income Taxes*.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

**Tax losses**

At balance date, the Group has estimated unused gross tax losses of \$131,468,000 (2010 \$165,157,000) that are available to offset against future taxable profits subject to continuing to meet relevant statutory tests. To the extent that it does not offset a net deferred tax liability, a deferred tax asset has not been recognised in the accounts for these unused losses because it is not probable that future taxable profit will be available to use against such losses. Carry forward tax losses have been reduced in 2010-2011 due to the gain on disposal of 50% interest in WA-360-P.



### NOTE 6/ EARNINGS (LOSS) PER SHARE

Basic earnings/(loss) per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings/(loss) per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

For the year ended 30 June 2011 and for the comparative period, there are no dilutive potential ordinary shares as conversion of share options would decrease the loss per share and hence are non-dilutive as the share options were out of the money at year end.

The following data was used in the calculations of basic and diluted loss per share:

	Consolidated	
	2011 \$	2010 \$
Net profit/(loss)	13,707,010	(4,825,821)
	Shares	Shares
Weighted average number of ordinary shares used in calculation of basic and diluted loss per share	513,118,741	453,061,601

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

### NOTE 7/ CASH AND CASH EQUIVALENTS

	Consolidated	
	2011 \$	2010 \$
Cash at bank and in hand	160,050	1,317,538
Short term deposits	90,093,584	34,671,687
	90,253,634	35,989,225

Cash at bank earns interest at floating rates based on daily bank rates.

Short term deposits are made for varying maturities depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.



## NOTE 8/ TRADE AND OTHER RECEIVABLES

	Consolidated	
	2011 \$	2010 \$
Goods and services tax refund	59,430	57,683
Interest receivable	1,182,684	278,354
Other	214,070	793,798
	1,456,184	1,129,835

At balance date, there are no trade receivables that are past due but not impaired. Due to the short term nature of these receivables, their carrying value approximates fair value. Trade receivables are non-interest bearing and are generally on 30-90 day terms. Details regarding the credit risk of current receivables are disclosed in note 20.

## NOTE 9/ INVESTMENT IN ASSOCIATE

	Consolidated	
	2011 \$	2010 \$
Investment - unlisted entity	-	-
<b>Movements in the carrying value of the Group's investment in associate</b>		
Investment at 1 July 2010	-	-
Investment in associate	600,000	-
Share of losses after tax	(600,000)	-
Investment at 30 June 2011	-	-

## NOTE 10/ PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	2011 \$	2010 \$
<b>Plant and Equipment</b>		
At cost	334,515	237,103
Accumulated depreciation	(163,451)	(104,441)
	171,064	132,662
<i>Movement in Plant and Equipment</i>		
Net carrying amount at beginning of year	132,662	129,931
Additions	97,412	46,587
Depreciation	(59,010)	(43,856)
Net carrying amount at end of year	171,064	132,662

The useful life of the plant and equipment is estimated for 2011 and 2010 as 5 to 15 years.



## NOTE 11/ MOTOR VEHICLE

	Consolidated	
	2011 \$	2010 \$
<b>Motor Vehicle</b>		
At cost	90,184	-
Accumulated depreciation	(8,378)	-
	81,806	-
<i>Movement in Motor Vehicle</i>		
Net carrying amount at beginning of year	-	-
Additions	90,184	-
Depreciation	(8,378)	-
Net carrying amount at end of year	81,806	-

The useful life of the motor vehicle is estimated for 2011 as 8 years.

## NOTE 12/ LEASEHOLD IMPROVEMENTS

	Consolidated	
	2011 \$	2010 \$
At cost	110,659	110,659
Accumulated depreciation	(110,659)	(110,248)
	-	411
<i>Movement in Leasehold Improvements</i>		
Net carrying amount at beginning of year	411	31,519
Depreciation	(411)	(31,108)
Net carrying amount at end of year	-	411



## NOTE 13/ INTANGIBLE ASSETS

	Consolidated	
	2011 \$	2010 \$
Software licences at cost	490,215	216,234
Accumulated amortisation	(194,298)	(122,927)
	295,917	93,307
<i>Movement in Intangibles</i>		
Net carrying amounts at beginning of year	93,307	96,238
Additions	273,981	38,145
Amortisation	(71,371)	(41,076)
Net carrying amount at end of year	295,917	93,307

The useful life of the intangibles is estimated as 4 years.

## NOTE 14 / EXPLORATION AND EVALUATION COSTS

	Consolidated	
	2011 \$	2010 \$
Balance at beginning of year	124,217,572	122,129,208
Expenditure for the year	8,000,433	2,088,364
Exploration properties/licences acquired	5,071,159	-
Expenditure written-off during the year	(18,612,141)	-
	118,677,023	124,217,572

Capitalised exploration and evaluation costs at 30 June 2011 are \$118,677,023 (2010: \$112,705,807) which relate to NT/P68 (\$112,963,358), AC/P50 and AC/P51 (\$642,506), Seruway and South Madura Production Sharing Contracts in Indonesia (\$5,071,159). Capitalised costs at 30 June 2010 of \$9,785,841 relating to the Artemis prospect in WA-360-P and the deposit of \$1,725,924 relating to the acquisition of 5% interest in WA-360-P were written-off in 2011.

During the year, MEO received \$39,406,597 from Petrobras as a result of their 50% farm-in to WA-360-P. The cash received consists of \$7,633,335 for seismic related back-costs and cash bonus of \$31,773,262. Carried forward exploration costs for the Artemis area of interest (\$9,794,751) were applied against these proceeds.

Subsequent to the receipt of the cash consideration, MEO completed the purchase of an additional 5% participating interest in WA-360-P from Moby Oil and Gas for \$7,451,744.

The Artemis-1 dry hole result in WA-360-P and exploration in other permits resulted in exploration write-offs totalling \$18,612,141.



## NOTE 15/ AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Consolidated	
	2011	2010
	\$	\$
At fair value		
Shares – Australian listed	755,207	-

Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

Listed shares

The fair value of available-for-sale investments has been determined directly by reference to published quotations in an active market.

There are no individually material investments.

## NOTE 16/ TRADE AND OTHER PAYABLES

	Consolidated	
	2011	2010
	\$	\$
Trade payables	1,568,530	776,256

Trade payables are non-interest bearing and are normally settled on 30 day terms.

## NOTE 17/ PROVISIONS

	Consolidated	
	2011	2010
	\$	\$
CURRENT		
Employee benefits		
Annual leave entitlement	95,401	69,263
NON-CURRENT		
Employee benefits		
Long service leave entitlement	90,774	59,248



## NOTE 18/ CONTRIBUTED EQUITY AND RESERVES

	Consolidated			
	2011 Shares	2011 \$	2010 Shares	2010 \$
ISSUED AND PAID UP CAPITAL				
Ordinary shares	539,913,260	240,650,334	467,098,037	205,849,286
Ordinary shares issued pursuant to trustee stock scheme	-	-	10,122,918	-
	539,913,260	240,650,334	477,220,955	205,849,286
<b>Movements in Ordinary Shares</b>				
Balance at beginning of year	467,098,037	205,849,286	407,199,652	179,492,194
<i>Share Issues:</i>				
Placement of shares at \$0.52 per share	62,692,305	32,599,999	59,898,385	26,954,273
Transaction costs (net of tax)	-	(1,240,743)	-	(597,181)
Shares sold by Trustee of Trustee Stock Scheme	10,122,918	3,441,792	-	-
Balance at end of year	539,913,260	240,650,334	467,098,037	205,849,286

	Consolidated	Consolidated
	2011 Shares	2010 Shares
<b>Movements in Ordinary Shares Issued Pursuant to Trustee Stock Scheme</b>		
Balance at beginning of year	10,122,918	10,122,918
Shares sold by Trustee during the year	(10,122,918)	-
Balance at end of year	-	10,122,918

### (a) Terms and Condition of Ordinary Shares

Ordinary shares entitle their holder to receive dividends as declared. In the event of winding up the Company, ordinary shares entitle their holder to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up or which should have been paid up on shares held. Each ordinary share entitles the holder to one vote, either in person or by proxy, at a meeting of the Company. Ordinary shares issued during the year and since the end of the year, from date of issue rank equally with the ordinary shares on issue.

### (b) Trustee Stock Scheme

In 2000, the Company established a Trustee Stock Scheme, pursuant to which ordinary shares, ranking equally with other ordinary shares on issue, were issued to a trustee. In 2006, by orders of the Supreme Court of Victoria the vesting date of the plan was extended for 5 years to 25 August 2010. The Trustee Share Plan scheme closed on 25 August 2010 and has not been renewed.

### (c) Share Options

At 30 June 2011 11,400,000 options over unissued shares granted to directors/ex-directors, executives and consultants were outstanding. The options are granted pursuant to the Senior Executives and Officers Option Plan, details of which are set out in note 24.

## NOTE 18/ CONTRIBUTED EQUITY AND RESERVES (CONTINUED)

### (d) Capital Management

Capital is defined as equity. When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits of other stakeholders. All methods of returning funds to shareholders outside of dividend payments or raising funds are considered within the context of the Company's objectives.

The Group will seek to raise further capital, if required, as and when necessary to meet its projected operations. The decision of how the Group will raise future capital will depend on market conditions existing at that time. It is the Group's plan that this capital will be raised by any one or a combination of the following: placement of shares, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares to the public. Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the Company's intention to meet its obligations by either partial sale of the Company's interests or farmout, the latter course of action being part of the Company's overall strategy.

	Consolidated	
	2011 \$	2010 \$
<b>ACCUMULATED LOSSES</b>		
Balance at beginning of year	(46,320,465)	(42,359,770)
Net profit/(loss) for the year	13,707,010	(4,825,821)
Transfer from share based payments reserve		
Cost of equity instruments expired unvested	342,100	865,126
Balance at end of year	(32,271,355)	(46,320,465)

The Group is not subject to any externally imposed capital requirements.

	Consolidated		
	*Share based payments reserve \$	**Net unrealised gains reserve \$	Total \$
<b>OTHER RESERVES</b>			
<b>At 1 July 2009</b>	1,162,356	-	1,162,356
Cost of share based payments	832,194	-	832,194
Cost of unvested expired equity instruments transferred to accumulated losses	(865,126)	-	(865,126)
<b>At 30 June 2010</b>	1,129,424	-	1,129,424
Cost of share based payments	733,116	-	733,116
Cost of unvested expired equity instruments transferred to accumulated losses	(342,100)	-	(342,100)
Net gains on available-for-sale investments	-	52,445	52,445
Income tax on items taken directly to or transferred from equity	-	(15,734)	(15,734)
<b>At 30 June 2011</b>	1,520,440	36,711	1,557,151

\* Share based payments reserve

The share based payment reserve is used to record the value of share based payments provided to employees and contractors, including KMP's as part of their remuneration. Refer to note 24 for further details of the plan.

\*\* Net unrealised gain reserve

This reserve records movements in fair value of available for sale financial assets.



## NOTE 19 / CASH FLOW STATEMENT RECONCILIATION

### Reconciliation of net profit/(loss) after tax to net cash flows used in operating activities

	Consolidated	
	2011 \$	2010 \$
Net profit/(loss)	13,707,010	(4,825,821)
<i>Adjustments for:</i>		
Gain on disposal of 50% interest in WA-360-P	(29,611,847)	-
Share of losses of an associate	600,000	-
Exploration expenditure written-off	8,817,390	338,617
Depreciation and amortisation	139,170	116,040
Share based payments	733,116	832,194
Exchange rate adjustments	2,530,979	67,435
Deferred income tax expense	495,880	574,316
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(132,679)	(1,004,885)
(Decrease)/increase in trade and other payables	218,328	191,233
(Decrease)/increase in provisions	57,664	1,297
Net cash flows (used in) operating activities	(2,444,989)	(3,709,574)

## NOTE 20 / FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise cash and short term deposits, the main purpose of which is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also has an investment in listed shares. The main risks arising from the Group's financial instruments are credit risk, interest rate risk, exchange rate risk, share price risk and liquidity risk. The Board of Directors has reviewed each of those risks and has determined that they are not significant in terms of the Group's current activities. The Group also enters into derivative financial instruments, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations. Speculative trading in derivatives is not permitted. There are no derivatives outstanding at 30 June 2011 (2010: \$nil).

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the consolidated financial statements.

### *Credit risk*

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the results being that the Group's exposure to bad debts is not significant.

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. No collateral is held as security. Exposure at balance date is the carrying value as disclosed in each applicable note.

## NOTE 20/ FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and cash equivalents with a floating interest rate:

	Consolidated	
	2011 \$	2010 \$
Cash and cash equivalents	90,253,634	35,989,225

Short term deposits are made for varying periods depending on the immediate cash requirements of the group, and earn interest at the respective short term deposit rates.

Taking into account past performances, future expectations economic forecasts, and management's knowledge and experience of the financial markets, the group believes that +/- 1.0% from the year-end Australian rates of 6.0% (2010: 5.5%) represents the 'reasonably possible' movement interest rates over the next 12 months. The following is the impact of this on the profit or loss with all other variables including foreign exchange rates held constant:

	Consolidated Net Profit	
	2011 \$	2010 \$
+ 1.0% (100 basis points) increase in interest rates with all other variables held constant	654,000	349,000
- 1.0% (100 basis points) decrease in interest rates with all other variables held constant	(654,000)	(349,000)

There is no impact on equity other than the above net profit sensitivities on retained earnings/accumulated losses.

### Foreign currency risk

The Group's exposure to exchange rate risk relates primarily to trade payables and cash denominated in US dollars. Where a payable is significant, US dollars are purchased on incurring the liability or commitment. The Group also manages its currency risk through the active management of its exposures. This includes entering into various forward currency contracts throughout the year. At balance date and at 30 June 2010, all the contracts were closed.

The Group's exposure to its unhedged financial assets and liabilities is as follows:

	Consolidated	
	2011 \$	2010 \$
<b>USD</b>		
Cash	26,570,176	1,702,523
Total Financial Assets	26,570,176	1,702,523
Trade Creditors	142,636	-
Total Financial Liabilities	142,636	-



## NOTE 20/ FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The following sensitivity analysis is based on the foreign currency risk exposure in existence at the balance date, with all other variables remaining constant:

	Consolidated Net Profit	
	2011 \$	2010 \$
10% weakening in AUD/USD rate (for 2011 from 1.0739 to 1.1813 and for 2010 from 0.85 to 0.77) with all other variables held constant	(2,249,000)	(155,000)
10% strengthening in AUD/USD rate (for 2011 from 1.0739 to 0.96651 and for 2010 from 0.85 to 0.94) with all other variables held constant	2,749,000	189,000

A sensitivity of 10% has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on a 5 year historical basis and market expectations for potential future movement.

There is no impact on equity other than the above net profit sensitivities on retained earnings/accumulated losses.

### Share Price Risk

The Group's exposure to share price risk relates primarily to available-for-sale investment in the listed ordinary shares. The Group tracks this holding as an equity investment, and closely monitors the performance and value of the investment.

The Group has applied a sensitivity of movement in the share price based on movements over the last financial year.

	Consolidated Net Profit	
	2011 \$	2010 \$
10% increase in share price	75,521	-
10% decrease in share price	(75,521)	-

### Liquidity Risk

The Group's exposure to financial obligations relating to corporate administration and exploration expenditure, are subject to budgeting and reporting controls, to ensure that such obligations do not exceed cash held and known cash inflows for a period of at least 1 year.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built in an appropriate liquidity risk framework for the management of the Group's short, medium and longer term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate equity funding through the monitoring of future cash flow forecasts of its operations, which reflect management's expectations of the settlement of financial assets and liabilities.

The Group has limited financial resources and will need to raise additional capital from time to time and such fund raisings may be subject to factors beyond the control of the Company and its directors. When MEO requires further funding for its programs, then it is the Company's intention that the additional funds will be raised by any one or a combination of the following: placement of shares, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares to the public. Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the Company's intention to meet its obligations by either partial sale of the Company's interests or farmout, the latter course of action being part of the Company's overall strategy.

### Maturity Analysis

At balance date, the group holds \$1,568,530 of financial liabilities consisting of trade and other payables. All financial liabilities have a contractual maturity of 30 days.

### Fair Values

The aggregate net fair values of the financial assets and liabilities are the same as the carrying values in the statement of financial position.

## NOTE 21/ COMMITMENTS AND CONTINGENCIES

### (a) Commitments

	Consolidated	
	2011 \$	2010 \$
<b>Exploration Commitments</b>		
<b>- NT/P68 (MEO 50%*)</b>		
Estimated cost of minimum work requirements contracted for under exploration permit is estimated at balance date		
Payable not later than one year	1,000,000	200,000
Payable later than one year but not later than five years	125,000	2,245,000
	<u>1,125,000</u>	<u>2,445,000</u>

In February 2010, the Designated Authority on behalf of the Joint Authority for the Offshore Area of the Northern Territory renewed the NT/P68 exploration permit for a further five years with a minimum commitment being the primary term of the first three years.

\* MEO announced a 50% farm-in to NT/P68 by Eni Australia Limited in May 2011. MEO Australia, through its wholly-owned subsidiaries, TSP Arafura Petroleum Pty Ltd and Oz-Exoil Pty Ltd, holds a 50% interest in the NT/P68 Joint Venture following registration by the Designated Authority of Eni Australia Limited as a joint venture participant.

#### - WA-360-P (MEO 25%)

The year six permit year ends on 31 January 2012 and commitments consist of geotechnical studies of \$200,000 (100% terms).

#### - WA-361-P (MEO 50%)

Estimated cost of minimum work requirements contracted for under exploration permit is estimated at balance date

Payable not later than one year	1,100,000	200,000
Payable later than one year but not later than five years	125,000	2,245,000
	<u>1,225,000</u>	<u>2,445,000</u>

In January 2011, the Designated Authority on behalf of the Commonwealth-Western Australia Joint Authority renewed WA-361-P for a further five years with a minimum commitment being the primary term of the first three years.

#### - AC/50, AC/P51, AC/P53 WA-454-P (MEO 100%)

Estimated cost of minimum work requirements contracted for under exploration permit is estimated at balance date

Payable not later than one year	11,800,000	-
Payable later than one year but not later than five years	4,800,000	-
	<u>16,600,000</u>	<u>-</u>

	Consolidated	
	2011 US\$	2010 US\$
<b>- Seruway (MEO 100%) and South Madura Production Sharing Contracts (MEO 30%)</b>		
Estimated cost of minimum work requirements contracted for under exploration permit is estimated at balance date		
Payable not later than one year	3,500,000	-
Payable later than one year but not later than five years	10,000,000	-
	<u>13,500,000</u>	<u>-</u>

There are no material commitments or contingencies other than as set out in this note.



## NOTE 22/ RELATED PARTY DISCLOSURES

### Subsidiaries

The consolidated financial statements include the financial statements of MEO Australia Limited, and the following subsidiaries.

	Country of Incorporation	% of Equity Interest	
		2011 %	2010 %
North West Shelf Exploration Pty Ltd	Australia	100	100
Methanol Australia Pty Ltd	Australia	100	100
LNG Australia Pty Ltd	Australia	100	100
TSP Arafura Petroleum Pty Ltd	Australia	100	100
Oz-Exoil Pty Ltd	Australia	100	100
Innovative Energy Pty Ltd** (previously Offshore LNG Pty Ltd)	Australia	100	100
Offshore Methanol Pty Ltd	Australia	100	100
Gastech Systems Pty Ltd	Australia	100	100
Vulcan Exploration Pty Ltd	Australia	100	-
MEO International Pty Ltd*	Australia	100	-
Seruway Offshore Exploration Limited	British Virgin Islands	100	-
South Madura Exploration Company Ltd	British Virgin Islands	100	-

\* MEO International Pty Ltd was incorporated in 2011 and holds a 100% interest in Seruway Offshore Exploration Limited which in turn holds a 100% interest in the Seruway Production Sharing Contract in Indonesia. MEO International also holds a 100% interest in South Madura Exploration Company Ltd which in turn holds a 30% interest in the South Madura Production Sharing Contract in Indonesia.

\*\* Innovative Energy holds a 50% interest in Territory Biofuels Pty Limited a company incorporated in Australia.



## NOTE 23/ KEY MANAGEMENT PERSONNEL

### Directors

N M Heath            G A Short            M J F Sweeney            S W Hopley

### Executives

J Hendrich            C H Naylor            R J D Gard

### Consultants holding key management positions

K Hendrick            Implementation Manager            D Maughan            Exploration Manager

There were no other changes to the directors and executive after the reporting date and before the date the financial report was authorised for issue.

### Compensation of key management personnel by category:

	Consolidated	
	2011 \$	2010 \$
Short term employee benefits and fees	1,941,873	1,479,665
Post employment benefits	207,010	242,996
Share-based payments	490,248	832,194
Long service leave	25,960	31,653
	<b>2,665,091</b>	<b>2,586,508</b>

Details of compensation of individual key management personnel are set out in the Remuneration Report.

During the year executive and other fees were paid by the Group to entities controlled by directors as follows:

	Executive and Other Fees Paid		Outstanding at Balance Date	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>Director</b>				
G A Short	60,850	10,800	-	-
S J Hopley	6,000	10,000	-	-
	<b>66,850</b>	<b>20,800</b>	-	-



## NOTE 23/ KEY MANAGEMENT PERSONNEL (CONTINUED)

### Movement in shares

The movement during the reporting period in the number of ordinary shares in MEO Australia Limited held directly, indirectly or beneficially, by key management personnel, including their related parties, is as follows:

30 June 2011	Held at 1 July 2010	Purchases	Received on Exercise of Options	Sales	Held at 30 June 2011
<b>Shares held in MEO Australia Limited (number)</b>					
<b>Directors</b>					
N M Heath	1,000,000	35,088	-	-	1,035,088
G A Short	112,444	95,000	-	-	207,444
M J F Sweeney	139,984	-	-	-	139,984
S W Hopley	70,000	-	-	-	70,000
<b>Executives</b>					
J Hendrich	1,700,000	-	-	(439,000)	1,261,000
C H Naylor	490,000	-	-	-	490,000
R J D Gard	2,200,000	-	-	(200,000)	2,000,000
<b>Contractors</b>					
D Maughan	221,600	95,898	-	-	317,498
K Hendrick	1,555,000	-	-	-	1,555,000

No shares were granted to key management personnel during the reported period as compensation.

30 June 2010	Held at 1 July 2009	Purchases	Received on Exercise of Options	Sales	Held at 30 June 2010
<b>Shares held in MEO Australia Limited (number)</b>					
<b>Directors</b>					
N M Heath	916,341	83,659	-	-	1,000,000
G A Short*	89,957	22,487	-	-	112,444
M J F Sweeney	139,984	-	-	-	139,984
S W Hopley	-	70,000	-	-	70,000
<b>Executives</b>					
J Hendrich**	1,261,000	439,000	-	-	1,700,000
C H Naylor	390,000	100,000	-	-	490,000
R J D Gard	2,020,000	180,000	-	-	2,200,000
<b>Contractors</b>					
D Maughan	221,600	-	-	-	211,600
K Hendrick	1,505,000	50,000	-	-	1,555,000

\* Purchases include purchase of shares on market pursuant to Directors' Share Savings Plan. No shares were granted to key management personnel during the reported period as compensation.

\*\* Includes 439,000 shares purchased by entity controlled by spouse of Managing Director and Chief Executive Officer.



## NOTE 23/ KEY MANAGEMENT PERSONNEL (CONTINUED)

### Options over equity instruments

The movement during the reporting period in the number of options over ordinary shares in MEO Australia Limited held, directly, indirectly and beneficially by key management personnel, including their related parties is as follows:

	Held at 1 July 2010	Granted as Remuneration	Options Exercised	Options Lapsed	Held at 30 June 2011	Vested in 2011	Vested and exercisable at 30 June 2011
<b>Options (number)</b>							
<b>Directors</b>							
M J Sweeney	1,000,000	-	-	-	1,000,000	-	1,000,000
S W Hopley	1,000,000	-	-	-	1,000,000	-	1,000,000
<b>Executives</b>							
J Hendrich	4,200,000	-	-	1,100,000	3,100,000	-	-
C H Naylor	900,000	-	-	-	900,000	450,000	900,000
R J D Gard	900,000	-	-	-	900,000	450,000	900,000
<b>Contractors</b>							
D Maughan	450,000	-	-	-	450,000	225,000	450,000
K Hendrick	450,000	-	-	-	450,000	225,000	450,000

	Held at 1 July 2009	Granted as Remuneration	Options Exercised	Options Lapsed	Held at 30 June 2010	Vested in 2010	Vested and exercisable at 30 June 2010
<b>Options (number)</b>							
<b>Directors</b>							
N M Heath	1,000,000	-	-	1,000,000	-	-	-
J Hendrich	1,000,000	-	-	1,000,000	-	-	-
G A Short	1,000,000	-	-	1,000,000	-	1,000,000	-
M J Sweeney	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000
S W Hopley	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000
<b>Executives</b>							
J Hendrich	5,300,000	-	-	1,100,000	4,200,000	-	-
C H Naylor	1,300,000	-	-	400,000	900,000	450,000	450,000
R J D Gard	900,000	-	-	-	900,000	450,000	450,000
<b>Contractors</b>							
D Maughan	450,000	-	-	-	450,000	225,000	225,000
K Hendrick	450,000	-	-	-	450,000	225,000	225,000



## NOTE 24/ SHARE BASED PAYMENT PLANS

### Senior Executives and Officers Option Plan

Share options are granted to senior executives and non-executive directors. There were 3,600,000 share options granted during the financial year (2010: nil).

#### Movements in share options on issue during the year:

	2011 Options	2010 Options
Outstanding at the beginning of the year	8,900,000	13,400,000
Granted during the year	3,600,000	-
Lapsed during the year	(1,100,000)	(4,500,000)
Exercised during the year	-	-
Outstanding at the end of the year	11,400,000	8,900,000

In October 2010, 1,500,000 share options were granted to an executive exercisable at a price of 50 cents per option on or before 4 October 2015. These options vest 50% on 4 October 2011 and 50% on 4 October 2012.

The fair value of the options at date of grant was estimated to be 22.8 cents for the options vesting on 4 October 2011 and 25.1 cents for options vesting on 4 October 2012. The fair value was determined using a Binomial pricing model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	81%	Contractual life (years)	5
Risk-free interest rate	4.9%	Dividend yield	0%
Early exercise multiple/estimated life for options expiring 4 October 2011	3.8 years	Early exercise multiple/estimated life for options expiring 4 October 2012	4.2 years

The total amount expensed in the year relating to these share options was \$198,844.

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on historical exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future.

In May 2011, 1,200,000 share options were granted to an executive exercisable at a price of 50 cents per option on or before 4 April 2016. These options vest 50% on 4 April 2012 and 50% on 4 April 2013.

The fair value of the options at date of grant was estimated to be 9.1 cents for the options vesting on 4 April 2012 and 10.2 cents for options vesting on 4 April 2013. The fair value was determined using a Binomial pricing model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	94%	Contractual life (years)	5
Risk-free interest rate	5.0%	Dividend yield	0%
Early exercise multiple/estimated life for options expiring 4 April 2012	3.0 years	Early exercise multiple/estimated life for options expiring 4 April 2013	3.5 years

The total amount expensed in the year relating to these share options was \$21,300.

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on historical exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future.

In June 2011, 900,000 share options were granted to an executive exercisable at a price of 50 cents per option on or before 1 March 2016. These options vest 50% on 1 March 2012 and 50% on 1 March 2013.

## NOTE 24/ SHARE BASED PAYMENT PLANS (CONTINUED)

The fair value of the options at date of grant was estimated to be 9.7 cents for the options vesting on 1 March 2012 and 10.9 cents for options vesting on 1 March 2013. The fair value was determined using a Binomial pricing model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	94%	Contractual life (years)	5
Risk-free interest rate	5.1%	Dividend yield	0%
Early exercise multiple/estimated life for options expiring 1 March 2012	3.0 years	Early exercise multiple/estimated life for options expiring 1 March 2013	3.5 years

The total amount expensed in the year relating to these share options was \$22,725.

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on historical exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future.

In June 2009, 2,700,000 share options were granted to executives exercisable at a price of 50 cents per option on or before 30 June 2012. These options vest 50% on 30 June 2010 and 50% on 30 June 2011.

The fair value of the options at date of grant was estimated to be 10.72 cents for the options vesting on 30 June 2010 and 13.28 cents for options vesting on 30 June 2011. The fair value was determined using a Barrier Option pricing model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	130%	Contractual life (years)	4
Risk-free interest rate	4.56%	Dividend yield	0%
Early exercise multiple/estimated life for options expiring 30 June 2010	2.72 years	Early exercise multiple/estimated life for options expiring 30 June 2011	2.88 years

The total amount expensed in the year relating to these share options was \$89,391 (2010: \$233,958).

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on historical exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future.

At the Annual General Meeting of Shareholders on 13 November 2008 shareholders approved the granting of 1,000,000 options exercisable at a price of 50 cents per option on or before 30 September 2011 to each of Messrs M J F Sweeney and S W Hopley. These options vested on 30 September 2009.

The fair value of the options at date of grant was estimated to be 3.82 cents. The fair value was determined using a Barrier Option pricing model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	95%	Contractual life (years)	4
Risk-free interest rate	3.76%	Dividend yield	0%
Early exercise multiple/estimated life	2.7 years		

There was no amount expensed in the year relating to these share options (2010: \$19,100).

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on historical exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future.

On 16 June 2008, 5,300,000 share options were granted to the Chief Executive Officer, Mr J Hendrich.

The share options package is based entirely on the share price performance of the MEO; details are as follows:-

- 1.1 million Options, granted at an option price of 50 cents, vest after 50 trading days at a price at or above 85 cents, but lapse on 30 June 2010. These options lapsed on 30 June 2010 as the share price hurdle was not achieved.
- 1.1 million Options, granted at an option price of 85 cents, vest after 50 trading days at a price at or above 120 cents, but lapse on 30 June 2011. These options lapsed on 30 June 2011 as the share price hurdle was not achieved.
- 1.1 million Options, granted at an option price of 120 cents, vest after 50 trading days at a price at or above 160 cents, but lapse on 30 September 2011.

The expiry date for all options is 30 June 2012.



## NOTE 24/ SHARE BASED PAYMENT PLANS (CONTINUED)

The following is a market capitalisation target

- 2 million options are granted at an option price of \$1.00. These Options vest when the market capitalisation of MEO reaches or exceeds \$1 billion for 30 trading days, but lapse on September 30, 2011.

The expiry date for these options is 30 June 2012.

The fair value of the options at date of grant is estimated to be 32.1 cents for the tranche of 50 cents options, 31.1 cents for the tranche of 85 cent options, 28.5 cents for the tranche of \$1.20 options and 23.1 cents for the tranche of \$1.00 options. The fair value was determined using a Barrier Option pricing model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	95%	Contractual life	4 years
Risk-free interest rate	6.805%	Dividend yield	0%
Estimated life – 50 cent options	1.8 years	Estimated life – 85 cent options	2.8 years
Estimated life – 120 cent options	3.1 years	Estimated life – 100 cent options	3.4 years

The total amount expensed in the year relating to these share options was \$400,856 (2010:\$573,803).

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on historical exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future.

## NOTE 25/ AUDITORS' REMUNERATION

	Consolidated	
	2011 \$	2010 \$
Amounts received or due and receivable by Ernst & Young (Australia) for:		
Audit or review of the financial reports	86,700	66,500
Non-audit services: Tax advice & Risk Management services	25,960	5,000
	112,660	71,500
Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:		
Due diligence services provided by overseas Ernst & Young firm	33,264	-
	145,924	71,500

## NOTE 26/ INTERESTS IN JOINTLY CONTROLLED ASSETS

MEO Australia, through its wholly-owned subsidiaries, TSP Arafura Petroleum Pty Ltd and Oz-Exoil Pty Ltd, holds a 50% interest in the NT/P68 Joint Venture following registration by the Designated Authority of Eni Australia Limited as a joint venture participant. The principal activity of the joint venture is the exploration, development and production of hydrocarbons.

MEO Australia, through its wholly-owned subsidiary - North West Shelf Exploration Pty Ltd, holds a 25% interest in WA-360-P and a 50% interest in WA-361-P. The principal activity of the joint venture is the exploration, development and production of hydrocarbons.

MEO Australia, through its wholly-owned subsidiary - South Madura Exploration Company Ltd, holds a 30% interest in the South Madura Production Sharing Contract. The principal activity of the joint venture is the exploration, development and production of hydrocarbons.

### Commitments related to joint venture assets

Commitments relating to the joint venture assets are set out in Note 21 to the accounts.

### Contingent liabilities

As at 30 June 2011, there are no contingent liabilities relating to NT/P68 or WA-361-P, WA-360-P or South Madura joint ventures.

## NOTE 27/ PARENT ENTITY INFORMATION

	2011 \$	2010 \$
<b>Information relating to MEO Australia Limited</b>		
Current assets	91,389,397	36,011,211
<b>Total assets</b>	<b>203,405,977</b>	<b>161,346,313</b>
Current liabilities	1,548,403	702,116
<b>Total liabilities</b>	<b>1,639,177</b>	<b>761,364</b>
Issued capital	238,261,144	203,971,710
Share based payments reserve	1,520,440	1,129,424
Accumulated losses	(38,014,784)	(44,516,185)
<b>Total shareholders' equity</b>	<b>201,766,800</b>	<b>160,584,949</b>
Profit/(loss) of the parent entity	6,159,301	(4,251,504)
Total comprehensive income /(loss) of the parent entity	6,159,301	(4,251,504)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries	n/a	n/a
Details of any contingent liabilities of the parent entity	n/a	n/a
Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment.	n/a	n/a

## NOTE 28/ EVENTS SUBSEQUENT TO BALANCE DATE

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 Group, the results of those operations, or state of affairs of the Group, in future financial years.



# Directors' Declaration

In accordance with a resolution of the directors of MEO Australia Limited, I state that:

In the opinion of the directors:

- (a) The financial statements, notes and the additional disclosures included in the Directors' Report designated as audited, of the Company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
  - (i) Giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date.
  - (ii) Complying with Accounting Standards and *Corporations Regulations 2001*.
- (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.
- (c) The financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2011.

**On behalf of the Board**

**J HENDRICH**

**Managing Director & Chief Executive Officer**

Melbourne, 9 September 2011

## Independent Auditor's Report to Members of MEO Australia Limited

### Report on the Financial Report

We have audited the accompanying financial report of MEO Australia Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b), the directors also state that, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.



**Opinion**

In our opinion:

- a. the financial report of MEO Australia Limited is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(b).

**Report on the Remuneration Report**

We have audited the Remuneration Report included on pages 19 to 24 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Opinion**

In our opinion, the Remuneration Report of MEO Australia Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Matthew A. Honey  
Partner  
Melbourne  
9 September 2011

# Shareholder and Other Information

Compiled as at 9 September 2011



## A/ DISTRIBUTION OF EQUITY SECURITIES

### (i) Ordinary Share Capital

539,913,260 fully paid ordinary shares are held by 11,536 individual shareholders.

All issued ordinary shares carry one vote per share and carry rights to dividends. On a show of hands, every member at a meeting of shareholders shall have one vote and upon a poll each share shall have one vote.

### (ii) Unquoted Options on Issue

11,900,000 options are held by 10 individual option holders.

There are no voting rights attached to these options.

The number of shareholders, by size of holding and the total number of shares on issue:

Ordinary Shares	No. of Holders	No. of Shares
1 – 1,000	991	480,388
1,001 – 5,000	2,769	8,830,852
5,001 – 10,000	2,294	18,897,351
10,001 – 100,000	4,776	168,554,502
100,001 and over	706	343,150,167
TOTAL ON ISSUE	11,536	539,913,260

2,106 holders holding 2,561,798 shares held less than a marketable parcel of ordinary shares. There is no current on-market buy-back.

## B/ SUBSTANTIAL SHAREHOLDERS

The Company has one Substantial Shareholder as at 9 September - Bentley Capital Limited holding 27,000,000 shares representing 5.00% of total ordinary issued shares.



## C/ 20 LARGEST HOLDERS OF ORDINARY SHARES

Holder	Ordinary Shares	% of total on issue
National Nominees Limited	33,283,009	6.16%
Bentley Capital Limited	27,000,000	5.00%
Credit Suisse Securities (Europe) Ltd	11,750,000	2.18%
HSBC Custody Nominees (Australia) Limited	9,979,439	1.85%
JP Morgan Nominees Australia Limited (Cash Income A/C)	9,604,413	1.78%
J P Morgan Nominees Australia Limited	9,237,158	1.71%
Mr. Mark Jeffrey Hanrahan	6,000,000	1.11%
Raydale Holdings Pty Ltd	5,550,000	1.03%
Merrill Lynch (Australia) Nominees Pty Limited	4,380,745	0.81%
HSBC Custody Nominees (Australia) Limited - A/C 2	4,139,550	0.77%
Mr. Maxwell Thomas Quirk	3,500,000	0.65%
Citicorp Nominees Pty Limited	3,252,388	0.60%
Aurisch Investments Pty Ltd	3,000,000	0.56%
Bourse Securities Pty Ltd	2,823,750	0.52%
E & P Investments Australia Pty Ltd	2,694,308	0.50%
Queensland Investment Corporation	2,692,200	0.50%
ACN 139 886 025 Pty Ltd	2,610,770	0.48%
Bentley Capital Limited	2,349,898	0.44%
Alrene Pty Ltd	2,200,000	0.41%
Mr Nam Chan Cho	2,100,000	0.39%

The 20 largest shareholders hold 148,147,628 shares representing 27.44% of the shares on issue.





**MEOAustralia**  
energy for the future