



MEOAustralia
energy for the future

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20th March 2015

By ASX online platform

Companies Announcement Office
ASX Limited
Level 4
North Tower, Rialto
525 Collins Street
MELBOURNE VIC 3000

Dear Sir / Madam

Chairman's Letter to MEO Shareholders

Please find attached a copy of a letter to be sent by the MEO Chairman to MEO shareholders in relation to the Off-market takeover bid by Mosman Oil and Gas Limited.

A handwritten signature in black ink, appearing to read 'Colin Naylor'.

Mr Colin Naylor
Chief Financial Officer & Company Secretary
MEO Australia Limited



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Dear MEO Shareholder

RE: Mosman Oil and Gas Limited (Mosman) Offer for MEO Australia Limited (MEO)

MEO is aware of the multiple letters sent to MEO shareholders by Mosman since 2nd March, 2015, including advice to MEO shareholders that Mosman has extended the Mosman Offer until 8th May, 2015.

MEO stands by the Target's Statement and the First Supplementary Target's Statement. Spurious allegations by Mosman that the Target's Statement is incorrect, are themselves misleading.

Notwithstanding the ongoing unsolicited Mosman Offer, MEO remains focussed on managing its core business of progressing its portfolio of exploration projects and commercialisation of its assets as well as continuing with its active new ventures program.

The directors of MEO reiterate their recommendation that MEO shareholders **REJECT the Mosman Offer for the following reasons:**

- Mosman has limited cash and its ability to continue as a going concern is uncertain;
- When announced, the revised Mosman Offer represented a discount of approximately 18.8% to the MEO Share closing price and the Mosman share price has since been volatile;
- Mosman may issue up to 21.1 million more Mosman shares before 30 September 2015, diluting shareholders to an unknown extent; and
- The Mosman Offer is highly conditional, opportunistic and uncertain.

To **REJECT the Mosman Offer, MEO shareholders should **simply do nothing** and not respond to any telephone calls or documents received from Mosman.**

MEO provides the following response to the correspondence from Mosman, which should be read in conjunction with MEO's Target Statement dated 25th February 2015 and First Supplementary Target's Statement dated 18th March, 2015.

Overview

Your directors consider it misleading for Mosman in its correspondence to equate accepting the Mosman Offer with obtaining shares in a growing company, while implying that rejection of the Mosman Offer is a decision with risk of "additional losses". Mosman fails to point out in its letters dated 3rd, 16th and 17th March, 2015 that **there are a number of significant risks for MEO shareholders that accept the Mosman Offer** and, conversely, that **remaining an MEO shareholder has considerable upside potential**; after all, Mosman are offering to acquire MEO.

Specific issues your directors would like to bring to your attention are:

1. Mosman needs funds and wants access to MEO's cash

- Mosman appears to have a funding shortfall for its own commitments, as evidenced by its independent auditor noting that at 31 December 2014 **Mosman had only \$1.06 million of working capital surplus** and that there was material uncertainty related to events or conditions that may cast significant doubt on Mosman's ability to continue as a going concern.
- Compounding this funding shortfall, Mosman highlights in its Replacement Bidder's Statement that **it expects to spend an estimated total of \$648,000 on the MEO Offer.**

2. Mosman has a questionable track record

- Mosman's management team refers to their track record of achieving tangible results. In 2014, Mosman raised approximately A\$12 million via placements and as at the end of February 2015, the company had whittled down their cash balance to A\$2 million – **a level the company's auditors believe casts significant doubt over Mosman's ability to continue as a going concern.**
- Mosman also notes in its Replacement Bidder's Statement that it does not have a long established track record, has no properties producing positive cash flow and has never earned profits.
- MEO's directors are sceptical of Mosman's claim of an impressive track record of exploration success. According to the Independent Technical Asset Report in Mosman's Replacement Bidders Statement, the Crestal-1 and Cross Roads-1 wells have discovered a total of 24,540 Bbls contingent resources in a P50 case. Despite spending a considerable period of time testing, these wells have not produced hydrocarbons at rates which suggest commercially viable discoveries. **Given Mosman has capitalised approximately A\$6.4 million in New Zealand, these resources have come at a finding cost of over A\$260 per barrel.** To the MEO directors this track record is not a persuasive argument to support accepting the Mosman Offer.

3. Trading Shares on the UK based AIM Market is more complex than the ASX

- **Any Mosman shares issued to MEO shareholders on the AIM market would be provided in a paper share certificate**, which will not be able to be traded on AIM directly or via Australian based online trading platforms, and hence as a Mosman shareholder based in Australia you must use a broker to trade them.
- MEO directors consider **the process to convert and trade Mosman shares on AIM is substantially more complex and potentially more costly** than trading MEO shares on the ASX.
- On 3rd March, 2015 Mosman announced on AIM that they had engaged Patersons Securities Limited (“Patersons Securities”) to assist MEO shareholders who would like some help to facilitate the sale of their Mosman securities. MEO understands that, in relation to the process of trading Mosman share certificates on AIM, Patersons Securities set accounts up for MEO clients (without charge), who would then lodge the Mosman share certificates through Patersons Securities. MEO also understands the charges typically include:
 - a) **Brokerage = 1% or \$100 min per transaction;**
 - b) International Administration fee = \$99 or .33% per transaction;
 - c) International stock lodgement fee= \$55; and
 - d) **International Custody fee = \$22 per month** (on a per account basis).

Mosman has not disclosed the charges agreed with Patersons Securities, and it is possible that Patersons Securities and Mosman have agreed different charges.

4. MEO has already substantially cut corporate overheads

- **MEO has now cut corporate overheads dramatically** and is on track toward its cost target of approximately \$2.5 million per annum from 1st March 2015. There will be one-off restructuring costs which will be reported in MEO’s March 2015 quarterly update.

5. MEO’s portfolio has significant potential upside for MEO shareholders

- **MEO has an extensive portfolio of 9 permits in Australia and New Zealand, containing a number of existing discoveries and prospects defined in 3D seismic data.** MEO also has the Tassie Shoal Methanol and LNG projects and an active business development program which is already yielding results such as Block 9, onshore Cuba.
- **MEO is actively progressing projects across its whole portfolio, but in just the past two weeks has achieved important milestones:**
 - **Beehive Prospect (WA-488-P):** The Beehive prospect in MEO’s WA-488-P permit is one of the largest hydrocarbon prospects in Australia. MEO has farmed out (subject to final farm in documentation and customary regulatory approvals) a 30% interest in WA-488-P to an international exploration company (“Farminee”). As part of the commercial structure agreed with the Farminee, options are in place for the Farminee to fund a 3D seismic survey and the Beehive-1 well. **If these options are utilised by the Farminee or its nominee, MEO will have a full carry through a**

Beehive-1 well for its residual 20% participating interest. MEO continues to engage with a number of other parties who are also evaluating WA-488-P.

- **Breakwater Prospect (WA-454-P):** MEO is partially funded by Origin Energy Resources Ltd for the Breakwater-1 well. MEO recently announced that the WA-454-P Joint Venture has determined they will make two applications to the Titles Administrator to vary the WA-454-P work program including transferring of the commitment well from Permit Year 5 to Permit Year 6. If both applications are successful, the proposed Breakwater-1 exploration well will only need to be drilled prior to the revised permit expiry date of 8th December, 2017. In the meantime, MEO continues to actively market WA-454-P to seek to farm down a further 20-30% of its equity.

6. MEO is in discussions with third parties concerning potential proposals

- MEO currently is in discussions with third parties concerning potential proposals, however there is no guarantee of a superior proposal at any future time.
- Shareholders should consider the timing of any planned acceptance of the Mosman Offer as **if a superior proposal by another party emerges, you may be precluded from accepting if you have already accepted the Mosman Offer.**

7. Withdrawing acceptance of the Mosman Offer

- The Mosman Offer has been extended by over a month. MEO Shareholders should note, that **if you had already accepted the Mosman Offer prior to Mosman announcing on 16th March it was extending its offer and you wish to withdraw your acceptance of the Mosman Offer,** you have a right to do so by:
 1. writing to Mosman to request that your acceptance be withdrawn, care of Computershare Investor Services Pty Ltd at:

Computershare Investor Services Pty Ltd
GPO Box 52
Melbourne VIC 3001
Australia; OR
 2. if you use a broker or an online share trading platform, contact them and they may be able to transmit a message to ASX Settlement for you.

Yours sincerely



Mr Gregory Short
Chairman, MEO Australia Limited

To REJECT the Mosman Offer, MEO shareholders should simply do nothing and not respond to any telephone calls or documents received from Mosman.