



MEO Australia Limited

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**REPORT ON ACTIVITIES
FOR THE QUARTER ENDED
31 DECEMBER 2006**

COMPANY'S ACTIVITIES DURING THE QUARTER

During the quarter, the Company managed the 2D and 3D seismic acquisition programs, initiated the processing of the seismic data and commenced the design and procurement for the planned three well 2007 drilling program in the Exploration Permit, NT/P68. The Company also finalised various optimisation studies and capital cost reviews in relation to its proposed LNG and methanol projects.

TASSIE SHOAL METHANOL PROJECT (MEO 50%)

Background Information:

The Company and Air Products and Chemicals, Inc. continue to develop the Tassie Shoal Methanol Project (TSMP) under the terms of the joint development agreement (JDA). The project proposes to construct two large natural gas reforming and methanol production plants on concrete gravity structures in southeast Asia, tow these plants to Tassie Shoal in the Australian waters of the Timor Sea and ground the structures in the shallow waters of the shoal for operation. The current estimated total capital cost for the first plant is US\$872 million.

The regional methanol market continues to show strong demand and suffers an ongoing shortage of regional supply. The current CFR Asia posted methanol price is over US\$490 per tonne.

The Company continues to focus on the resolution of gas supply arrangements to allow the project to proceed to front-end engineering and design (FEED) studies and EPC selection. While discussions continue for third party gas supply, at this time, the Company is focusing on the establishment of commercial gas reserves in its own permit, NT/P68.

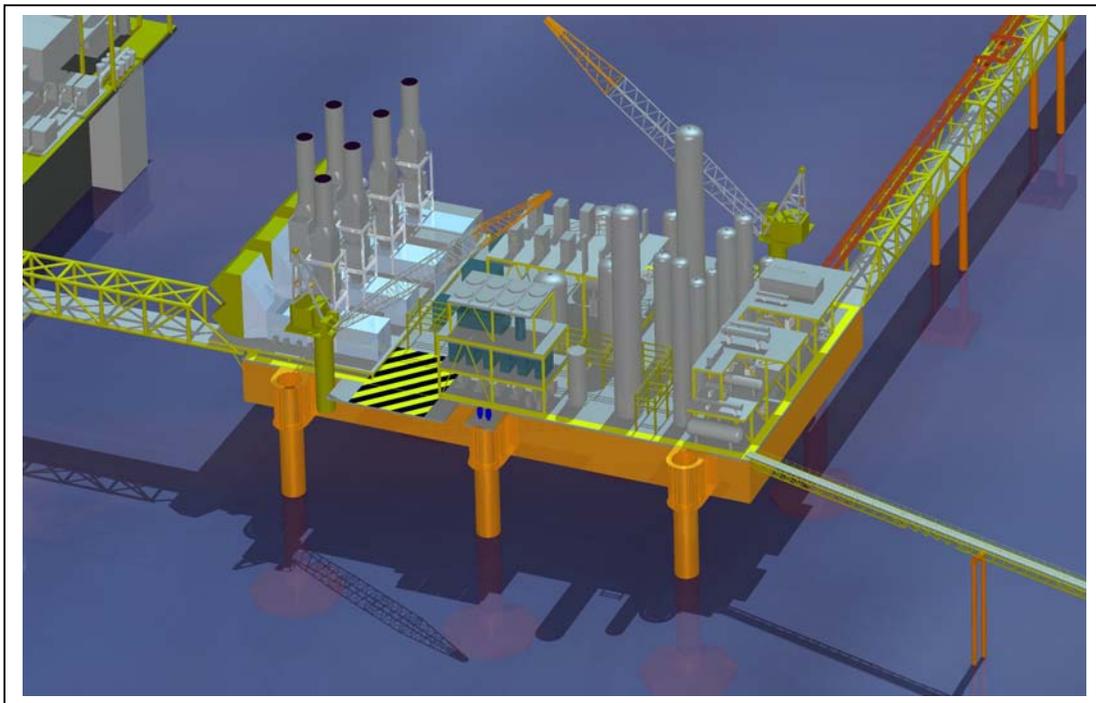
TIMOR SEA LNG PROJECT (MEO 100%)

Background Information:

The proposed Timor Sea LNG Project (TSLNGP) has been designed to be located in the shallow waters of Tassie Shoal. The TSLNGP received its Commonwealth environmental approval to construct, install and operate adjacent to the TSMP on May 5, 2004. The methanol and LNG projects will be able to share infrastructure, logistic support systems and benefit from significant production process advantages.

During the quarter, Worley Parsons commenced studies to review the capital cost assumptions for the LNG production plant and utilities. These studies will provide current cost estimates for the LNG project substructures.

In targeting the rapidly expanding markets in northeast Asia, the LNG project could provide a highly competitive LNG supply option to the buyers with clear shipping time and sovereign risk advantages. The world LNG market continues to demonstrate strong demand, particularly from Northeast Asia, Europe and the USA.



3D Cad image of the proposed LNG production module

PETROLEUM EXPLORATION PERMIT NT/P68 (MEO 100%)

This 12,070 square km permit is located immediately to the west of Tassie Shoal (approximately 25 km). The Company believes that the permit offers considerable scope for the confirmation and discovery of commercial gas accumulations that may support the future gas demands of the TSMP and the TSLNGP.

Epenarra, along with the other identified prospects in the permit, Heron North, Heron South, Blackwood and Seahawk, collectively, are estimated to have a potential mean gas in place value that could exceed 14 Tcf. The 3 Mtpa LNG plant requires approximately 3 Tcf of gas to operate for 20 years. The first methanol plant would target poorer quality (high CO₂) gas that is often found in the Bonaparte Basin, and requires approximately 1.3 Tcf to operate for 20 years.

Epenarra is a large anticlinal structure mapped within the lower section of the Darwin Formation with an aerial closure exceeding 1200 square kilometres. This structure was intersected by the Heron-1 well drilled by Arco in 1972. The well confirmed a 50 metre gas bearing zone in the formation, which is a fractured carbonate. The in place Contingent Resource for gas (P50) for Epenarra has been estimated at 5.6 Tcf. Studies suggest that Epenarra gas may contain significant levels of associated condensate (light oil).

3D seismic data was required to identify the density, distribution and orientation of faults and fracturing within the 50m gas bearing zone intersected by the Heron-1 well to determine the optimum location for an appraisal well and production test.

PGS Australia Pty Ltd was contracted to acquire and process approximately 500 square kilometres of 3D seismic over the crest of the Epenarra structure in NT/P68 during September and October this year utilizing the M/V Orient Explorer. The 504 sq km survey was completed on October 30, 2006. The survey acquisition was completed within budget and no health, safety or environmental incidents were recorded.

PGS is also processing of the 3D data. At the end of the quarter, PGS had completed approximately 80% of the new NT/P68 3D pre-stack time migrated (PSTM) seismic data processing sequence. The data quality is described as excellent.

Delivery of the PSTM migrated volume is expected in the last week of January 2007 and interpretation/mapping would commence immediately. The final 3D seismic pre-stack depth migration (PSDM) volume is scheduled for delivery on April 1, 2007. The 3D seismic processing is on schedule and under budget.

The Blackwood prospect is a large conventional Plover Formation play (the traditional reservoir in the Bonaparte Basin) that is relatively shallow (3300m subsea). Additional 2D infill seismic data was required to improve the structural mapping of Blackwood.

The Company awarded a 2D acquisition contract to the Compagnie Generale de Geophysique Group (CGG) to acquire approximately 600 line kilometres of infill 2D seismic over Blackwood. This survey was completed on November 9, 2006. The Company is pleased to advise that the survey was completed within budget and no health, safety or environmental incidents were reported.

CGG is processing the 2D data and had completed approximately 65% of the processing by the end of the quarter. The expected delivery date of the final migrated data is February 9, 2007. The new 2D seismic data will improve the depth conversion assumptions required for final mapping of Blackwood and is expected to confirm the optimum well location to test the Blackwood structure.

As previously advised, the Company secured a new jack-up rig to drill up to three wells in NT/P68, commencing in the third quarter of 2007. Seadrill's West Atlas is currently in construction at the Keppel FELS yard in Singapore and is well advanced being due for delivery to NT/P68 in late August 2007. The Company has secured well casing for the drilling program and has commenced basic well design and engineering.



West Atlas jack-up rig construction in fit-out stage

Epenarra Gas Quality Studies

Further studies were initiated during the quarter to help confirm the likely Epenarra gas quality. The Company engaged CSIRO to conduct hydrocarbon inclusion tests on cutting and core samples from the Heron-1 well. CSIRO conducted Quantitative Fluorescence on Extracts (QGF-E) testing on 24 samples.

Initial results confirm that anomalous high residual oil saturations were present in target reservoir of Epenarra and the TSF signature of QGF-E extracts suggest that the residual oil is condensate. CSIRO observe that QGF-E values of >50%, as found in the Epenarra samples, are comparable to known condensate reservoirs.

CSIRO is currently conducting microprobe sampling of the target samples to attempt to extract the original hydrocarbon. If samples are successfully recovered, CSIRO will utilize gas chromatography and mass spectrometry to provide the specific makeup of the gas, which should provide the condensate gas ratio (CGR) and the likely carbon dioxide content of the gas. The results of the CSIRO studies are expected in early February, 2007.

IMPORTANT SUBSEQUENT EVENTS

The Company is pleased to advise that on January 29, 2007, the Federal Government granted Major Project Facilitation (MPF) status to its two major gas projects.

The decision by the Minister for Industry, Tourism and Resources, Ian Macfarlane, to grant MPF to the Timor Sea LNG Project and the Tassie Shoal Methanol Project would help speed the projects' development.

MPF had originally been granted to the Tassie Shoal Methanol Project in December 2001. The new MPF grant not only renewed the original grant, but has now included the proposed LNG Project. This is further recognition of the importance of these developments to Australia and the Northern Territory.

A handwritten signature in black ink, appearing to read 'Christopher Hart', with a large, sweeping flourish above the name.

Christopher Hart
Managing Director
Melbourne, Australia
January 31, 2007

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

MEO AUSTRALIA LIMITED

ABN

43 066 447 952

Quarter ended ("current quarter")

31 DECEMBER 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a)exploration and evaluation (b) development (c) production (d) administration	(4,175) (284) (278)	(8,127) (340) (697)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	169	211
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid	(12)	(12)
1.7 Other expense recoveries	50	50
Net Operating Cash Flows	(4,530)	(8,915)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects (b)equity investments (c)other fixed assets	(11)	(31)
1.9 Proceeds from sale of: (a)prospects (b)equity investments (c)other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
Net investing cash flows	(11)	(31)
1.13 Total operating and investing cash flows (carried forward)	(4, 541)	(8,946)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	12,000	25,763
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other – share issue costs	(676)	(1,307)
	Net financing cash flows	11,324	24,456
Net increase (decrease) in cash held		6,783	15,510
1.20	Cash at beginning of quarter/year to date	11,181	2,454
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	17,964	17,964

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	451
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

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Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	100
4.2 Development	50
Total	150

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	438	2,110
5.2 Deposits at call	17,526	9,071
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	17,964	11,181

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	222,308,617	222,308,617		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	25,000,000 2,224	25,000,000 2,224	48 25	48 25
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	52,704,064	52,704,064	<i>Exercise price</i> 25	<i>Expiry date</i> 30/04/2007
7.8 Issued during quarter				
7.9 Exercised during quarter	2,224	2,224	25	30/04/2007
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:  Date: January 16, 2007
Company secretary

Print name: David B. Hill

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Cash Flow Statement* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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