

# **MEO AUSTRALIA LIMITED**

**ABN 43 066 447 952**



## **FINANCIAL REPORT**

**2015**

## **MEO Australia Limited**

ABN 43 066 447 952

### ***Corporate Directory***

#### **Directors**

Gregory A Short (Chairman)  
Peter J Stickland (Managing Director and Chief Executive Officer)  
Stephen W Hopley  
Andrew G Purcell  
Michael J Sandy

#### **Company Secretary**

Colin H Naylor

#### **Registered office and Principal place of business**

Level 20, 500 Collins Street  
Melbourne, Victoria 3000 Australia  
Telephone +61 (3) 8625 6000  
Facsimile +61 (3) 9614 0660  
Email: [admin@meoaustralia.com.au](mailto:admin@meoaustralia.com.au)

#### **Share registrar**

Link Market Services Limited  
Level 1, 333 Collins Street  
Melbourne, Victoria 3000 Australia  
Telephone +61 (3) 9615 9800  
Facsimile +61 (3) 9615 9921

#### **Auditor**

Ernst & Young  
8 Exhibition Street  
Melbourne, Victoria 3000 Australia

#### **Stock exchange listing**

ASX Limited  
Level 4, North Tower, Rialto  
525 Collins Street  
Melbourne, Victoria 3000 Australia

ASX Code: MEO

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.

## **MEO Australia Limited**

ABN 43 066 447 952

### **DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2015**

The directors of MEO Australia Limited (variously the "Company", "MEO" and "MEO Australia") submit their report for the financial year ended 30 June 2015. 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.

##### **Gregory A Short B.Sc (Geology) (Hons)**

*Chairman (Appointed Independent Non-Executive Director 14 July 2008, appointed Chairman 31 October 2013)*

After a long international career in exploration, development and production management with ExxonMobil, Mr Short has now focused his broad experience on leadership of lowcap Oil & Gas companies. He brings valuable experience, from taking several start-up ventures from exploration through to development and production start-up, to MEO Australia Limited. Mr Short became Chairman of MEO in 2013 after 5 years as a non-executive director. Mr Short is also a Non-Executive Director of Po Valley Energy Limited (ASX: PVE) and Metgasco Limited (ASX: MEL) and was Non-Executive Director of Pryme Energy Limited (ASX: PYM) until 1 September 2015.

Mr Short is Chairman of the Remuneration & Nomination Committee and a member of the Audit & Risk Committee.

##### **Peter J Stickland BSc, Hons (Geology), GDipAppFin (Finsia), GAICD**

*Chief Executive Officer (Appointed 19 December 2014) and Managing Director (Appointed 30 January 2015)*

Peter Stickland has over 25 years global experience in oil and gas exploration. Peter was CEO of Tap Oil Limited (ASX: TAP) from 2008 until late 2010 during which time he oversaw the evolution of the company into a South East Asia/Australia focused E&P Company and was directly involved in the Finucane, Zola and Talliganda fields. Prior to joining Tap Oil, Peter had a successful career with BHP Billiton including a range of technical and management roles both in Australia and internationally. Peter has been a member of the Board of Australian Petroleum Production and Exploration Association Limited (APPEA) since 2009.

##### **Stephen W Hopley, PhC (Vic), DipFP(Deakin), GMQ (AGSM), MAICD**

*Independent Non-Executive Director (Appointed 1 October 2008)*

Mr Hopley had a 14 year career with Macquarie Bank from 1989 until his retirement in 2003. For the last four years of his career, Mr Hopley acted as Division Director of the Financial Services Group with responsibility for Advisor Relationships and Distribution. 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 & Risk Committee and a member of the Remuneration & Nomination Committee.

##### **Andrew G Purcell, B Eng; MBA**

*Independent Non-Executive Director (Appointed 30 July 2015)*

Mr Purcell has had a distinguished career in investment banking working with Macquarie Bank and Credit Suisse. More recently, he founded Teknix Capital in Hong Kong, a company specialising in the development and management of projects in emerging markets across the heavy engineering, petrochemical, resources and infrastructure sectors. Mr Purcell also has experience across the Asian markets, having been a director of a number of public companies in the region. He is also a former Director of Cougar Energy Limited and Realm Resources Ltd in Australia.

Mr Purcell is a Non-Executive Director of AJ Lucas Group Limited (ASX: AJL).

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### **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015**

#### **Michael J Sandy, BSC Hons (Geology), MAICD**

*Independent Non-Executive Director (Appointed 30 July 2015)*

Michael Sandy is a geologist with 40 years' experience in the resources industry – mostly focused on oil and gas. Michael had a varied early career with roles in minerals field exploration, minerals research at CSIRO and minerals and energy with the PNG Government. In the early 1990s he was Technical Manager of Oil Search Limited (based in Port Moresby, just prior to production from the Kutubu fields).

Michael was involved in establishing Novus Petroleum Ltd and preparing that company for its \$186m IPO in April 1995. Over 10 years, he held various senior management roles with Novus including manager of assets in Australia (including offshore WA, Cooper Basin), Indonesia, Oman, Iran, Qatar, Pakistan, Egypt, Thailand, Laos, the Philippines and the USA (as President of Novus USA, based in Houston in 2003). He was also Business Development Manager and involved in numerous acquisitions and divestments to a total value of over \$500 million. Finally, he co-managed the Novus Petroleum takeover defence effort in 2004 when the company was taken over by Medco Energi.

For the last 10 years, Michael has been the principal of consultancy company Sandy Associates (previously known as MJSA). It is involved in petroleum, minerals, geothermal, environmental and disaster management projects and resources industry start-ups.

Mr Sandy is a non-executive director of Tap Oil Limited (ASX: TAP), Chairman of Burleson Energy Limited (ASX: BUR) and a director of two unlisted Australian resources companies.

**Michael J F Sweeney** LLB, FIAMA, FCIArb, Chartered Arbitrator resigned as Non-Executive Director on 5 January 2015.

**Jürgen Hendrich** B.Sc. (Geology) (Hons), PDM stepped down as Chief Executive Officer & Managing Director on 19 December 2014 and ceased employment as Executive Director on 31 January 2015.

#### **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:

	<b>Ordinary Shares</b>	<b>Options</b>
G A Short	1,392,444	900,000
S W Hopley	950,000	900,000
A G Purcell	-	-
M J Sandy	-	-
P J Stickland	4,453,700	500,000

The terms of the options are set out in note 21 to the consolidated financial statements.

## **2. COMPANY SECRETARY**

Mr Colin Naylor was appointed 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 (2014: nil).

## MEO Australia Limited

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### DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015

#### 4. PRINCIPAL ACTIVITIES

The principal activities during the year of the consolidated entities were oil and gas exploration in Australia and New Zealand together with development concepts for the Tassie Shoal Methanol Project and Timor Sea LNG Project.

At 30 June 2015 the Company had 3 full-time and 6 part-time employees including directors (2014: 20). In addition, the Company engages a number of consultants to assist in the development and management of its various activities on an as required basis.

#### 5. REVIEW OF OPERATIONS

##### Environment, Health and Safety

Your board believes that workplace injuries are avoidable. Directors specifically address Health, Safety and Environment issues at each Board meeting. Policies and procedures are in place to ensure employees and contractors conduct activities in a safe manner. MEO has adopted an environmental, health and safety policy and conducts its operations in accordance with the Australian Petroleum Production & Exploration Association (APPEA) Code of Practice.

Upstream activities including seismic surveys, well site surveys and drilling operations require a variety of regulatory approvals including environment plans, safety cases and the preparation of plans to manage the undertaking of the activities and the contractors engaged in undertaking the activities.

There were no reported Lost Time Injuries or environmental incidents during the year.

Any proposed 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). There were no field operations undertaken at Tassie Shoal during the year.

##### AUSTRALIAN OPERATIONS

##### Bonaparte Basin, Northern Territory/Western Australia

##### NT/P68 – Heron Area (MEO 100%)

MEO regained 100% Participating Interest in the Heron Area when Eni Australia Limited (Eni) elected not to drill an additional well on the Heron structure and therefore will withdraw from the Heron Area of NT/P68. MEO elected to relinquish its 50% Participating Interest in the Blackwood Gas Discovery after the disappointing results of Blackwood-2 in 2013.

As a result of these changes, MEO is now focussed on the Heron gas discovery and the exploration potential of NT/P68. MEO's revised Heron evaluation is shown in the following tables:-

##### Contingent Resources (100% share)

Discovery Name		1C	2C	3C	
Heron	Gas	Bscf	140	294	800
	Total Liquids	MMstb	5	9	26
	Barrels Equiv	MMboe	28	58	159

*Heron-2 discovery well was drilled in 2008. Resources defined as contingent on the basis that evaluation of the accumulations is currently insufficient to clearly assess commerciality.*

*This table should be read with reference to the footnote "Notes regarding Contingent and Prospective resource estimates" on page 13.*

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**DIRECTORS' REPORT (continued)  
FOR THE YEAR ENDED 30 JUNE 2015****5. REVIEW OF OPERATIONS (cont)****Prospective Resources (100% share)**

Prospect Name		CoS*	P90	P50	PMean	P10
<b>Heron – Frigate</b> <i>Prospect CoS* = 12%</i>	Gas Bscf	12%	102	203	203	375
	Total Liquids MMstb		-	-	-	-

\* CoS = Chance of Geologic Success

This table should be read with reference to the footnote “Notes regarding Contingent and Prospective resource estimates” on page 13.

**WA-454-P (MEO 50%)**

MEO was awarded 100% interest in WA-454-P in June 2011 and acquired the Floyd 3D seismic survey in early 2012. The permit contains the 2007 Marina gas and probable oil discovery and a number of prospects and leads. A binding farmout agreement was executed with Origin Energy Resources Limited (a subsidiary of Origin Energy Limited) in July 2013. Origin acquired a 50% interest in return for reimbursing MEO A\$5.6 million of past costs and funding 80% of the Breakwater-1 well to a cap of A\$35m excluding production testing. The well cap assumes that 65% of the well costs will be denominated in US\$ with an exchange rate between the A\$ and US\$ of parity.

During the year, the regulator approved a six-month extension to Permit Year 4 and a deferral of the well commitment from Year 5 to Year 6. These variations will enable additional seismic reprocessing to be undertaken prior to the Breakwater-1 well. Breakwater-1 is scheduled for drilling prior to Q4 2017 subject to rig availability and receipt of customary regulatory approvals.

MEO also now has additional time to farm down a further 20-30% interest in the permit.

**Net Contingent Resources (50% share)**

Discovery Name		1C	2C	3C
<b>Marina</b>	Gas Bscf	57	82	211
	Total Liquids MMstb	1	6	24
	Barrels Equiv MMboe	10	19	59

**Net Prospective Resources (50% share)**

Prospect Name		CoS*	P90	P50	PMean	P10
<b>Marina – Deep</b> <i>Prospect</i>	Gas Bscf	40%	18	102	118	244
	Total Liquids MMstb		1	3	4	8
<b>Breakwater – West</b> <i>Prospect</i>	Gas Bscf	29%	98	354	383	697
	Total Liquids MMstb		3	11	14	30
<b>Breakwater – East</b> <i>Lead</i>	Gas Bscf	29%	27	59	65	110
	Total Liquids MMstb		1	2	3	5
<b>Promenade</b> <i>Lead</i>	Gas Bscf	10%	1,243	1,926	2,014	2,870
	Total Liquids MMstb		6	18	29	61

\* CoS = Chance of Geologic Success

These tables should be read with reference to the footnote “Notes regarding Contingent and Prospective resource estimates” on page 13.

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### DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015

#### 5. REVIEW OF OPERATIONS (cont)

##### WA-488-P (MEO 70%)

MEO was awarded 100% interest in WA-488-P in May 2013. The permit lies on trend with WA-454-P to the north-west and contains the giant Beehive prospect. Beehive was identified as a follow-up to the 2011 Ungani-1 oil discovery in the adjacent Canning Basin and represents a new play type in the Bonaparte Basin.

Beehive is considered prospective for oil in two Palaeozoic aged carbonate objectives. The upper Carboniferous aged target is considered analogous to the giant Tengiz oil field in the Caspian Sea, while the lower Ordovician aged target has a giant field onshore China as a direct analogue.

During the year, the farmout of a 30% Participating Interest in WA-488-P was executed with a wholly owned subsidiary of SGX listed Rex International Holding ("Rex"). The agreement includes options, which if exercised, would result in MEO retaining a fully carried 20% interest in the drilling of Beehive-1. Alternatively, in the absence of the exercise of the additional equity options, Rex also has the right to withdraw from the permit if MEO has not entered into other arrangements to fund its future work program prior to 4 months before the end of Permit Year 3.

The regulator approved a 6 month extension to Permit Year 2. As a result, Year 3, which has a work program of 1 exploration well, commences November 2015.

A farmout/partial sale process remains in progress.

##### Net Prospective Resources (70% share)

Beehive – Carboniferous Prospect		CoS*	P90	P50	PMean	P10	
Oil Dominant Scenario	Gas	Bscf	-	-	-	-	
	Total Liquids	MMstb	13%	73	419	706	1,527
Gas Dominant Scenario	Gas	Bscf	3%	291	1,662	2,797	6,031
	Total Liquids	MMstb		20	117	207	457
Aggregate (oil equivalent)**	Barrels Equiv	MMboe	16%	68	390	658	1,423

\* CoS = Chance of Geologic Success

\*\* Aggregate Risk Weighted Average (80:20) of Oil Dominant and Gas Dominant Scenarios

Beehive – Ordovician Prospect		CoS*	P90	P50	PMean	P10	
Oil Dominant Scenario	Gas	Bscf	-	-	-	-	
	Total Liquids	MMstb	6%	47	230	402	920
Gas Dominant Scenario	Gas	Bscf	2%	195	900	1,571	3,542
	Barrels Equiv	MMboe	8%	44	214	374	854

\* CoS = Chance of Geologic Success

\*\* Aggregate Risk Weighted Average (80:20) of Oil Dominant and Gas Dominant Scenarios

These tables should be read with reference to the footnote "Notes regarding Contingent and Prospective resource estimates" on page 13.

##### Vulcan sub-Basin, Ashmore-Cartier region

##### AC/P50 & AC/P51 (MEO 100%)

AC/P50 and AC/P51 are located in the proven Vulcan sub-basin, immediately to the east of the producing Montara oil field. The area has historically been challenged by structural complexity and poor seismic image quality.

Improvements in seismic acquisition parameters and processing streams resulted in a step change in seismic imaging quality, although there remains further room for improvement.

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**DIRECTORS' REPORT (continued)  
FOR THE YEAR ENDED 30 JUNE 2015****5. REVIEW OF OPERATIONS (cont)**

During the year, both permits were renewed for a further 5 year term. The minimum work program requirement is for the first three years of the renewal and for each block consists of geological and geophysical studies and seismic data reprocessing.

A farmout/partial sale process remains in progress.

**Prospective Resources (100% share)**

<b>Ramble On Prospect</b>		<b>CoS*</b>	<b>P90</b>	<b>P50</b>	<b>PMean</b>	<b>P10</b>		
<b>Oil Dominant Scenario</b>	Gas	Bscf	-	-	-	-		
	Total Liquids	MMstb	9%	8	39	56	130	
<b>Gas Dominant Scenario</b>	Gas	Bscf	2%	29	162	461	1,136	
	Total Liquids	MMstb		1	6	16	39	
<b>Aggregate (oil equivalent)**</b>		Barrels Equiv	MMboe	11%	8	38	63	150

\* CoS = Chance of Geologic Success

\*\* Aggregate Risk Weighted Average (80:20) of Oil Dominant and Gas Dominant Scenarios

<b>Jur'maker Prospect</b>		<b>CoS*</b>	<b>P90</b>	<b>P50</b>	<b>PMean</b>	<b>P10</b>		
<b>Oil Dominant Scenario</b>	Gas	Bscf	-	-	-	-		
	Total Liquids	MMstb	5%	3	14	32	73	
<b>Gas Dominant Scenario</b>	Gas	Bscf	1%	10	54	117	276	
	Total Liquids	MMstb		-	2	4	10	
<b>Aggregate (oil equivalent)**</b>		Barrels Equiv	MMboe	6%	3	13	30	70

\* CoS = Chance of Geologic Success

\*\* Aggregate Risk Weighted Average (80:20) of Oil Dominant and Gas Dominant Scenarios

These tables should be read with reference to the footnote "Notes regarding Contingent and Prospective resource estimates" on page 13.

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

This permit, adjacent to AC/P50, was awarded to MEO in early July 2011. During the year the work program was amended, deferring the exploration well commitment to Permit Year 6, commencing July 2016.

**Carnarvon Basin, Western Australia****WA-360-P (MEO 62.5%)**

WA-360-P was renewed in early 2012 for a further 5 year period. MEO has made its participating interest in the permit available for sale.

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

This permit was renewed for five years in early 2011. MEO continued efforts to divest its interests during the year.

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### **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015**

#### **5. REVIEW OF OPERATIONS (cont)**

##### **Tassie Shoal Gas Processing Projects**

MEO has Commonwealth environmental approvals to construct, install and operate two stand-alone world scale 1.75 Mta methanol plants collectively referred to as the Tassie Shoal Methanol Project (TSMP) and a single 3 Mta LNG plant known as the Timor Sea LNG Project (TSLNGP) on Tassie Shoal, an area of shallow water in the Australian waters of the Timor Sea approximately 275 km north-west of Darwin, Northern Territory. The Tassie Shoal projects can cater for a range of gas qualities and are designed to share infrastructure and logistic support systems and benefit from a number of production process synergies. Environmental Approvals in the case of the methanol project are valid until 2052, while the LNG project approvals are scheduled for review in 2017.

##### **Tassie Shoal Methanol Project (TSMP, MEO 100%)**

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 1.4 Tcf of raw gas, ideally containing around 25% CO<sub>2</sub> to operate for 20 years.

During the year MEO held an introductory meeting between a potential equity partner of the Tassie Shoal Methanol Projects and the Operator of the Evans Shoal Joint Venture. A formal meeting with the Evans Shoal Joint Venture is awaiting finalization of agreed confidentiality arrangements.

MEO continues to work with prospective partners to secure gas for its proposed projects.

##### **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 one or more of the neighbouring undeveloped gas fields confronting economic challenges imposed by long distances from land and high domestic construction costs. The Greater Sunrise resource represents the most obvious feedstock for the LNG project, however resource ownership is embroiled in international arbitration over the location of maritime boundaries that determine the ownership of the resource. Given most of the remaining gas in the immediate vicinity of Tassie Shoal contains moderate to high CO<sub>2</sub> gas, efforts concentrated on the Tassie Shoal Methanol Project.

#### ***INTERNATIONAL OPERATIONS***

##### **New Zealand**

##### **PEP51153 (MEO 30%)**

In April 2014, MEO farmed into a 30% Participating Interest in PEP51153 onshore New Zealand in the Taranaki Basin. The permit contains the Puka oil discovery in the Mount Messenger sands. Puka-3 was drilled during the year. While a thicker section of Mount Messenger sands was intersected, they were predominantly water bearing with an interpreted oil-water-contact (OWC) intersected substantially shallower than expected near the top of the interval. The result has down-graded the Mount Messenger play. The Puka-1 and Puka-2 exploration wells were producing oil under a long term production test from this formation, but were temporarily shut-in in January 2015 due to unresolved mechanical problems with the Puka-1 well and the low current oil price environment.

The Shannon prospect has been identified on 3D seismic data at a deeper Tikorangi level, below the Puka oil field. Shannon is updip of where Douglas-1 penetrated the Tikorangi, encountering oil shows, and is analogous to the nearby Waihapa oil field. MEO considers Shannon to be an attractive prospect and is working with the Operator for it to be in a position to drill Shannon in Permit Year 8, commencing September 2015.

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### DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015

#### 5. REVIEW OF OPERATIONS (cont)

##### Net Contingent Resources (30% share)

Discovery Name		1C	2C	3C	
Puka	Gas	Bscf	-	-	-
	Total Liquids	MMstb	0.1	0.2	0.6
	Barrels Equiv	MMboe	0.1	0.2	0.6

##### Net Prospective Resources (30% share)

Prospect Name		CoS*	P90	P50	PMean	P10
Shannon Prospect	Gas	Bscf	-	-	-	-
	Total Liquids	MMstb	16%	0.1	1.6	2.1

\* CoS = Chance of Geologic Success

These tables should be read with reference to the footnote "Notes regarding Contingent and Prospective resource estimates" on page 13.

#### Indonesia

##### Seruway Production Sharing Contract (PSC) (MEO 100%)

The PSC expired in December 2014 and all relevant documentation pertaining to the surrender of and withdrawal from the PSC was submitted to the regulatory authorities during the reporting period. Formal surrender of the PSC remains subject to procedural regulatory matters.

##### South Madura Production Sharing Contract (PSC) (MEO 90%)

The PSC expired in October 2013 and all relevant documentation pertaining to the surrender of and withdrawal from the PSC was submitted to the regulatory authorities. Formal surrender of the PSC remains subject to procedural regulatory matters.

#### Results For The Year

The net loss of the Group for the financial year, after provision for income tax, was \$10,042,223 (2014: net loss after tax of \$135,910,471). The loss for the year was mainly due to a write-off of exploration expenditure totalling \$5,141,972 and administration costs of \$5,368,934. MEO's share of oil revenue from the PEP51153 was \$330,689 with production costs of \$382,480.

The successful drilling and commercialisation of any commercial oil and gas discoveries in offshore Australian exploration permits and overseas acreage and/or the development/sale 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 offshore Australian exploration permits and overseas acreage 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 \$5,785,454. During the year the Group decreased the cash balance by \$11,169,947 (before foreign exchange fluctuations) with funds used to meet net exploration, investment and capital cash outflows of \$5,726,179, net corporate costs of \$5,032,344, net merger and takeover related costs of \$570,090 and net cash outflow of \$51,791 from the New Zealand operation partly offset interest received of \$210,457.

## **MEO Australia Limited**

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### **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015**

#### **5. REVIEW OF OPERATIONS (cont)**

##### **Share Issues**

There were no share issues during the year.

##### **Corporate**

On 5 November 2014, MEO and Neon Energy Limited (Neon) announced a merger of the two companies by way of a Scheme of Arrangement. On 19 December 2014, the Supreme Court of Victoria approved the dispatch of the scheme booklet to MEO shareholders which was registered with the Australian Securities and Investment Commission (ASIC) on the same day. Late on 19 December 2014, Neon advised MEO that it had terminated the merger between the two companies. MEO received a \$400,000 reimbursement fee following termination of the merger.

On 11 December 2014, MEO was advised by UK AIM listed, Mosman Oil and Gas (MOG) of its intention to make a takeover bid of 1 MOG share for 20 MEO shares. On 19 January 2015, MOG varied its takeover offer to 1 MOG share for 10 MEO shares and on 1 May 2015 MOG further varied the takeover offer to 1 MOG share for 5 MEO shares. The takeover offer expired on 12 June 2015 with MOG receiving acceptances for only 2.44% of MEO shares.

The net cost to MEO in relation to the unsuccessful merger with Neon and defending the takeover offer from MOG was \$570,090. This net cost excludes extensive board and management time during the seven month period defending the takeover by MOG.

#### **6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

Total equity decreased to \$16,715,234 from \$26,728,457, a decrease of \$10,013,223. The movement was mainly due to the net loss of \$10,042,223.

#### **7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

During FY2016, MEO will continue with farmout/partial sale opportunities and pursue attractive new venture opportunities capable of generating operating income.

#### **8. SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

On 3 September 2015, the company announced it had executed the Cuba Block 9 Production Sharing Contract (PSC) with the national oil company Cuba Petr leo Union (CUPET). The execution of the Block 9 PSC represents the culmination of over three years of negotiations between MEO and CUPET and is MEO's first entry into the Cuban oil and gas sector. The exploration period of the Block 9 PSC is split into four sub-periods totalling eight and a half years with withdrawal options at the end of each sub-period. MEO will immediately commence work on the initial activity of evaluating existing exploration data in the block and reprocessing selected 2D seismic data before determining whether to proceed with a subsequent 24-month exploration sub-period that includes acquisition of new 2D seismic data.

Other than the above, 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.

#### **9. BUSINESS STRATEGY AND PROSPECTS**

MEO's business strategy is to create shareholder value by successful exploration, development and production of oil and gas. Key elements of this strategy include securing a portfolio of attractive upstream oil and gas growth opportunities and seek to underpin this growth portfolio with a moderate production base.

## **MEO Australia Limited**

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### **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015**

#### **9. BUSINESS STRATEGY AND PROSPECTS (cont)**

##### *Future Prospects*

MEO's future prospects are centred on continuing to secure quality exploration, development and producing opportunities and seeking to maximise the value to shareholders of its current portfolio including the Tassie Shoals projects.

##### *Business Risks*

Oil and gas exploration and appraisal involves significant risk. The future profitability of MEO and the value of MEO's shares are directly related to the results of exploration and appraisal activities. There are inherent risks in these activities. No assurances can be given that funds spent on exploration and appraisal will result in discoveries that will be commercially viable. Future exploration and appraisal activities, including drilling and seismic acquisition, may result in changes in current prospectivity perceptions of individual prospects, leads and permits. It may even lead to a relinquishment of the permit, or a portion of the permit.

Oil and gas drilling activities are subject to numerous risks, many of which are beyond MEO's control. Drilling activities may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, availability of the necessary technical equipment and appropriately skilled and experienced technicians. Drilling may result in wells that, whilst encountering oil and gas, may not achieve commercially viable results.

Industry operating risks include fire, explosions, blow outs, pipe failures, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures, or discharge of toxic gases. The occurrence of any of these risks could result in substantial losses to MEO due to injury or loss of life; damage to or destruction of property, natural resources, or equipment; pollution or other environmental damage; cleanup responsibilities; regulatory investigation and penalties or suspension of operations. Damages occurring to third parties as a result of such risks may give rise to claims against MEO.

Permits in which MEO has an interest are subject to compulsory work or expenditure obligations for each permit year which must be met in order to keep the permit in good standing. It is possible for these commitments to be varied by deferment and combination with later year requirements on application of the holders but any such variation is at the discretion of the relevant Minister administering the relevant legislation and regulatory authorities in Australia and foreign jurisdictions. If no variation is approved by the relevant Minister then a failure to meet compulsory obligation could lead to forfeiture of the permit.

MEO, in order to meet future ongoing work programs, may consider raising additional capital. There can be no assurance that sufficient funding will be available to MEO on favourable terms or at all. If MEO is unable to raise necessary finance, there may be a reduction in planned exploration expenditure which could have a material adverse effect on MEO's business, financial condition and operations. Any additional equity financing may dilute existing shareholdings.

MEO is also exposed to a range of market, financial, cultural and governance risks. The Company has risk management and internal control systems to manage material business risks which include insurance coverage over major operational activities and regular review of material business risks by the Audit & Risk Management Committee.

#### **10. SHARE OPTIONS AND SHARE PERFORMANCE RIGHTS**

##### *Options and Share Performance Rights granted to directors and executives of the Company*

There were no share options granted to employees and contractors during or since the end of the financial year.

## MEO Australia Limited

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### DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015

#### 10. SHARE OPTIONS AND SHARE PERFORMANCE RIGHTS (cont)

##### *Unissued shares under options and share performance rights*

At the date of this report unissued ordinary shares of the Company under option and share performance rights are:

##### *Options*

Expiry Date	Exercise Price	Number of Shares
4 October 2015	\$0.50	1,500,000
27 October 2015	\$0.50	2,700,000
1 July 2016	\$0.50	500,000
3 October 2016	\$0.50	1,200,000
1 December 2016	\$0.50	<u>3,500,000</u>
	<b>TOTAL</b>	<b>9,400,000</b>

##### *Share Performance Rights*

There are no share performance rights outstanding at 30 June 2015. The 350,000 share performance rights outstanding at the beginning of FY2015, granted to former Managing Director and Chief Executive Officer - Mr Jürgen Hendrich were cancelled on 31 January 2015.

##### **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 (2014: nil).

#### 11. INDEMNIFICATION AND INSURANCE OF DIRECTORS

The Company has an insurance policy indemnifying all directors of the Company against legal costs incurred in defending proceedings as permitted by Section 199B of the *Corporations Act 2001*. Under the policy, details of the premium cannot be disclosed.

#### 12. 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 & Risk Committee		Remuneration & Nomination Committee	
	A	B	A	B	A	B
G A Short	23	23	4	4	6	6
J Hendrich	19	19	-	-	-	-
S W Hopley	23	23	4	4	6	6
M J F Sweeney	18	18	1	2	5	5
P J Stickland	4	4	-	-	-	-

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 frequent informal meetings particularly during the drilling of the Puka-3 exploration well in PEP51153, onshore New Zealand.

Note: Non-executive directors, Mr Andrew Purcell and Mr Michael Sandy were appointed 30 July 2015.

## **MEO Australia Limited**

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### **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015**

#### **13. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES**

The directors have received the independence declaration from the auditor, Ernst & Young, set out on page 14.

##### **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 non-audit service provided means that auditor independence was not compromised.

Tax services (\$24,966) and fees relating to the Investigating Accountant Report (\$52,000) for the Scheme of Arrangement with Neon Energy Limited were provided by Ernst & Young during the year.

##### **Notes regarding Contingent and Prospective resource estimates**

- 1. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.*
- 2. The assessments are based on, and fairly represent, information and supporting documentation prepared by Mr Peter Stickland, MEO's Managing Director & Chief Executive Officer, who is an employee of the company and has more than 25 years of relevant experience. Mr. Stickland is a member of the European Association of Geoscientists and Engineers and the Petroleum Exploration Society of Australia. Mr Stickland consents to the publication of the resource assessments contained herein.*
- 3. Total Liquids = oil + condensate*
- 4. 6 Bcf gas equals 1 MMboe; 1 MMbbl condensate equals 1 MMboe*
- 5. MEO share can be derived by pro-rating the resource ranges described in the tables above by its percentage equity*

## 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 2015, 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.

*Ernst & Young*

Ernst & Young



Matthew A. Honey  
Partner  
17 September 2015

## MEO Australia Limited

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### DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015

#### 14. REMUNERATION REPORT (Audited)

This remuneration report for the year ended 30 June 2015 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. Key Management Personnel disclosures for FY2015
2. Remuneration Strategy and Board oversight of remuneration
3. Non-executive director remuneration arrangements
4. Executive remuneration arrangements
5. Remuneration outcomes for FY2015
6. Additional disclosures relating to shares and options
7. Company performance

#### 1. Key Management Personnel (KMP) for FY2015

The names and positions of the KMP during the 2015 financial year (FY2015) and up to the date of this remuneration report are listed below.

##### (i) Directors

G A Short	Chairman (independent non-executive) (appointed Chairman 31 October 2013)
P J Stickland	Managing Director and Chief Executive Officer (appointed Chief Executive Officer - 19 December 2014 and Managing Director - 30 January 2015)
S W Hopley	Director (independent non-executive)
A G Purcell	Director (independent non-executive) appointed 30 July 2015
M J Sandy	Director (independent non-executive) appointed 30 July 2015
M J F Sweeney	Director (independent non-executive) resigned 5 January 2015
J Hendrich	Managing Director and Chief Executive Officer (stepped down as Chief Executive Officer - 19 December 2014 and resigned as a Director 31 January 2015)

##### (ii) Executives

C H Naylor	Chief Financial Officer and Company Secretary
R J D Gard	Commercial Manager until 30 April 2015
R Zammit	Executive Manager - Commercial & Business Development

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

K Hendrick	Implementation Manager
P Stickland	Exploration Manager until appointed Chief Executive Officer - 19 December 2014

#### 2. Remuneration Strategy and 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.

**DIRECTORS' REPORT (continued)  
FOR THE YEAR ENDED 30 JUNE 2015**

**14. REMUNERATION REPORT (Audited) (cont)**

**2. Remuneration Strategy and Board oversight of remuneration (cont)**

It is important that the Board maintains independence from management when making decisions affecting executive remuneration, particularly in respect of the Managing Director and Chief Executive Officer. Accordingly, the Company's Remuneration and Nomination Committee is comprised solely of non-executive directors and has an independent chair. The Committee can have access to external advisors on a 'case by case' basis.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of remuneration 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.

Further details regarding the role, responsibilities and composition of the Remuneration and Nomination Committee are set out in the Corporate Governance Statement on the company's website.

*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 consultants' contracts and their consulting fees and will make recommendations to the Remuneration and Nomination Committee for granting of awards to executives and contractors under the short term and long term incentive arrangements.

*Remuneration consultants and external advisors*

The Corporations Act sets out a detailed regime in relation to the engagement of external remuneration consultants to ensure that remuneration consultants are free from undue influence by any member of the KMP to whom a 'remuneration recommendation' relates, and requires that certain information be disclosed in the Remuneration Report where a remuneration recommendation has been provided. During the reporting period, the Company did not receive a 'remuneration recommendation' in relation to the quantum or elements of the remuneration packages of the Company's KMP within the meaning of the Corporations Act.

*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.

*Remuneration structure*

In accordance with best practice corporate governance, the structure of non-executive director remuneration and executive remuneration is separate and distinct. Further details regarding the structure of non-executive director remuneration and executive remuneration (including the Managing Director and Chief Executive Officer) are set out in sections 3 and 4.

## **MEO Australia Limited**

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### **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015**

#### **14. REMUNERATION REPORT (Audited) (cont)**

##### **2. Remuneration Strategy and Board oversight of remuneration (cont)**

###### *Changes in Remuneration – 2014 - 2015*

Consistent with the company's financial position, the Board implemented the following remuneration changes during FY2015:-

- (i) The annual remuneration payable to Managing Director & Chief Executive Officer was reduced by more than 20% from \$510,000 per annum to \$400,000 per annum.
- (ii) The annual fee payable to the Chairman was reduced by 55% from \$111,657 (inclusive of superannuation) to \$50,000 (inclusive of superannuation) while the annual fee payable to non-executive directors was reduced by 28% from \$69,927 (inclusive of superannuation) to \$50,000 (inclusive of superannuation).
- (iii) Fixed remuneration payable to executives has been frozen for two years from June 2013, other than the impact of changes to the superannuation guarantee levy rate and maximum super contribution base. Further, as part of reducing corporate costs during financial year 2015, the company varied the terms of executive employment contracts for a reduction in work hours and where appropriate, ceased providing a motor vehicle.

As a result of the above changes, remuneration to Key Management Personnel (excluding the impact of termination payments in FY2015 of \$643,390) **decreased by 25% or \$585,841** from \$2,323,900 in FY2014 to \$1,738,059 in FY2015.

##### **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 receives independent market data 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 a fee plus superannuation. Under such agreements current at the date of this report, there are no annual, long service leave, other termination entitlements or retirement benefits other than statutory superannuation.

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.

Non-executive directors are encouraged by the Board to hold shares in the Company. Shares are purchased on market at the prevailing market share price.

Non-executive directors have also been granted options under the Company's Long Term Incentive Plan (LTI), as approved by shareholders at the 2011 Annual General Meeting, to further align their interests as directors with those of shareholders. Further details are provided in section 5 below. Directors may consider the granting of options or performance rights in the future, subject to shareholder approval at a General Meeting.

During the year, no additional remuneration was paid to directors for service on board committees.

## MEO Australia Limited

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### DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015

#### 14. REMUNERATION REPORT (Audited) (cont)

##### 3. Non-executive director remuneration arrangements (cont)

In addition, 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 2015 and 30 June 2014 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.

##### *Remuneration mix*

The Company's executive remuneration is structured as a mix of fixed annual remuneration and variable 'at risk' remuneration. The mix of these components varies for different management levels.

The table below sets out the relative proportion and components of the senior executives' total remuneration packages for FY2015:

% of Total Remuneration			
	Fixed remuneration	Performance-based remuneration	
		Short Term Incentive	Long Term Incentive
<b>Executives</b>			
J Hendrich	100%	-	-
C H Naylor	100%	-	-
P Stickland	100%	-	-
R J D Gard	100%	-	-
R Zammit	100%	-	-
<b>Consultants holding key management positions</b>			
K Hendrick	100%	-	-

##### *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, when applicable, recognise exceptional individual performances in any financial year through the award of a cash bonus. There were no short term incentives awarded in the financial year.

## **MEO Australia Limited**

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### **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015**

#### **14. REMUNERATION REPORT (Audited) (cont)**

##### **4. Executive remuneration arrangements (cont)**

###### *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 LTI Securities (which may be in the form of share options and/or performance rights) under the Company's Long Term Incentive Plan (**LTI Plan**).

###### Overview of the LTI Plan

The LTI Plan was adopted by the Board on 13 September 2011. Under the Plan, the Board may invite Eligible Executives (being an employee of the MEO Group (including a director employed in an executive capacity) or any other person who is declared by the Board to be eligible to receive a grant of LTI Securities under the Plan) to participate in a grant of LTI Securities, which may comprise of performance rights and/or options. Offers will be made on the terms set out in the Plan and on any additional terms as the Board determines.

Options and/or performance rights granted under the Plan will only vest, and in the case of options, become exercisable, where any performance condition and any other relevant conditions advised to the participant by the Board have been satisfied.

On vesting of a performance right or following the exercise of an option (as the case may be), the Board will allocate the number of shares in respect of which the performance right have vested, or the options have been exercised. Any shares issued under the Plan will rank equally in all respects with other shares on issue at that time (except as regards any rights attaching to such shares by reference to a record date prior to the date of their issue).

In the event of a takeover, a scheme of arrangement, other reconstruction or amalgamation of the Company, a winding up of the Company or other event which is likely to result in a change of control of the Company, the Board may, in its absolute discretion, determine that all or a specified number of a participant's unvested performance rights and/or options vest, having regard to all relevant circumstances, including whether performance is in line with any applicable performance condition over the period from the date of grant to the relevant event, and the portion of any applicable performance period or period of service that has expired at the date of the relevant event. Unless the Board determines otherwise, any vested options will be exercisable for a period specified by the Board and will lapse if not exercised within the specified period.

In accordance with the terms of the Plan, prior to the allocation of shares to a participant upon vesting of performance rights or exercise of options (as the case may be), the Board may make any adjustments it considers appropriate to the terms of a performance right and/or option granted to a participant in order to minimise or eliminate any material advantage or disadvantage to a participant resulting from a corporate action or capital reconstruction. Without limiting the foregoing, if:

- shares are issued pro rata to the Company's shareholders generally by way of a bonus issue (other than an issue in lieu of dividends or by way of a dividend reimbursement) involving capitalisation of reserves of distributable profits;
- shares are issued pro rata to the Company's shareholders generally by way of a rights issue; or
- any reorganisation (including consolidated, subdivision, reduction or return) of the issued capital of the Company is effected,

then the Board may, in its discretion, adjust:

- the number of performance rights or options to which each participant is entitled;
- the number of shares to which each participant is entitled upon vesting of performance rights or exercise of options;
- any amount payable on vesting of the performance rights or exercise of options; or
- where appropriate, a combination of the above, in the manner determined by the Board, having regard to the ASX Listing Rules and the general principle set out above. Where additional performance rights or options are granted to a participant, such performance rights or options will be subject to the same terms and conditions as the original performance rights or options granted to the participant (including any performance conditions) unless the Board determines otherwise.

## **MEO Australia Limited**

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### **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015**

#### **14. REMUNERATION REPORT (Audited) (cont)**

##### **4. Executive remuneration arrangements (cont)**

*Grants made during FY2015*

There were no share options granted to employees and contractors during the financial year.

##### *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.

##### *Executive contractual arrangements*

The remuneration arrangements and other terms of employment for Key Management Personnel are formalised in employment agreements. The material terms of the KMP employment agreements are set out below.

- *Managing Director and Chief Executive Officer Remuneration*

On 19 December 2014, the Company entered into an executive agreement with Mr Peter Stickland which contains the following major key terms:-

- **Remuneration:** \$400,000 inclusive of superannuation.
- **Term:** 12 months from 19 December 2014
- **Notice:** The Company and Mr Stickland may terminate the Agreement at any time by giving 3 Months' notice in writing.
- **Payments on Termination:** Where the Company terminates Mr Stickland's employment (except in circumstances of serious misconduct) or Mr Stickland's employment ceases because of a "fundamental change", Mr Stickland is entitled to a lump sum payment equal to the remaining term of the 12 month Fixed Term Agreement.

The executive agreement with former Managing Director and Chief Executive Officer, Mr Hendrich, was terminated with the Company giving 3 months' notice in writing. In accordance with the Agreement, where the Company terminates Mr Hendrich's employment (except in circumstances of serious misconduct), Mr Hendrich is entitled to a lump sum payment based on the Total Fixed Remuneration for the 12 months immediately preceding the Termination Date, being 31 January 2015. Mr Hendrich was paid a lump sum of \$510,000 in accordance with his contract being the Total Fixed Remuneration for the 12 months immediately preceding the Termination Date.

## **MEO Australia Limited**

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### **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015**

#### **14. REMUNERATION REPORT (Audited) (cont)**

##### **4. Executive remuneration arrangements (cont)**

- *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.

The executive agreement with former Commercial Manager, Mr Gard, was terminated with the Company giving 3 months' notice in writing. Mr Gard was paid a lump sum of \$133,390 in accordance with his contract.

- *Consultants*

The Company has secured the services for Mr Hendrick and Mr Stickland (prior to his appointment as Chief Executive Officer) and Mr Gard (subsequent to cessation of employment on 30 April 2015) 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.

# MEO Australia Limited

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## DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2015

### 14. REMUNERATION REPORT (Audited) (cont)

#### 5. Remuneration outcomes for FY2015

##### 5.1 Remuneration of key management personnel of the Company

Details of the remuneration of KMP (including the non-executive directors) for FY2015 and comparative information for FY2014 are set out in Tables 1 and 2 below.

**Table 1: Remuneration for the year ended 30 June 2015**

	Short term			Post employment	Share-based payments	Long term	Termination Payments	Total	Performance related
	Directors fees \$	Salary and consultant fees \$	Non-monetary benefits	Super-annuation benefits \$	*Options \$	Long service leave \$	\$	\$	%
<b>Non - executive directors</b>									
S W Hopley	22,482	-	-	35,000	2,667	-	-	60,149	4.4
G A Short	52,022	-	-	15,892	2,667	-	-	70,581	3.8
M J F Sweeney (i)	30,400	-	-	2,888	2,666	-	-	35,954	7.4
<b>Sub-total non-executive directors</b>	<b>104,904</b>	<b>-</b>	<b>-</b>	<b>53,780</b>	<b>8,000</b>	<b>-</b>	<b>-</b>	<b>166,684</b>	<b>4.8</b>
<b>Executive director</b>									
P Stickland (ii)	-	203,804	-	10,004	-	-	-	213,808	-
J Hendrich (ii) (vi)	-	317,869	-	35,000	-	-	510,000	862,869	-
<b>Other key management personnel</b>									
C H Naylor	-	244,520	-	32,150	-	7,303	-	283,973	-
R J D Gard (iii)(v)(vi)	-	234,020	-	15,653	-	-	133,390	383,063	-
R Zammit	-	245,033	19,449	35,000	-	-	-	299,482	-
<b>Sub-total executives</b>	<b>-</b>	<b>1,245,246</b>	<b>19,449</b>	<b>127,807</b>	<b>-</b>	<b>7,303</b>	<b>643,390</b>	<b>2,043,195</b>	<b>-</b>
<b>Consultants holding key management positions</b>									
K Hendrick (iv)	-	129,500	-	-	-	-	-	129,500	-
P Stickland (iv)	-	169,159	-	-	-	-	-	169,159	-
<b>Sub-total consultants</b>	<b>-</b>	<b>298,659</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>298,659</b>	<b>-</b>
Reversal of long service leave provision (vi)	-	-	-	-	-	(127,089)	-	(127,089)	-
<b>TOTAL</b>	<b>104,904</b>	<b>1,543,905</b>	<b>19,449</b>	<b>181,587</b>	<b>8,000</b>	<b>(127,089)</b>	<b>643,390</b>	<b>2,381,449</b>	<b>0.3</b>

\* Refer note 21 to the consolidated financial statements for fair value calculation of options.

(i) M J F Sweeney resigned 5 January 2015

(ii) J Hendrich ceased employment 31 January 2015, P Stickland appointed Chief Executive Officer on 19 December 2014 and Managing Director on 30 January 2015.

(iii) R J D Gard ceased employment 30 April 2015.

(iv) Represents fees paid/payable for services provided by entities of the consultants. Fees paid to Mr Stickland as Exploration Manager prior to appointment as Chief Executive Officer on 19 December 2014.

(v) Includes consulting fees of \$3,188 payable to Mr Gard post cessation of employment.

(vi) Reversal of long service provision related to Mr J Hendrich (\$83,059) and Mr R J D Gard (\$44,030)

#### Commentary

Key Management Personnel remuneration increased from \$2,323,900 in FY2014 to \$2,381,449 in FY2015. **Excluding** the impact of termination payments in FY2015 of \$643,390, **KMP remuneration decreased by 25% or \$585,841** to \$1,738,059 compared to remuneration in FY2014.

**MEO Australia Limited**

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**DIRECTORS' REPORT (continued)  
FOR THE YEAR ENDED 30 JUNE 2015**

**14. REMUNERATION REPORT (Audited) (cont)**

**5.1 Remuneration of key management personnel of the Company (cont)**

**Table 2: Remuneration for the year ended 30 June 2014**

	Short term			Post employment	Share- based payments	Long term	Termination Payments	Total	Perform- -ance related
	Directors fees \$	Salary and consultant fees \$	Non- monetary benefits	Super- annuation benefits \$	*Options \$	Long service leave \$	\$	\$	%
<b>Non - executive directors</b>									
N M Heath (i)	13,990	-	-	23,144	-	-	-	37,134	-
S W Hopley	34,770	-	-	34,997	11,515	-	-	81,282	14.2
G A Short (i)	77,267	-	-	20,257	11,515	-	-	109,039	10.6
M J F Sweeney	47,895	-	-	21,912	11,515	-	-	81,322	14.2
<b>Sub-total non-executive directors</b>	<b>173,922</b>	<b>-</b>	<b>-</b>	<b>100,310</b>	<b>34,545</b>	<b>-</b>	<b>-</b>	<b>308,777</b>	<b>11.2</b>
<b>Executive director</b>									
J Hendrich	-	499,664	1,617	17,775	30,000	17,643	-	566,699	5.3
<b>Other key management personnel</b>									
C H Naylor	-	265,567	-	18,988	8,938	10,476	-	303,969	2.9
R J D Gard	-	266,780	-	17,775	8,938	10,108	-	303,601	2.9
R Zammit	-	267,775	22,382	25,000	8,938	11,040	-	335,135	2.7
<b>Sub-total executives</b>	<b>-</b>	<b>1,299,786</b>	<b>23,999</b>	<b>79,538</b>	<b>56,814</b>	<b>49,267</b>	<b>-</b>	<b>1,509,404</b>	<b>3.8</b>
<b>Consultants holding key management positions</b>									
K Hendrick (ii)	-	196,000	-	-	4,469	-	-	200,469	2.2
P Stickland (ii)	-	305,250	-	-	-	-	-	305,250	-
<b>Sub-total consultants</b>	<b>-</b>	<b>501,250</b>	<b>-</b>	<b>-</b>	<b>4,469</b>	<b>-</b>	<b>-</b>	<b>505,719</b>	<b>0.9</b>
<b>TOTAL</b>	<b>173,922</b>	<b>1,801,036</b>	<b>23,999</b>	<b>179,848</b>	<b>95,828</b>	<b>49,267</b>	<b>-</b>	<b>2,323,900</b>	<b>4.1</b>

\* Refer note 21 to the consolidated financial statements for fair value calculation of options.

(i) N M Heath resigned 31 October 2013, G Short appointed Chairman 31 October 2013.

(ii) Represents fees paid/payable for services provided by entities of the consultants.

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**DIRECTORS' REPORT (continued)  
FOR THE YEAR ENDED 30 JUNE 2015**

**14. REMUNERATION REPORT (Audited) (cont)**

**5.2 Equity instruments**

**Table 3: Options and share performance rights awarded, vested and lapsed during the year**

<b>Options</b>	<b>Award Date</b>	<b>Options awarded during the year No.</b>	<b>Fair Value per option at award date (cents)</b>	<b>Vesting date</b>	<b>No. vested during year</b>	<b>No. lapsed during year</b>	<b>Expiry Date</b>
<b>Non-executive directors</b>							
G A Short	27 Oct 2011	-	-	27 Oct 2014	300,000	-	27 Oct 2015
S W Hopley	27 Oct 2011	-	-	27 Oct 2014	300,000	-	27 Oct 2015
*M J F Sweeney	27 Oct 2011	-	-	27 Oct 2014	300,000	-	27 Oct 2015
**N M Heath	27 Oct 2011	-	-	-	-	600,000	-

\*Resigned 5 January 2015

\*\*Resigned 31 October 2013. Share options lapsed 31 October 2014 being 12 months post resignation.

**Executives**

J Hendrich	27 Oct 2011	-	-	1 July 2014	1,000,000	3,000,000	-
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**Share Performance Rights**

<b>30 June 2015</b>	<b>Award Date</b>	<b>Share Rights awarded during the year No.</b>	<b>Fair Value per option at award date (cents)</b>	<b>Vesting date</b>	<b>No. vested during year</b>	<b>No. lapsed during year</b>	<b>Expiry Date</b>
<b>Executives</b>							
J Hendrich	15 Nov 2012	-	-	-	-	350,000	-

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

	<b>Value of options granted during the year \$</b>	<b>Value of options exercised during the year \$</b>	<b>Value of options lapsed during the year \$</b>
N M Heath	-	-	39,060
J Hendrich	-	-	242,200

**Table 5: Value of share performance rights awarded, exercised and lapsed during the year**

	<b>Value of rights granted during the year \$</b>	<b>Value of rights exercised during the year \$</b>	<b>Value of rights lapsed during the year \$</b>
J Hendrich	-	-	8,750

For details on the valuation of the options and share performance rights, including models used and assumptions used please refer to note 21 to the consolidated financial statements.

**Table 6: Share issued on exercise of options**

There was no exercise of options during the reporting period (2014: nil).

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**DIRECTORS' REPORT (continued)  
FOR THE YEAR ENDED 30 JUNE 2015****14. REMUNERATION REPORT (Audited) (cont)****6. Additional disclosures relating to shares and options****Shareholdings of key management personnel**

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:

<b>30 June 2015</b>	Held at 1 July 2014	Purchases	Received on Exercise of Options	Sales	Held at 30 June 2015
<b>Shares held in MEO Australia Limited (number)</b>					
<i>Non-executive directors</i>					
G A Short	1,392,444	-	-	-	1,392,444
M J F Sweeney*	1,031,130	-	-	-	-
S W Hopley	950,000	-	-	-	950,000
* 1,031,130 shares held at resignation date					
<i>Executives</i>					
P Stickland (Executive Director)	453,700	4,000,000	-	-	4,453,700
J Hendrich*	2,086,000	-	-	-	-
C H Naylor	1,315,000	-	-	(750,000)	565,000
R J D Gard**	2,450,000	-	-	(1,000,000)	-
R Zammit	610,000	1,100,000	-	-	1,710,000
* 2,086,000 shares held at termination date      ** 1,450,000 shares held at termination date					
<i>Contractors</i>					
K Hendrick	1,880,000	-	-	-	1,880,000

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

**Option holdings of key management personnel**

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 2014	Granted as Remuneration	Options Exercised	Options Lapsed	Held at 30 June 2015	Vested and Vested in 2015	Vested and exercisable at 30 June 2015
<b>Options (number)</b>							
<i>Non-executive directors</i>							
G A Short	900,000	-	-	-	900,000	300,000	900,000
S W Hopley	900,000	-	-	-	900,000	300,000	900,000
M J Sweeney*	900,000	-	-	-	900,000	300,000	900,000
* resigned 5 January 2015							
<i>Executive Director and other Executives</i>							
P Stickland	500,000	-	-	-	500,000	-	500,000
C H Naylor	1,000,000	-	-	-	1,000,000	-	1,000,000
R Zammit	1,000,000	-	-	-	1,000,000	-	1,000,000
J Hendrich	3,000,000	-	-	3,000,000	-	1,000,000	-
R J D Gard*	1,000,000	-	-	-	1,000,000	-	1,000,000
* ceased employment 30 April 2015, due to lapse 31 October 2015.							
<i>Contractor</i>							
K Hendrick	500,000	-	-	-	500,000	-	500,000

**MEO Australia Limited**

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**DIRECTORS' REPORT (continued)  
FOR THE YEAR ENDED 30 JUNE 2015****14. REMUNERATION REPORT (Audited) (cont)****7. Company performance**

The remuneration of MEO executives and contractors is not formally linked to financial performance measures of the Company. However, as explained on pages 17 and 18, executives are strongly incentivised to maximise shareholder wealth because of the fact that the exercise price of the options granted to executives, should they vest, is higher than the market price on the grant date. In accordance the Section 300A of the *Corporations Act 2001* the following table summarises MEO's performance over a five year period:

Measure	2015	2014	2013	2012	2011
Net (loss)/profit - \$000	(10,042)	(135,910)	(67,210)	(5,698)	13,707
Basic (loss)/earnings per share - cents per share	(1.34)	(21.12)	(11.26)	(1.06)	2.67
Share price at the beginning of year - \$	0.03	0.06	0.25	0.18	0.25
Share price at end of year - \$	0.015	0.03	0.06	0.25	0.18
Dividends per share - cents	Nil	Nil	Nil	Nil	Nil

**15. CORPORATE GOVERNANCE STATEMENT**

The Company's Corporate Governance Statement for the year ended 30 June 2015, ASX Appendix 4G (Key to Disclosure of Corporate Governance Principles and Recommendations) and other ancillary corporate governance related documents may be accessed from the Company's website at [http://www.meoaustralia.com.au/page/About\\_MEO/Governance/](http://www.meoaustralia.com.au/page/About_MEO/Governance/).

Signed in accordance with a resolution of the directors



**P J STICKLAND**  
Managing Director and Chief Executive Officer  
Melbourne, 17<sup>th</sup> September 2015

**MEO Australia Limited**

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2015**

	Note	2015 \$	2014 \$
Sales revenue		330,689	-
Interest income		206,668	293,425
<b>Total income</b>		<b>537,357</b>	<b>293,425</b>
Production costs		(382,480)	-
Net administration costs	4	(5,368,934)	(6,498,867)
Exploration expenditure written-off		(5,141,972)	(129,443,520)
Share of losses of an associate		-	(29,142)
Gain on disposal of associate		-	215,871
Impairment on available for sale financial asset		-	(215,871)
Loss on available for sale financial asset		(42,509)	-
Merger & takeover related costs		(970,090)	-
Merger break fee		400,000	-
Foreign exchange gains/(losses)		965,529	(76,872)
<b>Loss before income tax</b>		<b>(10,003,099)</b>	<b>(135,754,976)</b>
Income tax expense	5	(39,124)	(155,495)
<b>Net loss for the period</b>		<b>(10,042,223)</b>	<b>(135,910,471)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(18,124)	254,789
<b>Other comprehensive income for the period, net of tax</b>		<b>(18,124)</b>	<b>254,789</b>
<b>Total comprehensive loss for the period</b>		<b>(10,060,347)</b>	<b>(135,655,682)</b>
Basic loss per share (cents per share)	6	(1.34)	(21.12)
Diluted loss per share (cents per share)	6	(1.34)	(21.12)

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

**MEO Australia Limited**

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2015**

	Note	2015 \$	2014 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	5,785,454	15,989,872
Other receivables	8	311,056	410,890
<b>TOTAL CURRENT ASSETS</b>		<b>6,096,510</b>	<b>16,400,762</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	150,094	802,679
Intangible assets	11	40,854	274,234
Exploration and evaluation costs	12	10,856,110	11,330,618
<b>TOTAL NON-CURRENT ASSETS</b>		<b>11,047,058</b>	<b>12,407,531</b>
<b>TOTAL ASSETS</b>		<b>17,143,568</b>	<b>28,808,293</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	213,286	1,528,895
Provisions	15	194,575	241,059
<b>TOTAL CURRENT LIABILITIES</b>		<b>407,861</b>	<b>1,769,954</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	15	20,473	309,882
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>20,473</b>	<b>309,882</b>
<b>TOTAL LIABILITIES</b>		<b>428,334</b>	<b>2,079,836</b>
<b>NET ASSETS</b>		<b>16,715,234</b>	<b>26,728,457</b>
<b>EQUITY</b>			
Contributed equity	16	262,406,308	262,367,184
Reserves	16	3,520,221	3,979,795
Accumulated losses	16	(249,211,295)	(239,618,522)
<b>TOTAL EQUITY</b>		<b>16,715,234</b>	<b>26,728,457</b>

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

**MEO Australia Limited**

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2015**

	Issued capital \$	Share based payments reserve \$	Foreign Currency Translation Reserve \$	Accumulated losses \$	Total equity \$
<b>Balance at 1 July 2014</b>	<b>262,367,184</b>	<b>1,690,073</b>	<b>2,289,722</b>	<b>(239,618,522)</b>	<b>26,728,457</b>
Net loss for the period	-	-	-	(10,042,223)	(10,042,223)
Other comprehensive income/(loss)	-	-	(18,124)	-	(18,124)
<b>Total comprehensive income/(loss) for the year</b>	<b>-</b>	<b>-</b>	<b>(18,124)</b>	<b>(10,042,223)</b>	<b>(10,060,347)</b>
<b>Transactions with owners in their capacity as owners:</b>					
Cost of share based payments	-	8,000	-	-	8,000
Costs of issues (net of tax)	39,124	-	-	-	39,124
Transfer of equity instruments expired unvested	-	(449,450)	-	449,450	-
<b>At 30 June 2015</b>	<b>262,406,308</b>	<b>1,248,623</b>	<b>2,271,598</b>	<b>(249,211,295)</b>	<b>16,715,234</b>
	Issued capital \$	Share based payments reserve \$	Foreign Currency Translation Reserve \$	Accumulated losses \$	Total equity \$
<b>Balance at 1 July 2013</b>	<b>259,934,368</b>	<b>1,696,686</b>	<b>2,034,933</b>	<b>(103,855,482)</b>	<b>159,810,505</b>
Net loss for the period	-	-	-	(135,910,471)	(135,910,471)
Other comprehensive income/(loss)	-	-	254,789	-	254,789
<b>Total comprehensive income/(loss) for the year</b>	<b>-</b>	<b>-</b>	<b>254,789</b>	<b>(135,910,471)</b>	<b>(135,655,682)</b>
<b>Transactions with owners in their capacity as owners:</b>					
Cost of share based payments	-	140,818	-	-	140,818
Share issues	2,464,476	-	-	-	2,464,476
Costs of issues (net of tax)	(31,660)	-	-	-	(31,660)
Transfer of equity instruments expired unvested	-	(147,431)	-	147,431	-
<b>At 30 June 2014</b>	<b>262,367,184</b>	<b>1,690,073</b>	<b>2,289,722</b>	<b>(239,618,522)</b>	<b>26,728,457</b>

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

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**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2015**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Sales proceeds	330,689	-
Production costs	(382,480)	-
Payments to suppliers and employees	(5,130,954)	(5,967,995)
Cost recovery from joint venture partners	98,610	78,849
Merger and takeover costs	(970,090)	-
Merger break fee	400,000	-
Interest received	210,457	311,833
<b>Net cash (used in) operating activities</b>	<b>(5,443,768)</b>	<b>(5,577,313)</b>
	(note 17)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditure on plant and equipment	(16,899)	(7,995)
Expenditure on intangible assets	-	(24,160)
Investment in associate	-	(29,142)
Expenditure on exploration tenements	(5,802,441)	(2,774,816)
Expenditure on available for sale financial asset	(410,509)	-
Proceeds from sale of available for sale financial asset	368,000	-
Proceeds from 50% farm-in to WA-454-P	-	5,600,000
Proceeds from sale of plant & equipment and motor vehicles	135,670	-
<b>Net cash (used in) / from investing activities</b>	<b>(5,726,179)</b>	<b>2,763,887</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from share issues	-	2,464,476
Transaction costs on issue of shares	-	(187,155)
<b>Net cash from financing activities</b>	<b>-</b>	<b>2,277,321</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(11,169,947)</b>	<b>(536,105)</b>
Cash and cash equivalents at beginning of period	<b>15,989,872</b>	<b>16,602,849</b>
Net foreign exchange differences	965,529	(76,872)
<b>Cash and cash equivalents at end of period</b>	<b>5,785,454</b>	<b>15,989,872</b>
	(note 7)	

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

## **MEO Australia Limited**

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### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

#### **NOTE 1 CORPORATE INFORMATION**

The financial report of MEO Australia Limited (“MEO Australia”, or the “Company”) for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of the directors on 17 September 2015.

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 of a “for-profit” entity, 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.

##### *(i) 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.

##### *(ii) New and amended standards adopted by the Group*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2014:

- AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.

- AASB 2014-1 Part A -Annual Improvements 2010–2012 Cycle

AASB 2014-1 Part A: This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle. Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:

- ▶ AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.
- ▶ AASB 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.
- ▶ AASB 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segment assets to the entity's total assets.
- ▶ AASB 116 & AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.
- ▶ AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 Related Party Disclosures for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.

**MEO Australia Limited**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015****NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)****(a) Basis of Preparation (cont)**

Adoption of these standards did not have a material effect on the financial position or performance of the Group.

*(iii) Early adoption of new Accounting Standards*

The Group has not elected to early adopt any of the standards set out under (b) New Accounting Standards and Interpretations' for the current reporting period.

*(iv) Historical cost convention*

The financial statements have been prepared under a historical cost convention, except for derivative financial instruments and available for sale assets which have been measured at fair value.

**(b) New Accounting Standards and Interpretations**

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2015. Adoption of these standards is not expected to have a material effect on the financial position or performance of the Group however the position will be further reviewed during FY2016.

Reference	Title	Summary	Application date of standard	Application date for Group
<b>AASB 2014-3</b>	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	AASB 2014-3 amends AASB 11 <i>Joint Arrangements</i> to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:  (a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 <i>Business Combinations</i> , to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and  (b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.  This Standard also makes an editorial correction to AASB 11	1 January 2016	1 July 2016
<b>AASB 15</b>	Revenue from Contracts with Customers	AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations. AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).	1 January 2017	1 July 2017

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

**(b) New Accounting Standards and Interpretations (cont)**

Reference	Title	Summary	Application date of standard	Application date for Group
<b>AASB 2015-1</b>	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p><i>AASB 5 Non-current Assets Held for Sale and Discontinued Operations:</i></p> <ul style="list-style-type: none"> <li>Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.</li> </ul> <p><i>AASB 119 Employee Benefits:</i></p> <ul style="list-style-type: none"> <li>Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.</li> </ul> <p><i>AASB 134 Interim Financial Reporting:</i></p> <ul style="list-style-type: none"> <li>Disclosure of information ‘elsewhere in the interim financial report’ - amends AASB 134 to clarify the meaning of disclosure of information ‘elsewhere in the interim financial report’ and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.</li> </ul>	1 January 2016	1 July 2016
<b>AASB 2015-2</b>	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	<p>The Standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> arising from the IASB’s Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.</p>	1 January 2016	1 July 2016

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

**(b) New Accounting Standards and Interpretations (cont)**

Other new Australian accounting standards and Interpretations issued but not yet effective are not relevant to the Group.

**(c) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

**(d) 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 using a binomial option pricing model, and using the assumptions detailed in note 21.

*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 2015 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.

*Going concern*

The Group is involved in the exploration and evaluation of oil and gas tenements. Further expenditure will be required on these tenements to ascertain whether they contain economically recoverable reserves.

As at 30 June 2015 the Group had cash reserves of \$5,785,454. The cash reserves are expected to meet the Group's planned exploration activities for the 12 months from the date of this report. To meet its funding requirements the Group will rely on taking appropriate steps, including:

- Meeting its additional obligations by either farm-out or partial sale of the Group's exploration interests;
- Raising capital by one of a combination of the following: placement of shares, pro-rata issue to shareholders, the exercise of outstanding share options, and/or further issue of shares to the public;
- In some circumstances, subject to negotiation and approval, minimum work requirements may be varied or suspended, and/or permits may be surrendered or cancelled; or
- Other avenues that may be available to the Group.

The financial report has been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. No adjustments have been made relating to the recoverability and reclassification of recorded asset amounts and classification of liabilities that might be necessary should the Group not continue as a going concern, particularly the write-down of capitalised exploration expenditure should the exploration permits be ultimately surrendered or cancelled.

Having carefully assessed the potential uncertainties relating to the Group's ability to effectively fund exploration activities and operating expenditures, the Directors believe that the Group will continue to operate as a going concern for the foreseeable future. Therefore, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

## **MEO Australia Limited**

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### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

#### **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

##### **(e) 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.

##### **(f) Foreign currency translation**

###### *(i) Functional and presentation currency*

The Group's consolidated financial statements are presented in Australian dollars, which is also the parent company's functional currency. 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. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

###### *(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.

###### *(iii) Group companies*

On consolidation the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

##### **(g) 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 consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

**(h) 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.

**(i) 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 (AFS) financial investments*

AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealised gains or losses recognised as Other Comprehensive Income (OCI) and credited in the AFS reserve until the investment is de-recognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

*(i) Impairment of financial assets*

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## **MEO Australia Limited**

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### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

#### **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

##### **(j) Investments in associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value then recognises the loss as 'Share of profit of an associate' in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

##### **(k) 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 3 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 of disposal 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.

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 consolidated statement of comprehensive income in the period the item is derecognised.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

**(l) 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.

**(m) 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.

**(n) 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.

## **MEO Australia Limited**

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### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

#### **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

##### **(o) 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.

##### **(p) Interests in joint arrangements**

##### *Joint operations*

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement, have rights to assets, and obligations for the liabilities of the joint arrangement. Joint control is the contractual agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group accounts for its share of the joint operation 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 operation's output, together with its share of the expenses incurred by the joint operation, and any expenses it incurs in relation to its interest in the joint operation.

##### **(q) 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 consolidated statement of comprehensive income on a straight-line basis over the lease term.

##### **(r) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

**(s) 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 consolidated 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.

***Employee leave benefits***

***Short term benefits***

Liabilities for wage and salaries, including non-monetary benefits and certain 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 term benefits***

The liability for long service leave and certain annual benefits are 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 high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

**(t) 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'). The Board adopted the Long Term Incentive Plan on 13 September 2011.

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 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. 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.

## **MEO Australia Limited**

ABN 43 066 447 952

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

#### **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

##### **(t) Share-based payment transactions (cont)**

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.

##### **(u) 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.

##### **(v) 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.

Interest income is recognised as it accrues using the effective interest method.

##### **(w) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

**(w) Income tax (cont)**

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.

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 consolidated 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.

## **MEO Australia Limited**

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### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

#### **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)**

##### **(x) 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 Consolidated 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.

##### **(y) 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.

##### **(z) Parent entity financial information**

The financial information for the parent entity, MEO Australia Limited, disclosed in note 24 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**

In light of the Group's focus on exploration, the Board of Directors no longer receive segmented financial information in respect of methanol and LNG development. The Group operates in the petroleum exploration industry within Australia and New Zealand.

The Board of Directors currently receive regular consolidated cash flow information as well as Consolidated Statement of Financial Position and Statement of Comprehensive Income information that is prepared in accordance with Australian Accounting Standards.

The Board does not currently receive segmented Statement of Financial Position and Statement of Comprehensive Income information. The Board manages exploration activities of each permit area through review and approval of budgets, joint venture cash calls and other operational information. Information regarding exploration expenditure capitalised for each area is contained in note 12.

Sales revenue of \$330,689 was generated entirely from production in PEP 51153 in New Zealand.

**MEO Australia Limited**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015****NOTE 4 NET ADMINISTRATION EXPENSES**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Consultants fees and expenses	517,214	479,458
Non-executive directors remuneration (excluding share based payments)	158,684	274,232
Salaries and on-costs	2,639,287	4,376,581
Termination payments and on-costs (per minimum contractual commitments)	748,671	-
Share based payments	8,000	140,818
Administration and other expenses	483,846	634,934
Audit costs	74,000	90,500
Securities exchange, share registry and reporting costs	137,237	157,933
Operating lease expenses	366,393	537,611
Investor relations and corporate promotion costs	51,532	54,215
Travel costs	161,848	359,478
Depreciation and amortisation expense	417,481	599,415
Loss on sale of motor vehicles	6,870	-
*Office relocation costs	658,269	-
Gross administration costs	6,429,332	7,705,175
Less allocation to exploration activities	(1,060,398)	(1,206,308)
<b>Net administration costs</b>	<b>5,368,934</b>	<b>6,498,867</b>

\* Office relocation costs include costs associated with leasehold asset write-offs (\$318,236), leasehold break costs (\$275,000), office equipment write-offs (\$24,094) and physical relocation costs (\$40,939).

**NOTE 5 INCOME TAX****Statement of Comprehensive Income**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<i>Current income tax</i>		
Current income tax (expense)/credit	1,714,341	(2,841,797)
Tax losses (not recognised as not probable)/ recognised as now probable	(1,662,577)	(36,632,926)
	51,764	(39,474,723)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(90,888)	39,319,228
	(90,888)	39,319,228
Income tax expense reported in the Statement of Comprehensive Income	(39,124)	(155,495)

**Statement of Changes in Equity***Deferred income tax related to items charged or  
credited directly to equity*

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Share issue costs	-	56,146
Share issue costs not recognised as not probable	-	(33,687)
Amount recognised in respect of prior years share issue costs now considered probable	39,124	133,036
Income tax benefit reported in equity	39,124	155,495

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015****NOTE 5 INCOME TAX (cont)**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<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 loss before tax	(10,003,099)	(135,754,976)
At the Group's statutory 30% tax rate (2014: 30%)	3,000,930	40,726,493
Share based payment expense	(2,400)	(42,245)
Non-deductible expenses	(1,533)	(1,959)
Difference in overseas tax rates	(1,373,543)	(4,840,061)
Tax losses (not brought to account) / brought to account	(1,662,578)	(35,997,723)
Income tax expense reported in the Statement of Comprehensive Income	<u>(39,124)</u>	<u>(155,495)</u>

<b>Deferred Income Tax</b>	<b>Statement of Financial Position</b>		<b>Income Statement</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

Deferred income tax at 30 June relates to the following:

**CONSOLIDATED***Deferred tax liabilities*

Interest receivable	(8,561)	(10,535)	1,974	4,685
Exploration and evaluation costs	<u>(3,256,833)</u>	<u>(3,388,382)</u>	131,549	39,547,448
Gross deferred income tax liabilities	<u>(3,265,394)</u>	<u>(3,398,917)</u>		

*Deferred tax assets*

Investment in associate	-	-	-	(274,500)
Accruals	42,289	165,932	(123,643)	28,704
Provisions	64,514	165,282	(100,768)	12,892
Share issue costs	39,124	189,183	-	-
Temporary differences not recognised as not probable	-	(33,687)	-	-
Tax losses (not brought to account)/brought to account to offset net deferred tax liability	<u>3,119,467</u>	<u>2,912,207</u>	51,764	(39,474,724)
Gross deferred income tax assets	<u>3,265,394</u>	<u>3,398,917</u>		
Net deferred tax asset	<u>-</u>	<u>-</u>		
Deferred tax expense			<u>(39,124)</u>	<u>(155,495)</u>

**Tax losses**

At balance date, the Group has estimated unused gross tax losses of \$159.1 million (2014: \$152.2 million) 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015****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 2015 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:

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Net loss	(10,003,099)	(135,910,471)
	<b>Shares</b>	<b>Shares</b>
Weighted average number of ordinary shares used in calculation of basic and diluted loss per share	<u>750,488,387</u>	<u>643,469,361</u>

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**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and in hand	613,689	4,342,455
Short term deposits	<u>5,171,765</u>	<u>11,647,417</u>
	<u>5,785,454</u>	<u>15,989,872</u>

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**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Goods and services tax refund	8,476	103,338
Interest receivable	28,538	35,117
Other	<u>274,042</u>	<u>272,435</u>
	<u>311,056</u>	<u>410,890</u>

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 18.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015****NOTE 9 INVESTMENT IN ASSOCIATE**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Investment - unlisted entity	-	-
<b>Movements in the carrying value of the Group's investment in associate</b>		
Investment in associate	-	944,142
Cumulative share of losses after tax	-	(944,142)

In February 2014, the investment in associate was sold for shares in Canadian company, Lignol Energy Corporation. The value of the Lignol shares acquired at the time of the sale was \$215,871. In August 2014, Lignol Energy was placed in receivership.

**NOTE 10 PROPERTY, PLANT AND EQUIPMENT****Plant and Equipment**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<i>Plant and Equipment</i>		
At cost	694,481	659,522
Accumulated depreciation	(544,387)	(464,501)
	<u>150,094</u>	<u>195,021</u>
<i>Motor Vehicles</i>		
At cost	-	264,455
Accumulated depreciation	-	(99,071)
	<u>-</u>	<u>165,384</u>
<i>Leasehold Improvements</i>		
At cost	-	769,069
Accumulated depreciation	-	(326,795)
	<u>-</u>	<u>442,274</u>
<b>Total Property, Plant and Equipment</b>	<b><u>150,094</u></b>	<b><u>802,679</u></b>
<i>Movement in Plant and Equipment</i>		
Net carrying amount at beginning of year	195,021	342,122
Additions	16,899	7,995
Reclassification from Leasehold Improvements	76,375	-
Disposals	(7,596)	-
Depreciation	(130,605)	(155,096)
	<u>150,094</u>	<u>195,021</u>
<i>Movement in Motor Vehicles</i>		
Net carrying amount at beginning of year	165,384	198,350
Disposals	(141,391)	-
Depreciation	(23,993)	(32,966)
	<u>-</u>	<u>165,384</u>
<i>Leasehold Improvements</i>		
Net carrying amount at beginning of year	442,274	596,088
Reclassification to Plant & Equipment	(76,375)	-
Write-off on relocation	(318,236)	-
Depreciation	(47,663)	(153,814)
	<u>-</u>	<u>442,274</u>
<b>Net carrying amount at end of year</b>	<b><u>150,094</u></b>	<b><u>802,679</u></b>

The useful life of the plant and equipment is estimated for 2015 and 2014 is 3 to 15 years.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015****NOTE 11 INTANGIBLE ASSETS**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Software licences at cost	1,197,612	1,229,888
Accumulated amortisation	(1,156,758)	(955,654)
	40,854	274,234
<i>Movement in Intangibles</i>		
Net carrying amounts at beginning of year	274,234	507,613
Additions	-	24,160
Disposals	(18,160)	-
Amortisation	(215,220)	(257,539)
	40,854	274,234

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

**NOTE 12 EXPLORATION AND EVALUATION COSTS**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Balance at beginning of year	11,330,618	143,119,433
Expenditure for the year	4,667,463	3,254,705
Proceeds from farm-out of 50% interest in WA-454-P	-	(5,600,000)
Expenditure written-off during the year	(5,141,971)	(129,443,520)
	10,856,110	11,330,618

Significant judgement is required in determining whether it is likely that future economic benefits will be derived from capitalised exploration and evaluation expenditure. In the judgement of the Directors, at 30 June 2015 exploration activities in each area of interest, where costs are carried forward, 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.

The exploration write-off for the financial year is \$5,141,971 which is mainly due to the write-off of \$4,315,243 relating to PEP 51153 which includes drilling the Puka-3 well, the write-off of \$306,976 relating to the Heron Area of Interest in NT/P68, the write-off of \$276,460 relating to close-out costs for the Seruway Production Sharing Contract in Indonesia, the write-off of \$148,872 relating to WA-360-P Area of Interest and the write-off of \$68,147 relating to the AC/P53 Area of Interest.

Capitalised exploration and evaluation costs at 30 June 2015 are \$10,856,110 (June 2014: \$11,330,618) which relate to the following:-

Area of Interest	30 June 2015	30 June 2014
AC/P50 & AC/P51	\$8,186,955	\$8,273,013
WA-454-P	\$2,062,305	\$1,777,754
Puka, New Zealand	-	\$756,946
WA-488-P	\$606,850	\$522,905
<b>TOTAL</b>	<b>\$10,856,110</b>	<b>\$11,330,618</b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015****NOTE 13 AVAILABLE-FOR-SALE (AFS) FINANCIAL ASSETS**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	\$	\$
At fair value		
Shares – Canadian listed	-	-

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

Listed shares

During the period, the consolidated entity purchased an available-for-sale investment in a listed entity, which was subsequently disposed during the period for a loss of \$42,509.

In FY2014 the AFS financial asset was an investment in a Canadian listed entity, Lignol Energy Corporation. The fair value of the shares was determined by reference to published price quotations in an active market.

***Impairment on AFS financial assets***

The Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost. Based on this assessment in FY2014, the Company identified an impairment of \$215,871. The fair value movement on AFS financial assets is recognised in the available for sale reserve through other comprehensive income and subsequently transferred to the statement of profit or loss upon the determination that the investment is impaired. Subsequent to FY2014, Lignol Energy Corporation was placed in receivership.

**NOTE 14 TRADE AND OTHER PAYABLES**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	\$	\$
Trade and other payables	213,286	1,528,895

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

**NOTE 15 PROVISIONS**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	\$	\$
<b>CURRENT</b>		
Employee benefits		
Annual leave entitlement	134,610	188,397
Long service leave entitlement	59,965	52,662
	<u>194,575</u>	<u>241,059</u>
<b>NON-CURRENT</b>		
Employee benefits		
Long service leave entitlement	20,473	309,882

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015****NOTE 16 CONTRIBUTED EQUITY AND RESERVES**

	<b>2015</b>	<b>Consolidated</b>		<b>2014</b>
	<b>Shares</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>
		<b>\$</b>	<b>Shares</b>	<b>\$</b>
<b>ISSUED AND PAID UP CAPITAL</b>				
Ordinary shares	750,488,387	262,406,308	750,488,387	262,367,184
	=====	=====	=====	=====
	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>
	<b>Shares</b>	<b>\$</b>	<b>Shares</b>	<b>\$</b>
<b>Movements in Ordinary Shares</b>				
Balance at beginning of year	750,488,387	262,367,184	627,264,587	259,934,368
<i>Share Issues:</i>				
Share Purchase Plan shares at \$0.02 per share	-	-	123,223,800	2,464,476
Transaction costs (net of tax)	-	39,124	-	(31,660)
	-----	-----	-----	-----
Balance at end of year	750,488,387	262,406,308	750,488,387	262,367,184
	=====	=====	=====	=====

**(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) Share Options and Performance Rights**

At 30 June 2015 11,080,000 options over unissued shares granted to 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 21.

**(c) 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015****NOTE 16 CONTRIBUTED EQUITY AND RESERVES (cont)****ACCUMULATED LOSSES**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Balance at beginning of year	(239,618,522)	(103,855,482)
Net loss for the year	(10,042,223)	(135,910,471)
Transfer from share based payments reserve - cost of equity instruments expired unexercised	449,450	147,431
	<u>449,450</u>	<u>147,431</u>
Balance at end of year	<u>(249,211,295)</u>	<u>(239,618,522)</u>

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

**OTHER RESERVES***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 21 for further details of the plan.

*Foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences for the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

**NOTE 17 CASH FLOW STATEMENT RECONCILIATION****Reconciliation of net loss after tax to net cash flows used in operating activities**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Net (loss)/profit	(10,042,223)	(135,910,471)
<i>Adjustments for:</i>		
Share of losses of an associate	-	29,142
Gain on disposal of associate	-	(215,871)
Impairment on available for sale financial assets	-	215,871
Loss on available for sale financial asset	42,509	-
Asset write-offs	342,330	-
Exploration expenditure written-off	5,141,971	129,443,520
Depreciation and amortisation	417,481	599,415
Share based payments	8,000	140,818
Exchange rate adjustments	(965,529)	76,872
Deferred income tax expense	39,124	155,495
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(9,944)	36,789
(Decrease)/increase in trade and other payables	(81,594)	(191,864)
(Decrease)/increase in provisions	(335,893)	42,971
	<u>(5,443,768)</u>	<u>(5,577,313)</u>
<b>Net cash flows (used in) operating activities</b>	<b>(5,443,768)</b>	<b>(5,577,313)</b>

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

#### NOTE 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments 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, trade payables and available for sale asset, which arise directly from its operations. The main risks arising from the Group's financial instruments are credit risk, interest rate risk, exchange rate 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 2015 (2014: \$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.

##### *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. 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 the current cash balance, a +/- 1.0% movement from the year-end Australian interest rates will not have a material impact on the profit or loss and cash balances of the group.

##### *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 which may include entering into various forward currency contracts throughout the year.

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

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
<b>USD</b>	<b>\$</b>	<b>\$</b>
Cash	902,168	5,902,681
Total Financial Assets	902,168	5,902,681
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Trade Creditors	-	45,395
Total Financial Liabilities	-	45,395

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015****NOTE 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont)**

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

	<b>Consolidated Net Profit</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
10% strengthening in AUD/USD rate (for 2015 from 0.768 to 0.8448 and for 2014 from 0.9420 to 1.0362) with all other variables held constant	(106,791)	(565,266)
10% weakening in AUD/USD rate (for 2015 from 0.768 to 0.6912 and 2014 from 0.9420 to 0.8478) with all other variables held constant	130,522	690,881

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.

*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.

At balance date, the group holds \$213,286 (2014: \$1,528,895) of financial liabilities consisting of trade and other payables. All financial liabilities have a contractual maturity of 30 days. The fair values of the financial assets and liabilities approximate the carrying values in the statement of financial position.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

#### NOTE 19 COMMITMENTS AND CONTINGENCIES

##### Commitments

	Consolidated	
	2015	2014
	\$	\$
<b>Operating Lease</b>		
Future minimum rentals payable under operating lease for office premises at balance date:		
Payable not later than one year	349,186	676,024
Payable later than one year but not later than five years	122,045	771,058
	<u>471,231</u>	<u>1,447,082</u>

##### Guarantee

The Group has provided guarantees of \$70,752 (2014: \$258,090) at 30 June 2015 for lease of premises.

##### Exploration Commitments

In order to maintain rights of tenure to petroleum exploration tenements, the Group has discretionary exploration requirements up until the expiry of the primary term of the tenements. These requirements, which are subject to renegotiation, are not provided for in the financial statements. If the economic entity decides to relinquish certain tenements and/or does not meet these obligations, assets recognised in the Statement of Financial Position may require review in order to determine the appropriateness of carrying values. The commitments for exploration expenditure of \$16.6 million include the minimum expenditure requirements that the Consolidated Entity is required to meet in order to retain its present permit interests. These obligations may be subject to renegotiation, may be farmed out or may be relinquished.

The majority of MEO's exploration permits are located in the jurisdiction of the Commonwealth of Australia and have been awarded on the basis of an exploration work program bid. The first three-years of a work program are referred to as the primary term. The work program is guaranteed and cannot be reduced. Later years (4, 5 and 6) are referred to as the secondary term and the work program for each year becomes guaranteed upon entry to that year. Whilst failure to complete a guaranteed work program does not result in a financial penalty, it is grounds for cancellation of the permit. Further, the default may be considered by the Regulator in relation to future interactions with the defaulting party for a period of 5 years.

##### - NT/P68 (MEO 50%)

NT/P68 is currently in the fifth and final year of the permit term. During the financial year the Regulator approved a 6 month extension to Permit Year 5 from 26 April 2015 to 26 October 2015 with no change in the geotechnical studies work program. Geotechnical study costs will be paid by joint venture partner, Eni Australia Limited. MEO will consider whether to apply for a renewal for a further 5 year period prior to October 2015.

##### -WA-360-P (MEO 62.5%)

Year 4 Permit obligation commenced 6 March 2015 and consists of geotechnical studies. Year 5 Permit work program commencing 6 March 2016 consists of an exploration well. MEO may elect to withdraw from the permit prior to entering Year 5 without penalty.

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

WA-361-P is in its fifth and final year. The permit year ends 30 January 2016 and the current work program consists of geotechnical studies.

## **MEO Australia Limited**

ABN 43 066 447 952

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

#### **NOTE 19 COMMITMENTS AND CONTINGENCIES (cont)**

##### **-AC/P50 (MEO 100%)**

AC/P50 was renewed for a further 5 year term commencing 19 May 2015. The minimum work program requirement during the Primary Term consists of Year 1 (ending 18 May 2016) - geological and geophysical studies; Year 2 (ending 18 May 2017) - seismic data reprocessing and Year 3 (ending 18 May 2018) - geological and geophysical studies.

##### **-AC/P51 (MEO 100%)**

AC/P51 was renewed for a further 5 year term commencing 19 May 2015. The minimum work program requirement during the Primary Term consists of Year 1 (ending 18 May 2016) - geological and geophysical studies; Year 2 (ending 18 May 2017) - seismic data reprocessing and Year 3 (ending 18 May 2018) - geological and geophysical studies.

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

In 2011, MEO was awarded AC/P53 for a six year period. During the financial year the work program was amended by deferring the Permit Year 5 exploration well to Permit Year 6. The Permit Year 5 (ending 6 July 2016) work program consists of geotechnical studies. MEO may elect to withdraw from the permit prior to entering Year 6 without penalty.

##### **- WA-454-P (MEO 50%)**

In 2011, MEO was awarded WA-454-P for a six year period. In April 2015, the Regulator approved a six-month extension to Permit Year 4 to 8 December 2015 and a deferral of the well commitment from Permit Year 5 to Permit Year 6. The Permit Year 4 work program now consists of geotechnical studies and 600km<sup>2</sup> 3D Pre-stack Depth Migration reprocessing while Permit Year 5 (ending 8 December 2016) consists of interpreting the 600km<sup>2</sup> 3D Pre-stack Depth Migration reprocessing and geotechnical studies and Permit Year 6 (ending 8 December 2017) consists of an exploration well. MEO may elect to withdraw from the permit prior to entering Year 6 without penalty.

##### **- WA-488-P (MEO 70%)**

In 2013, MEO was awarded WA-488-P for a six year period with a minimum commitment being the three year primary term ending 21 May 2016. The Permit Year 1 work program (ending 21 May 2014) was 400km 2D seismic; and has been satisfied. During the financial year the Regulator approved a 6 month extension to Permit Year 2 from 21 May 2015 to 21 November 2015 with the work program varied to include proprietary seismic processing. As a result, Permit Year 3, which has a work program of one exploration well now commences 22 November 2015.

##### **- PEP51153 (MEO 30% interest)**

In September 2008, New Zealand onshore exploration permit, PEP51153 was granted to Kea Oil and Gas Limited for a period of 10 years. PEP51153 consisted of two Areas, Area B (containing the Puka oil discovery) and Area A. During the financial year, Permit Area A was surrendered. PEP51153 is currently in Permit Year 7 which ends 22 September 2015. The Year 7 work programme is the acquisition, processing and interpretation of 7kms of 2D seismic data. Joint Venturers can elect to commit or surrender their interest in the PEP prior to entering Permit Year 8 which consists of drilling one exploration well.

During June 2015, the Joint Venture requested a six month extension for Permit Year 7 to March 2016 following the sale of Kea's 70% interest in the Permit, to provide the incoming party with sufficient time to complete the work program. The Joint Venture is awaiting a response from the New Zealand Regulator.

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

## MEO Australia Limited

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

#### NOTE 19 COMMITMENTS AND CONTINGENCIES (cont)

##### Summary

Should MEO proceed with its share of exploration commitments, they are currently estimated to be \$16.6 million of which \$1.4 million is estimated within one year and \$15.2 million is estimated after one year but not more than five years.

#### NOTE 20 RELATED PARTY DISCLOSURES

##### Subsidiaries

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

	Country of Incorporation	Equity Interest	
		2015	2014
		%	%
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	Australia	100	100
Offshore Methanol Pty Ltd	Australia	100	100
Gastech Systems Pty Ltd	Australia	100	100
Vulcan Exploration Pty Ltd	Australia	100	100
MEO International Pty Ltd*	Australia	100	100
Drysdale Offshore Exploration Pty Ltd	Australia	100	100
Finniss Offshore Exploration Pty Ltd	Australia	100	100
Seruway Offshore Exploration Limited	British Virgin Islands	100	100
Rayong Offshore Exploration Limited	British Virgin Islands	100	100
MEO Malaysia Pty Ltd	Australia	100	100
MEO New Zealand Pty Limited**	New Zealand	100	100

\*MEO International Pty Ltd holds:-

- a 100% interest in Seruway Offshore Exploration Limited which in turn holds a 100% interest in the Seruway Production Sharing Contract in Indonesia.
- a 100% interest in MEO Malaysia Pty Ltd.
- a 100% interest in MEO New Zealand Pty Limited
- a 100% interest in Rayong Offshore Exploration Limited

\*\*MEO New Zealand Pty Limited was incorporated on 24 March 2014.

##### Compensation of key management personnel by category:

	Consolidated	
	2015	2014
	\$	\$
Short term employee benefits and fees	1,668,258	1,998,957
Post-employment benefits	181,587	179,848
Share-based payments	8,000	95,828
Long service leave expense	7,303	49,267
Long service leave reversal	(127,089)	-
Termination payments	643,390	-
	<u>2,381,449</u>	<u>2,323,900</u>

During the year there were no fees for consulting services paid by the Group to entities controlled by directors (2014: nil).

## MEO Australia Limited

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

#### NOTE 21 SHARE BASED PAYMENT PLANS

##### *MEO Long Term Incentive Plan*

##### Share Options

There were no share options granted to senior executives and non-executive directors during the financial year (2014: Nil). Each share option is an option to acquire one ordinary share in the Company. Any new shares which are issued in satisfaction of options will be issued at the prevailing market price at the time of issue.

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

	2015 Options	2014 Options
Outstanding at the beginning of the year	16,530,000	18,855,000
Granted during the year	-	-
Forfeited during the year	5,450,000	2,325,000
Exercised during the year	-	-
Outstanding at the end of the year	<u>11,080,000</u> =====	<u>16,530,000</u> =====

- In July 2011, 500,000 share options were granted to a contractor exercisable at a price of 50 cents per option on or before 1 July 2016. These options vested 50% on 1 July 2012 and 50% on 1 July 2013.

The fair value of the options at date of grant was estimated to be 7.12 cents for the options vesting on 1 July 2012 and 8.10 cents for options vesting on 1 July 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	4.8%	Dividend yield	0%
Early exercise multiple/estimated life for options expiring 1 July 2012 – 3.0 years			
Early exercise multiple/estimated life for options expiring 1 July 2013 – 3.5 years			

There was no expense in the year relating to these share options (2014: nil).

- 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 vested 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			

There was no expense in the year relating to these share options (2014: nil).

## MEO Australia Limited

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

#### NOTE 21 SHARE BASED PAYMENT PLANS (cont)

- 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. During FY2015 these options lapsed.
- In October 2011, 2,075,000 share options were granted to executives exercisable at a price of 50 cents per option on or before 3 October 2016. These options vested 50% on 3 October 2012 and 50% on 3 October 2013. During FY2014 875,000 options lapsed.

The fair value of the options at date of grant was estimated to be 5.83 cents for the options vesting on 3 October 2012 and 6.68 cents for options vesting on 3 October 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	3.5%	Dividend yield	0%
Early exercise multiple/estimated life for options expiring 3 October 2012 – 3.0 years			
Early exercise multiple/estimated life for options expiring 3 October 2013 – 3.5 years			

There was no expense in the year relating to these share options (2014: nil).

- In October 2011, 3,600,000 share options were granted to non-executive directors exercisable at a price of 50 cents per option on or before 27 October 2015. The options vested 1/3<sup>rd</sup> on 27 October 2012, 1/3<sup>rd</sup> on 27 October 2013 and 1/3<sup>rd</sup> on 27 October 2014. During FY2015 600,000 options lapsed (FY2014 – 300,000 options lapsed).

The fair value of the options at date of grant was estimated to be 5.99 cents for the options vesting on 27 October 2012, 7.03 cents for the options vesting on 27 October 2013 and 8.0 cents for options vesting on 27 October 2014. 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)	4
Risk-free interest rate	4.0%	Dividend yield	0%
Early exercise multiple/estimated life for options expiring 27 October 2012 – 2.5 years			
Early exercise multiple/estimated life for options expiring 27 October 2013 – 3.0 years			
Early exercise multiple/estimated life for options expiring 27 October 2014 – 3.5 years			

The total amount expensed in the year relating to these share options was \$8,000 (2014: \$24,727).

- In October 2011, 3,000,000 share options were granted to the Managing Director and Chief Executive Officer exercisable at a price of 50 cents per option on or before 1 July 2016. The options vested 1/3<sup>rd</sup> on 1 July 2012, 1/3<sup>rd</sup> on 1 July 2013 and 1/3<sup>rd</sup> on 1 July 2014. During FY2015 the 3,000,000 options lapsed.

There was no expense in the year relating to these share options (2014: \$30,000).

## MEO Australia Limited

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

#### NOTE 21 SHARE BASED PAYMENT PLANS (cont)

- In December 2011, 4,580,000 share options were granted to executives and staff exercisable at a price of 50 cents per option on or before 1 December 2016. These options vested 50% on 1 December 2012 and 50% on 1 December 2013.  
During FY2015 650,000 options lapsed (FY2014 – 250,000 options lapsed).

The fair value of the options at date of grant was estimated to be 7.54 cents for the options vesting on 1 December 2012 and 8.58 cents for options vesting on 1 December 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	3.3%	Dividend yield	0%
Early exercise multiple/estimated life for options expiring 1 December 2012	– 3.0 years		
Early exercise multiple/estimated life for options expiring 1 December 2013	– 3.5 years		

There was no expense in the year relating to these share options (2014: \$20,784).

- In April 2012, 1,500,000 share options were granted to an executive exercisable at a price of 50 cents per option on or before 3 April 2017. These options vested 50% on 3 April 2013 and 50% on 3 April 2014.

The fair value of the options at date of grant was estimated to be 18.59 cents for the options vesting on 3 April 2013 and 20.14 cents for options vesting on 3 April 2014. 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	3.4%	Dividend yield	0%
Early exercise multiple/estimated life for options expiring 3 April 2013	– 3.0 years		
Early exercise multiple/estimated life for options expiring 3 April 2014	– 3.5 years		

There was no expense in the year relating to these share options (2014: \$56,644).

#### Share Performance Rights

In November 2012, 1,050,000 share performance rights were granted to former Managing Director & Chief Executive Officer, Mr Jürgen Hendrich. 700,000 share performance rights were forfeited during 2013 and 2014 as share price hurdles were not achieved, the remaining 350,000 share performance rights were cancelled in January 2015 on cessation of employment.

#### Movements in share performance rights on issue during the year:

	2015 Rights	2014 Rights
Outstanding at the beginning of the year	350,000	700,000
Forfeited during the year	(350,000)	(350,000)
Outstanding at the end of the year	-	350,000
	=====	=====

**MEO Australia Limited**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	\$	\$
<b>NOTE 22 AUDITORS' REMUNERATION</b>		
Amounts received or due and receivable by Ernst & Young (Australia) for:		
Audit and review of the financial reports	74,000	90,500
Tax services in relation to the entity and other entities in the consolidated group	24,966	13,257
Investigating Accountant Report for the Scheme of Arrangement	52,000	-
	150,966	103,757
	=====	=====

**NOTE 23 INTERESTS IN JOINT OPERATIONS**

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 Operation. The principal activity of the joint operation is the exploration, development and production of hydrocarbons.

MEO Australia, through its wholly-owned subsidiary, North West Shelf Exploration Pty Ltd, holds a 62.5% interest in WA-360-P and a 50% interest in WA-361-P. The principal activity of the joint operation is the exploration, development and production of hydrocarbons.

MEO Australia, through its wholly-owned subsidiary, MEO New Zealand Pty Limited, holds a 30% interest in the PEP51153 in New Zealand. The principal activity of the joint operation is the exploration, development and production of hydrocarbons.

MEO Australia, through its wholly-owned subsidiary, Drysdale Offshore Exploration Pty Ltd, holds a 50% interest in WA-454-P. The principal activity of the joint operation is the exploration, development and production of hydrocarbons.

MEO Australia, through its wholly-owned subsidiary, Finniss Offshore Exploration Ltd, holds a 70% interest in WA-484-P. The principal activity of the joint operation is the exploration, development and production of hydrocarbons.

***Commitments related to joint operation assets***

Commitments relating to the joint operation assets are set out in note 19 to the accounts.

***Contingent liabilities***

As at 30 June 2015, there are no contingent liabilities relating to NT/P68, WA-361-P, WA-360-P, WA-454-P, WA-488-P or PEP51153.

**MEO Australia Limited**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015****NOTE 24 PARENT ENTITY INFORMATION**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<i>Information relating to MEO Australia Limited</i>		
Current assets	5,700,357	12,360,297
<b>Total assets</b>	<b>16,829,737</b>	<b>22,606,268</b>
Current liabilities	342,682	706,525
<b>Total liabilities</b>	<b>363,155</b>	<b>1,016,407</b>
Issued capital	259,380,552	259,380,552
Share based payments reserve	1,248,623	1,690,073
Accumulated losses	(244,142,120)	(239,480,764)
<b>Total shareholders' equity</b>	<b>16,466,582</b>	<b>21,589,861</b>
Loss of the parent entity	(5,131,279)	(128,461,209)
Total comprehensive loss of the parent entity	(5,131,279)	(128,461,209)
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 25 EVENTS SUBSEQUENT TO BALANCE DATE**

On 3 September 2015, the company announced it had executed the Cuba Block 9 Production Sharing Contract (PSC) with the national oil company Cuba Petróleo Union (CUPET). The execution of the Block 9 PSC represents the culmination of over three years of negotiations between MEO and CUPET and is MEO's first entry into the Cuban oil and gas sector. The exploration period of the Block 9 PSC is split into four sub-periods totalling eight and a half years with withdrawal options at the end of each sub-period. MEO will immediately commence work on the initial activity of evaluating existing exploration data in the block and reprocessing selected 2D seismic data before determining whether to proceed with a subsequent 24-month exploration sub-period that includes acquisition of new 2D seismic data.

Other than the above, 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.

## **MEO Australia Limited**

ABN 43 066 447 952

### **DIRECTORS' DECLARATION**

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

1. In the opinion of the Directors:

- (a) The financial statements and notes of MEO Australia Limited for the financial year ending 30 June 2015 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 2015 and of its performance for the year ended on that date; and
  - (ii) Complying with Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*.
- (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2 (a)(i).
- (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors from the Managing Director and Chief Executive Officer and Chief Financial Officer & Company Secretary in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2015.

**On behalf of the Board**



**P J STICKLAND**  
**Managing Director & Chief Executive Officer**  
**Melbourne, 17<sup>th</sup> September 2015**

## Independent auditor's report to the 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 2015, 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 information, 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(a), the directors also state, 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers 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.

## 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 2015 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(a).

## Emphasis of Matter

Without qualification of our opinion, we draw attention to Note 2 *Going Concern*, which sets out the basis by which the Directors believe the consolidated entity will be able to continue as a going concern, including the ability of the consolidated entity to take the appropriate steps set out in Note 2 *Going Concern* to raise further funding or vary expenditure commitments. However, if further funding is not available or expenditure commitments are not able to be varied, there is a material uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2015. 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 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young



Matthew A. Honey  
Partner  
Melbourne  
17 September 2015