# MEO AUSTRALIA LIMITED

**ABN 43 066 447 952**

**HALF-YEAR FINANCIAL REPORT**
**AND DIRECTORS' REPORT**

**31 DECEMBER 2007**

## DIRECTORS' REPORT

The Directors of MEO Australia Limited (variously the "Company" and "MEO Australia") submit their report for the half-year ended 31 December 2007.

### DIRECTORS

The Directors of the Company during the half-year ended 31 December 2007 and until the date of this report (in office for the entire period unless otherwise stated) are:

**Warwick Bisley B.Eng (Mech) (Hons), FTSE, FRACI, FIE Aust:** *Chairman*
**Christopher R Hart FAICD:** *Managing Director*
**Walter J Dewé MA FAICD:** *Executive Director, Commercial (retired February 21, 2008)*
**John A Newton:** *Non-Executive Director (retired September 28, 2007)*
**Andrew J Rigg B.Sc MAICD:** *Non-Executive Director*
**James M D Willis LL.M (Hons) Dip Acc:** *Non-Executive Director*

### REVIEW AND RESULTS OF OPERATIONS

The net loss of the Company for the half-year, after provision for income tax, was $648,559.

**Tassie Shoal Methanol Project**

The Company and Air Products and Chemicals, Inc. (APCI) continue to develop the Tassie Shoal Methanol Project (TSMP) under the terms of the joint development agreement (JDA). As part of the NT/P68 farmin agreement, Petrofac has the right to earn a 10% participating interest in the TSMP, reducing the APCI interest to 40%.

The project proposes to construct two large natural gas reforming and methanol production plants on concrete gravity structures in southeast Asia, tow these plants to Tassie Shoal in the Australian waters of the Timor Sea and ground the structures in the shallow waters of the shoal for operation.

During the half year, the Company reviewed the capital cost assumptions for the facility and is currently preparing the basis of design documentation to initiate front-end engineering and design (FEED) studies in 2008, dependent on the drilling results in NT/P68. The Company also initiated a casting basin site selection process throughout Southeast Asia to identify and secure sites for the potential construction of the sub-structural elements of either the TSMP or TSLNGP.

**Timor Sea LNG Project**

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

MEO continues to work with the project's engineering consultants to optimize design of the facilities and review capital and operating cost assumptions. The world LNG market continues to demonstrate strong demand and pricing, particularly from Northeast Asia, Europe and the USA.

**Timor Sea Exploration Permit NT/P68**

NT/P68 is a 12,000 square km petroleum exploration permit located in the Australian waters of the Timor Sea immediately to the west of Tassie Shoal (25 km) and approximately 200 km northwest of Darwin. Petrofac Resources Limited farmed into the permit by agreeing to fund 25% of two wells to earn a 10% interest. The Company and Petrofac have formed the NT/P68 Joint Venture (JV) and believe that the permit offers considerable scope for the confirmation and discovery of commercial gas accumulations that may support the future gas demands of the proposed Tassie Shoal LNG and methanol projects.

## DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

The West Atlas, a new jack-up rig operated by Seadrill, was secured to drill two wells in NT/P68. The West Atlas arrived in early October and the Heron-2 well spudded on October 12, 2007. The Heron-2 well was designed as a vertical well to penetrate and production test the Epenarra Darwin Formation and the deeper Elang/Plover Formation of the Heron North structure.

Heron-2 was drilled to 4182mMD penetrating gas saturated zones in both the Darwin and Elang/Plover formations. The JV partners approved production testing of Epenarra and Heron North in the Heron-2 well. Barefoot (open-hole) production testing of Heron North flowed gas to surface at a maximum rate of 8 MMscf/day from the Elang sands. However, the underlying Plover sands did not contribute to the recorded flow due to blockages in the well between the Elang and Plover sands. The JV partners are currently reviewing the data and plan to drill Heron-3 later in the year to re-test the Heron North Plover Formation.

The Epenarra Darwin formation was subsequently production tested in Heron-2. While the evidence from electric logs of gas saturation and the presence of some significant fractures in the perforated section appeared to be positive, the well failed to produce a commercial flow of hydrocarbons to the surface. The gas saturated zone of the Darwin formation in Heron-2 did not produce significant gas due to a lack of open fractures and permeability at this specific location, which are necessary for a fractured carbonate reservoir to produce a commercial flow of gas. The JV partners continue to believe the Epenarra structure remains prospective. Heron-2 was abandoned on 29 January 2008.

The West Atlas rig moved to the Blackwood-1 location and spudded on 1 February 2008. Blackwood-1 is targeting the Blackwood Prospect to test Middle Plover sandstone reservoirs on a northeast – southwest trending tilted fault block at the hingeline between the Sahul Platform and the Malita Graben. At the date of this report, the well is drilling ahead to the target reservoir at an estimated depth 3160mMD. The well is designed as a vertical well to penetrate, log and recover gas samples in the Plover sands. MEO is funding the well 100% as a sole risk, exclusive operation.

**Northwest Shelf Offshore Exploration Permits WA-359-P, WA-360-P & WA-361-P**

On October 25, 2007, the Company, via its wholly owned subsidiary North West Shelf Exploration Pty Ltd, farmed into three Northwest Shelf offshore permits (WA-359-P, WA-360-P & WA-361-P). MEO secured a 60% participating interest in these highly prospective exploration permits by meeting the year three seismic acquisition obligations. 258 sq km of new 3D data was acquired during December 2007 in WA-360-P and WA-361-P and approximately 250 line km of new 2D data will be acquired in early 2008 in WA-359-P thereby fully meeting the seismic acquisition obligations for the permits. If MEO decides to fund 100% of the cost of a single well, a 70% interest will be earned in each Permit where a well is drilled. However, if the existing permit holders elect to pay 10% of the cost of a single well in any permit and MEO meets 90% of the cost, the MEO interest in that permit would remain at 60%.

MEO has carefully reviewed the existing 2D and 3D data, which covers a large portion of the permits. At this stage, the most obvious significant potential appears to be in WA-361-P, immediately northwest of the Perseus Gasfield and on the northern flank of the Goodwyn Gasfield where a thick sequence of interpreted Legendre shoreface and shallow marine sandstones are present in the Keast Graben. A potential stratigraphic trap, Zeus, has been identified, which is thought to be a similar play and analogous to the Perseus Gasfield (12 Tcf) and to the new Woodside Persephone-1 discovery on the eastern flank of the North Rankin Gasfield. Zeus has prospective multi-Tcf in place potential of 5 to 15 Tcf over 350 sq km of closure with up to 100 m of net pay.

The Company is encouraged by observations on the existing 3D seismic data of possible development of amplitude-related hydrocarbon indicators (bright spots) in the Zeus feature that are similar to amplitudes observed in the same reservoir gas sands at Perseus. Data reprocessing has commenced on one of these existing surveys to recover the offset gathers so that AVO analysis can be undertaken to support the drilling of an exploration well, possibly later in 2008.

**OTHER MATTERS**

**Issues of Shares and Options**

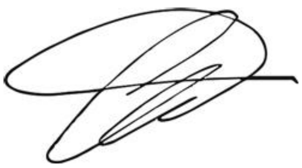
During the half-year the Company raised a total of $73,588,000 (before net of tax transaction costs - $2,851,221) from:

- the proceeds from the Share Purchase Plan - $10,388,000
- the proceeds from the exercise of 30 November 2009 options - $700,000
- the proceeds from a placement of 50,000,000 shares at an issue price of $1.25 - $62,500,000

**Auditor's Independence Declaration**

The Company has obtained an independence declaration from our auditor, Ernst & Young, a copy of which is attached to this financial report.

Signed in accordance with a resolution of the Directors.



**C R Hart**
Managing Director
Melbourne, 25 February 2008

## DIRECTORS' DECLARATION

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

In the opinion of the Directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001, including:*

  (i) give a true and fair view of the financial position as at 31 December 2007 and the performance for the half-year ended on that date of the consolidated entity; and

  (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board.

**C R Hart**
Managing Director
Melbourne, 25 February 2008

## INCOME STATEMENT
## FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

| | Note | Consolidated 31/12/07 $ | Consolidated 31/12/06 $ |
|---|---|---|---|
| Interest income | | 1,835,682 | 211,561 |
| Other income | | 10,100 | 106,933 |
| **Income** | | **1,845,782** | **318,494** |
| Depreciation and amortisation expense | | (34,151) | (13,572) |
| Employees and consultants | 4 | (583,939) | (1,448,925) |
| Project expenditure | | (155,666) | (58,399) |
| Foreign exchange losses | | (1,045,455) | (97,883) |
| Other expenses | 4 | (266,259) | (272,224) |
| **Loss before income tax** | | **(239,688)** | **(1,572,509)** |
| Income tax benefit/(expense) | | (408,871) | - |
| **Net loss for the period** | | **(648,559)** | **(1,572,509)** |
| Basic loss per share (cents per share) | | (0.19) | (0.88) |
| Diluted loss per share (cents per share) | | (0.19) | (0.88) |

## BALANCE SHEET
## AS AT 31 DECEMBER 2007

| | Note | Consolidated 31/12/07 | 30/06/07 |
|---|---|---|---|
| CURRENT ASSETS | | $ | $ |
| Cash and cash equivalents | 5 | 94,386,808 | 70,929,204 |
| Other receivables | | 8,247,794 | 196,028 |
| GST receivable | | 3,096,852 | 322,148 |
| TOTAL CURRENT ASSETS | | 105,731,454 | 71,447,380 |
| NON-CURRENT ASSETS | | | |
| Plant and equipment | | 85,126 | 72,635 |
| Leasehold improvements | | 86,793 | 99,502 |
| Intangible assets | | 34,123 | 42,591 |
| Exploration and evaluation costs | 6 | 71,981,318 | 15,056,332 |
| TOTAL NON-CURRENT ASSETS | | 72,187,360 | 15,271,060 |
| **TOTAL ASSETS** | | **177,918,814** | **86,718,440** |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 22,453,086 | 1,651,088 |
| Provisions | | 36,513 | 27,956 |
| TOTAL CURRENT LIABILITIES | | 22,489,599 | 1,679,044 |
| NON-CURRENT LIABILITIES | | | |
| Provisions | | 20,750 | 14,885 |
| TOTAL NON-CURRENT LIABILITIES | | 20,750 | 14,885 |
| **TOTAL LIABILITIES** | | **22,510,349** | **1,693,929** |
| **NET ASSETS** | | **155,408,465** | **85,024,511** |
| **EQUITY** | | | |
| Contributed equity | 7 | 167,846,714 | 96,803,600 |
| Share based payments reserve | 8 | 1,251,160 | 1,261,761 |
| Accumulated losses | | (13,689,409) | (13,040,850) |
| **TOTAL EQUITY** | | **155,408,465** | **85,024,511** |

## CASH FLOW STATEMENT
### FOR THE HALF YEAR ENDED 31 DECEMBER 2007

| | Consolidated 31/12/07 $ | Consolidated 31/12/06 $ |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Payments to suppliers and employees | (823,918) | (1,074,655) |
| Receipts from services rendered | 874,273 | 49,620 |
| Income tax paid | - | (11,992) |
| Interest received | 1,716,612 | 211,561 |
| GST (paid)/received | (2,847,355) | 451,507 |
| Net cash used in operating activities | (1,080,388) | (373,959) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Expenditure on plant and equipment | (20,155) | (28,608) |
| Expenditure on leasehold improvements | (5,310) | (2,075) |
| Expenditure on intangibles | - | - |
| Expenditure on exploration tenements | (45,415,812) | (8,127,079) |
| Net cash used in investing activities | (45,441,277) | (8,157,762) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from share issues | 63,200,000 | 24,669,471 |
| Transaction costs on issue of shares | (2,671,875) | (1,302,485) |
| Proceeds from share purchase plan | 10,388,000 | - |
| Purchase of shares on market in settlement of vested performance rights | - | (321,446) |
| Proceeds from sale of trustee shares | - | 1,093,950 |
| Net cash from financing activities | 70,916,125 | 24,139,490 |
| Net increase in cash and cash equivalents | 24,394,460 | 15,607,769 |
| Cash and cash equivalents at beginning of period | 70,929,204 | 2,454,356 |
| Net foreign exchange differences | (936,856) | (97,883) |
| Cash and cash equivalents at end of period | 94,386,808 | 17,964,242 |

## STATEMENT OF CHANGES IN EQUITY
## FOR THE HALF YEAR ENDED 31 DECEMBER 2007

| | Consolidated | | | |
|---|---|---|---|---|
| | Issued Capital | Share Based Payments Reserve | Accumulated Losses | Total Equity |
| | $ | $ | $ | $ |
| At 1 July 2007 | 96,803,600 | 1,261,761 | (13,040,850) | 85,024,511 |
| Loss for the period | - | - | (648,559) | (648,559) |
| Cost of share based payments | - | 295,734 | - | 295,734 |
| Transfer of cost of exercised equity instruments | 306,335 | (306,335) | - | - |
| Share issues | 63,200,000 | - | - | 63,200,000 |
| Share purchase plan applications received prior to allotment | 10,388,000 | - | - | 10,388,000 |
| Costs of issues (net of tax) | (2,851,221) | - | - | (2,851,221) |
| At 31 December 2007 | 167,846,714 | 1,251,160 | (13,689,409) | 155,408,465 |

| | Consolidated | | | |
|---|---|---|---|---|
| | Issued Capital | Share Based Payments Reserve | Accumulated Losses | Total Equity |
| | $ | $ | $ | $ |
| At 1 July 2006 | 12,147,239 | 20,006 | (9,670,199) | 2,497,046 |
| Loss for the period | - | - | (1,572,509) | (1,572,509) |
| Cost of share based payment | - | 882,917 | - | 882,917 |
| Transfer of cost of exercised equity instruments | 55,871 | (55,871) | - | - |
| Share issues | 24,669,471 | - | - | 24,669,471 |
| Cost of issues | (1,318,672) | - | - | (1,318,672) |
| Sale of trustee shares | 1,093,950 | - | - | 1,093,950 |
| Purchase of shares on market in settlement of vested performance rights | (321,446) | - | - | (321,446) |
| At 31 December 2006 | 36,326,413 | 847,052 | (11,242,708) | 25,930,757 |

## NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

### NOTE 1 CORPORATE INFORMATION

The financial report of MEO Australia Limited for the half-year ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors on 25 February 2008.

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

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

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of MEO Australia Limited as at 30 June 2007.

It is also recommended that the half-year financial report be considered together with any public announcements made by MEO Australia Limited and its controlled entities during the half-year ended 31 December 2007 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The half year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2007.

**Basis of preparation**

The half-year consolidated financial report is a general-purpose financial report presented in Australian Dollars, which has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 “Interim Financial Reporting”.

The half-year financial report has been prepared on a historical cost basis. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The half-year consolidated financial statements comprise the financial statements of MEO Australia Limited and its subsidiaries as at 31 December 2007 ('the Group').

**Significant accounting estimates and assumptions**

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

*Share-based payment transactions*

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

## NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007 (continued)

### NOTE 3 SEGMENT INFORMATION

The Group's operations are confined to development of methanol and LNG projects and petroleum exploration. The primary segment reporting format is by project (business) segment affected predominantly by differences in risk. The Group operates wholly within the single secondary, geographical, segment of Australia.

The following tables represent revenue, profit information regarding business segments for the half-years ended 31 December 2007 and 31 December 2006.

| BUSINESS SEGMENTS | METHANOL & LNG DEVELOPMENT | | PETROLEUM EXPLORATION | | CONSOLIDATED | |
|---|---|---|---|---|---|---|
| | 31/12/2007 | 31/12/2006 | 31/12/2007 | 31/12/2006 | 31/12/2007 | 31/12/2006 |
| | $ | $ | $ | $ | $ | $ |
| **Revenue:** | | | | | | |
| Segment revenue | - | - | - | - | - | - |
| Non-segment revenue | | | | | 1,845,782 | 318,494 |
| Total consolidated revenue | | | | | 1,845,782 | 318,494 |
| **Result:** | | | | | | |
| Segment (loss) | (155,667) | (485,960) | - | (176,351) | (155,667) | (662,311) |
| Non-segment (loss) | | | | | (84,021) | (1,228,692) |
| Loss before income tax | | | | | (239,688) | (1,572,509) |
| Income tax expense | | | | | (408,871) | - |
| Net loss for the period | | | | | (648,559) | (1,572,509) |

| | Consolidated 31/12/07 $ | Consolidated 31/12/06 $ |
|---|---|---|
| **NOTE 4 EXPENSES** | | |
| **Employees and Consultants** | | |
| Consultants fees and expenses | 69,470 | 230,916 |
| Directors remuneration | 89,914 | 119,608 |
| Salaries | 128,821 | 215,484 |
| Share based payments | 295,734 | 882,917 |
| | 583,939 | 1,448,925 |
| **Other Expenses** | | |
| Administration and other expenses | 6,428 | 42,037 |
| Audit costs | 37,100 | 25,000 |
| Stock exchange registry and reporting costs | 123,343 | 120,129 |
| Travel and corporate promotion costs | 99,388 | 85,058 |
| | 266,259 | 272,224 |

## NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007 (continued)

### NOTE 5 CASH AND CASH EQUIVALENTS

For the purpose of the half-year cash flow statement cash and cash equivalents comprise:

| | Consolidated 31/12/2007 $ | Consolidated 30/6/2007 $ |
|---|---|---|
| Cash at bank | 26,445,915 | 8,251,437 |
| Short term bank deposits | 67,940,893 | 54,825,767 |
| Cash received from Share Purchase Plan applications held prior to allotment of shares | | 7,852,000 |
| Total cash and cash equivalents | 94,386,808 | 70,929,204 |

### NOTE 6 CAPITALISED EXPLORATION AND EVALUATION COSTS

Exploration and evaluation expenditure capitalised in the half year to 31 December 2007 amounted to $56,924,986 (2006 half year $11,398,280). Expenditure in the half year mainly related to drilling the Heron 2 well in NT/P68, long lead items and well planning for Heron 3 and Blackwood-1 and seismic acquisition in the Northwest Shelf Exploration Permits (WA-359-P, WA-360-P and WA-361-P).

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.

Capitalised exploration and evaluation costs at 31 December 2007 are $71,981,318 (June 2007: $15,056,332).

### NOTE 7 CONTRIBUTED EQUITY

| | 31/12/2007 Shares | 30/6/2007 Shares | 31/12/2007 $ | 30/6/2007 $ |
|---|---|---|---|---|
| **Issued and Paid Up Capital** | | | | |
| Ordinary shares fully paid | 385,808,652 | 316,168,652 | 167,846,714 | 96,803,600 |
| Ordinary shares issued pursuant to Trustee Stock Scheme | 122,918 | 122,918 | - | - |
| | 385,931,570 | 316,291,570 | 167,846,714 | 96,803,600 |

## NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007 (continued)

### NOTE 7 CONTRIBUTED EQUITY (continued)

| | 31/12/2007<br>Shares | 31/12/2007<br>$ |
|---|---|---|
| **Movements in Ordinary Shares Fully Paid** | | |
| Balance at beginning of period | 316,168,652 | 88,951,600 |
| Shares issued: | | |
| By allotment of shares at $1.00 per share in accordance with Share Purchase Plan | 18,240,000 | 18,240,000 |
| By placement at $1.25 per share | 50,000,000 | 62,500,000 |
| By exercise of 30 November 2009 options at 50 cents per share | 1,400,000 | 700,000 |
| Transaction costs (net of tax) | | (2,851,221) |
| Transfer of costs of exercised equity instruments | | 306,335 |
| | 385,808,652 | 167,846,714 |

| | 31/12/2007<br>Shares | 31/12/2007<br>$ |
|---|---|---|
| **Movements in Ordinary Shares Issued Pursuant to the Trustee Stock Scheme** | | |
| Balance at beginning of period | 122,918 | - |
| Shares sold by trustee during the period | - | - |
| | 122,918 | - |

| | 31/12/2007<br>Shares | 31/12/2007<br>$ |
|---|---|---|
| **Share Purchase Plan** | | |
| Applications for shares in share purchase plan received prior to 30 June 2007 | | 7,852,000 |
| Transfer of share purchase plan funds received prior to 30 June 2007 to Movements in Ordinary Shares Fully Paid | | (7,852,000) |

**Dividends**

No dividends were declared or paid during the half year (2006: Nil).

## NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007 (continued)

### NOTE 8 SHARE BASED PAYMENT PLANS

Share Performance Rights

In September 2007, 25,000 performance rights were granted to an executive director which entitles the recipient to one fully paid ordinary share in the Company for each right held, upon attainment of the performance condition relating to Acceptance by the Designated Authority of the information leading to the grant of Infrastructure Licence NT/ISL1 recognising that the grant may not occur until the grant of a Production Licence. The fair value of the rights granted is $1.21 per right (unrisked – i.e. the value is determined prior to taking into account vesting conditions). The fair value was established on a consistent basis to previously granted share performance rights as disclosed in the 30 June 2007 financial report.

In September 2007, 225,000 performance rights were granted to an executive director which entitles the recipient to one fully paid ordinary share in the Company for each right held, upon attainment of the performance condition relating to obtaining a commitment to construct the methanol plant with MEO retaining at least a 20% interest in the project. The fair value of the rights granted is $1.21 per right (unrisked – i.e. the value is determined prior to taking into account vesting conditions). The fair value was established on a consistent basis to previously granted share performance rights as disclosed in the 30 June 2007 financial report.

During the half year, a total of 125,000 performance rights with non-market criteria relating to the drilling program in NT/P68 were granted to contractors. The fair value of 125,000 performance rights was estimated based on the market value of the services to be provided.

### NOTE 9 COMMITMENTS

The West Atlas jack-up rig is contracted to MEO, as Operator on behalf of the NT/P68 Joint Venture, for two firm wells. The drilling of the Heron-2 well and Blackwood-1 wells will meet this commitment.

### NOTE 10 EVENTS AFTER BALANCE DATE

**NT/P68 Drilling - Heron-2 Well and Blackwood-1 Well**

Heron-2 was drilled to 4182mMD penetrating gas saturated zones in both the Darwin and Elang/Plover formations. The joint venture partners approved and undertook production testing of Epenarra and Heron North in the Heron-2 well. Heron-2 was abandoned on 29 January 2008. The joint venture partners are currently reviewing the data from the Heron-2 well.

The West Atlas rig moved to the Blackwood-1 location and spudded on 1 February 2008. Blackwood-1 is targeting the Middle Plover sandstone reservoirs in the north eastern section of NT/P68. At the date of this report, the well is drilling ahead to the target reservoir at an estimated depth 3160mMD. MEO is funding the well 100% as a sole risk, exclusive operation.

**Resignation of Director**

Mr Walter J Dewé, Executive Director, Commercial retired from the MEO Board effective February 21, 2008.

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To the members of MEO Australia Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of MEO Australia Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at 31 December 2007 or from time to time during the half-year then ended.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of MEO Australia Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

*Independence*

In conducting our review, we 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.

*Conclusion*

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

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the six months ended on that date; and

(ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

Brett Croft
Partner
Melbourne
25 February 2008

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

In relation to our review of the financial report of MEO Australia Limited for the half-year ended 31 December 2007, 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

Brett Croft
Partner
Melbourne
25 February 2008