MEO AUSTRALIA LIMITED

ABN 43 066 447 952

HALF-YEAR FINANCIAL REPORT AND DIRECTORS' REPORT

31 DECEMBER 2015

Contents

Corporate Information

Directors
Andrew G Purcell (Chairman)
Michael J Sandy
Peter J Stickland (Managing Director and Chief Executive Officer)

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

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

Auditors
Ernst & Young
8 Exhibition Street
Melbourne, Victoria 3000 Australia

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

MEO Australia Limited shares are listed on the Australian Securities Exchange (ASX).
ASX Code: MEO
Website www.meoaustralia.com.au

Incorporated 14 September 1994
Victoria, Australia

Directors' report

The Directors of MEO Australia Limited (variously the "Company" and "MEO Australia") submit their report for the half-year ended 31 December 2015.

DIRECTORS

The Directors of the Company during the half-year ended 31 December 2015 and until the date of this report (in office for the entire period unless otherwise stated) are:

Chairman: Andrew G Purcell, B Eng; MBA (Appointed a director, 30 July 2015 and Chairman 25 November 2015)

***Non Executive Director*:** Michael J Sandy, BSc Hons (Geology), MAICD (Appointed a director, 30 July 2015)

Managing Director & Chief Executive Officer: Peter J Stickland BSc, Hons (Geology), GDipAppFin (Finsia), GAICD.

At MEO's Annual General Meeting on 25 November, Mr Greg Short retired as MEO's Chairman and as a Non-Executive Director and Mr Stephen Hopley did not seek re-election as a Non-Executive Director. Mr Andrew Purcell was appointed Chairman of MEO at the conclusion of the Annual General Meeting.

REVIEW AND RESULTS OF OPERATIONS

The loss after tax for the half-year was $1,372,911 (Dec 2014: loss after tax $7,284,921) mainly due to net administration costs ($1,212,760).

The net loss after tax for the 2014 half year of $7,284,921 was mainly due to exploration write-offs ($4,308,625) and net administration costs ($3,739,514).

Petrel Sub-Basin

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

WA-454-P contains the Breakwater Prospect, which is proposed for drilling by the Joint Venture in Permit Year 6 (December 2016 – December 2017).

Previously in 2013 MEO executed a binding farmout agreement with Origin Energy ("Origin") whereby Origin acquired a 50% interest in the permit and assumed Operatorship. Origin has paid MEO $5.6 million in back costs and will pay for 80% Breakwater-1 well, capped at $35 million.

During the half year the joint venture was undertaking reprocessing of 3D seismic data in the permit. In addition MEO continued a marketing campaign aimed at attracting an additional partner to the permit to fund the residual 20% cost of the well.

- **WA-488-P (MEO 100%)**

WA-488-P contains the Beehive prospect, which is considered prospective for oil in two horizons. The upper Carboniferous aged reservoir target is considered analogous to the giant Tengiz oil field in the Caspian Sea, while the lower Ordovician aged reservoir has a giant field located onshore China as a direct analogue.

During the half year MEO successfully applied for a 12 month extension to Year 2 and agreed to undertake 150km 2D reprocessing and seismic inversion. A well is currently required in Permit Year 3 (November 2016 – November 2017).

A farmout/partial sale process remains in progress.

Directors' report (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

Vulcan Sub-Basin

- **AC/P50 & 51 (MEO 100%[1])**

Earlier in 2015 both permits were renewed for a further 5 year term. The minimum work program requirement is for the first three years of the renewals and for each block consists of geological and geophysical studies and seismic data reprocessing.

A farmout/partial sale process remains in progress.

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

Geologic studies to understand the prospectivity of this permit continued during the half year ahead of deciding whether to enter Permit Year 6, containing a well commitment, in July 2016.

Bonaparte Basin

- **NT/P68 (Heron Area – MEO 100%)**

During the half year MEO announced its intention to withdraw from its remaining interests in NT/P68.

Carnarvon Basin

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

During the half year, the Company initiated the process to withdraw from this permit.

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

During the half year, the Company initiated the process to withdraw from this permit.

Tassie Shoal Development Projects

MEO has Commonwealth environmental approvals to construct, install and operate two methanol plants collectively referred to as the Tassie Shoal Methanol Project (TSMP) and an LNG plant known as the Timor Sea LNG Project (TSLNG) 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, including high CO_2 levels found in the surrounding discovered gas fields and are designed to share infrastructure and logistic support systems and benefit from a number of production process synergies. The environmental approvals for TSMP are valid until May 2052 and TSLNG until July 2017.

Tassie Shoal Methanol Project (TSMP, MEO 100%)

MEO proposes the staged construction of two large methanol production plants, each on its own concrete gravity structure with an annual production capacity of 1.75 million tonnes. Each completed plant will be constructed in a single module, towed to Tassie Shoal and grounded for operation using sea water as ballast. Each plant requires approximately a minimum of 1.4 Tcf of raw gas, ideally containing around 25% CO_2. The cumulative gas requirement for two plants over a 25 year period is approximately 4.0Tcf of 28% CO_2 raw gas.

MEO continues to work with all stakeholders in its efforts to commercialise the proposed projects.

[1] Far Cape Pte Ltd has an option to acquire a 5% carried interest in each permit.

Directors' report (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

Timor Sea LNG Project (TSLNGP, MEO 100%)

The TSLNGP requires approximately 3 Tcf of low CO2 (<3%) 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.

There was no material progress during the half year for this project.

INTERNATIONAL OPERATIONS

Cuba

- **Block 9 (MEO 100%*)**

The Production Sharing Contract (PSC) for Block 9, onshore Cuba, was executed on 3 September 2015. The Block 9 PSC area is in a proven hydrocarbon system with multiple discoveries within close proximity, including the multi-billion barrel Varadero oil field. It also contains the Motembo field - the first oil field discovered in Cuba. As an early mover into Cuba, MEO is now one of the few western companies with a footprint in the expanding Cuban hydrocarbon sector.

During the half year MEO received a considerable quantity of historical technical data from Block 9 and has commenced a detailed assessment of the prospectivity of the Block. In addition MEO has commenced preparations for the awarding of a contract to reprocess highgraded selected 2D seismic data in Block 9.

** Subject to Petro Australis conditional 40% back-in option*

New Zealand

- **PEP51153 (MEO 30%)**

PEP51153 contains the Puka oil discovery in the Mount Messenger sands. 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 an attractive prospect.

In January 2016, MEO received notice that Kea Petroleum Limited, Operator of PEP51153, had appointed liquidators to liquidate the assets of the company. In February 2016, MEO was advised by the liquidators of the binding conditional sale of Kea's 70% interest in PEP51153 to an existing regional Operator. The transaction is subject to New Zealand regulatory approvals and MEO has elected not to exercise its contractual pre-emption rights. MEO is a joint venture participant in PEP51153 (MEO 30%) and its interest in the permit is not affected by the sale of Kea's interest in the permit.

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.

Directors' report (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

- **South Madura Production Sharing Contract (PSC) (MEO 90%)**

Formal surrender of the PSC was accepted during the half year.

CORPORATE

During the half year MEO undertook a renewal of the Board, with the appointment of Mr Andrew Purcell and Mr Michael Sandy as Non-Executive Directors in July 2015 and the retirement of Mr Greg Short and Mr Stephen Hopley in November 2015.

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 and/or undertaking a corporate transaction.

Adequacy of funding will, for the immediate future, remain a key focus for the Group and its Shareholders. The Group will look to raise additional funding either through farm-in/sale and/or capital injection to advance its projects. In the event that the Group cannot meet its share of work program commitments, permits may need to be surrendered.

On 29 February 2016 the Company announced it had executed a Private Placement Agreement with London listed Leni Gas Cuba Limited raising $1.4 million, with funds to be used to advance MEO's exploration program in Block 9 onshore Cuba. Under the placement agreement, MEO issued 140,716,573 shares to Leni Gas Cuba at A$0.01 per share. The placement of shares to Leni Gas Cuba falls within MEO's placement capacity and Leni Gas Cuba is now MEO's single largest shareholder with a 15.8% interest in the Company.

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.

Peter Stickland
Managing Director & Chief Executive Officer
Melbourne, 10th March 2016

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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

As lead auditor for the review of MEO Australia Limited for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of MEO Australia Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

Matthew A. Honey
Partner
10 March 2016

Consolidated statement of comprehensive income
For the half-year ended 31 December 2015

	Notes	Consolidated	
		31/12/2015	**31/12/2014**
		$	**$**
Sales revenue		-	294,157
Interest income		54,442	115,054
Total income		**54,442**	**409,211**
Production costs		-	(258,631)
Net administration costs	4	(1,212,760)	(3,739,514)
Exploration expenditure written-off		(249,174)	(4,308,625)
Merger related costs		-	(653,899)
Merger break fee		-	400,000
Foreign exchange gains/(losses)		54,143	886,099
Loss before income tax		**(1,353,349)**	**(7,265,359)**
Income tax expense		(19,562)	(19,562)
Net loss for the period		**(1,372,911)**	**(7,284,921)**
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		15,255	(88,401)
Other comprehensive income/ (loss) for the period, net of tax		**15,255**	**(88,401)**
Total comprehensive loss for the period		**(1,357,656)**	**(7,373,322)**
Basic loss per share (cents per share)		(0.18)	(0.97)
Diluted loss per share (cents per share)		(0.18)	(0.97)

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

Consolidated statement of financial position
As at 31 December 2015

	Note	Consolidated	
		31/12/2015	**30/06/2015**
CURRENT ASSETS		**$**	**$**
Cash and cash equivalents	5	4,050,415	5,785,454
Other receivables		233,991	311,056
TOTAL CURRENT ASSETS		4,284,406	6,096,510
NON-CURRENT ASSETS			
Property, plant and equipment		123,946	150,094
Intangible assets		7,369	40,854
Exploration and evaluation costs	7	11,426,159	10,856,110
TOTAL NON-CURRENT ASSETS		11,557,474	11,047,058
TOTAL ASSETS		**15,841,880**	**17,143,568**
CURRENT LIABILITIES			
Trade and other payables		125,554	213,286
Provisions		190,272	194,575
TOTAL CURRENT LIABILITIES		315,826	407,861
NON-CURRENT LIABILITIES			
Provisions		142,248	20,473
TOTAL NON-CURRENT LIABILITIES		142,248	20,473
TOTAL LIABILITIES		**458,074**	**428,334**
NET ASSETS		**15,383,806**	**16,715,234**
EQUITY			
Contributed equity	8	262,425,870	262,406,308
Reserves		2,608,129	3,520,221
Accumulated losses		(249,650,193)	(249,211,295)
TOTAL EQUITY		**15,383,806**	**16,715,234**

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

Consolidated statement of cash flows
For the half-year ended 31 December 2015

	Consolidated	
	31/12/2015	**31/12/2014**
CASH FLOWS FROM OPERATING ACTIVITIES	**$**	**$**
Sales proceeds	-	197,759
Production costs	-	(176,324)
Payments to suppliers and employees	(1,054,698)	(2,733,061)
Merger and takeover costs	(16,585)	(71,157)
Merger break fee	-	400,000
Interest received	70,986	130,106
Net cash (used in) operating activities	**(1,000,297)**	**(2,252,677)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditure on property, plant and equipment	-	(16,899)
Expenditure on available for sale financial asset	-	(410,509)
Expenditure on exploration tenements	(788,885)	(4,468,431)
Net cash from (used in) investing activities	**(788,885)**	**(4,895,839)**
Net (decrease) in cash and cash equivalents	**(1,789,182)**	**(7,148,516)**
Cash and cash equivalents at beginning of period	**5,785,454**	**15,989,872**
Net foreign exchange differences	54,143	886,099
Cash and cash equivalents at end of period	**4,050,415**	**9,727,455**

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

Consolidated statement of changes in equity
For the half-year ended 31 December 2015

	Issued capital $	Share based payments reserve $	Foreign Currency Translation Reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2015	**262,406,308**	**1,248,623**	**2,271,598**	**(249,211,295)**	**16,715,234**
Net loss for the period	-	-	-	(1,372,911)	(1,372,911)
Other comprehensive income/(loss)	-	-	15,255	-	15,255
Total comprehensive loss for the year	**-**	**-**	**15,255**	**(1,372,911)**	**(1,357,656)**
Transactions with owners in their capacity as owners:					
Cost of share based payments	-	6,666	-	-	6,666
Costs of issues (net of tax)	19,562	-	-	-	19,562
Transfer of lapsed equity instruments	-	(934,013)	-	934,013	-
At 31 December 2015	**262,425,870**	**321,276**	**2,286,853**	**(249,650,193)**	**15,383,806**

	Issued capital $	Share based payments reserve $	Foreign Currency Translation Reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2014	**262,367,184**	**1,690,073**	**2,289,722**	**(239,618,522)**	**26,728,457**
Net loss for the period	-	-	-	(7,284,921)	(7,284,921)
Other comprehensive income/(loss)	-	-	(88,401)	-	(88,401)
Total comprehensive (loss) for the year	**-**	**-**	**(88,401)**	**(7,284,921)**	**(7,373,322)**
Transactions with owners in their capacity as owners:					
Cost of share based payments	-	8,000	-	-	8,000
Share issues	-	-	-	-	-
Costs of issues (net of tax)	19,562	-	-	-	19,562
Transfer of lapsed equity instruments	-	(154,860)	-	154,860	-
At 31 December 2014	**262,386,746**	**1,543,213**	**2,201,321**	**(246,748,583)**	**19,382,697**

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

Notes to the financial statements
For the half-year ended 31 December 2015

NOTE 1 CORPORATE INFORMATION

The interim financial report of MEO Australia Limited ("MEO Australia", or the "Company") for the half-year ended 31 December 2015 was authorised for issue in accordance with a resolution of the directors on 10th March 2016.

MEO Australia Limited is a "for profit" company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

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

NOTE 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim financial statements for the six months ended 31 December 2015 have been prepared in accordance with *AASB 134* "*Interim Financial Reporting*" and the *Corporations Act 2001.*

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.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2015 and considered together with any public announcements made by MEO Australia Limited and its controlled entities during the half-year ended 31 December 2015 in accordance with the continuous disclosure obligations of the ASX listing rules.

Changes in accounting policy, accounting standards and interpretations

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2015, except for the adoption of the new standard noted below. Methods of computation and areas of critical accounting judgments, estimates and assumptions remain the same as those adopted and disclosed in the most recent annual financial report including as disclosed in note 7.

The following amending Standard is effective from 1 July 2015:

Reference	**Title**	**Summary**	**Application date of standard**
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 *Materiality*	The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.	1 July 2015

The adoption of the new standard as of 1 July 2015 has no material impact on the Group.

Notes to the financial statements
For the half-year ended 31 December 2015 (continued)

NOTE 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont)

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 31 December 2015 the Group had cash reserves of $4,050,415. The cash reserves may not be sufficient to meet the Group's planned exploration commitments and 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 interim 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.

NOTE 3 SEGMENT INFORMATION

The Group operates in the petroleum exploration industry within Australia, New Zealand and Cuba.

The Board of Directors receive regular consolidated cash flow information as well as Consolidated Statement of Financial Position and Statement of Comprehensive Income information that are 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 7.

Notes to the financial statements For the half-year ended 31 December 2015 (continued)

NOTE 4 ADMINISTRATION EXPENSES

	Consolidated 31/12/2015 $	Consolidated 31/12/2014 $
Consultants fees and expenses	84,081	404,643
Directors remuneration (excluding share based payments)	84,967	108,620
Salaries and on-costs	945,526	2,073,209
Share based payments	6,666	8,000
Administration and other expenses	156,074	370,191
Audit costs	30,000	39,500
Securities exchange, share registry and reporting costs	81,447	99,779
Operating lease expenses	137,509	232,452
Investor relations and corporate promotion costs	36,270	38,639
Travel costs	32,596	91,467
Depreciation and amortisation expense	59,633	262,527
*Office relocation costs	-	658,647
Gross administration costs	1,654,769	4,387,674
Less allocation to exploration activities	(442,009)	(648,160)
Net administration costs	**1,212,760**	**3,739,514**

*Office relocation costs in the 6 month period ending 31 December 2014 include costs associated with leasehold asset write-offs ($318,236) leasehold break costs ($275,000), office equipment write-offs ($24,607) and physical relocation costs ($40,804).

NOTE 5 CASH AND CASH EQUIVALENTS

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

	Consolidated 31/12/2015 $	Consolidated 30/6/2015 $
Cash at bank	798,882	613,689
Short term bank deposits	3,251,533	5,171,765
Total cash and cash equivalents	4,050,415	5,785,454
	========	========

NOTE 6 FINANCIAL INSTRUMENTS

The Group's financial assets and liabilities include cash and cash equivalents, other receivables, investment in available for sale financial asset and trade and other payables. The carrying value of the Group's financial assets and liabilities approximate their fair value.

Notes to the financial statements
For the half-year ended 31 December 2015 (continued)

NOTE 7 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 capitalised exploration and evaluation expenditure. In the judgement of the Directors, at 31 December 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 in particular farm-out processes are underway for the AC/P50, AC/P51, WA-454-P, WA-488-P and Block 9 Cuba areas of interest. Nothing has come to the attention of the Directors to indicate future economic benefits will not be achieved. In the event where ongoing activities or committed minimum work requirements cannot be funded by existing financial resources the Group will either meet its obligations by farm-out, partial or full sale of the Group's exploration interests, or subject to negotiation and approval, vary the minimum work requirements, or raise additional capital. 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.

Capitalised exploration and evaluation costs at 31 December 2015 are $11,426,159 (June 2015: $10,856,110) which relate to:

Area of Interest	**31 Dec 2015**	**30 June 2015**
AC/P50 & AC/P51	$8,225,532	$8,186,955
WA-454-P	$2,224,453	$2,062,305
WA-488-P	$553,201	$606,850
Block 9 Cuba	$422,973	-
TOTAL	**$11,426,159**	**$10,856,110**

NOTE 8 CONTRIBUTED EQUITY

	31/12/2015 Shares	**30/6/2015 Shares**	**31/12/2015 $**	**30/6/2015 $**
Issued and Paid Up Capital				
Ordinary shares fully paid	750,488,387	750,488,387	262,425,870	262,406,308
	=========	=========	=========	=========

Dividends

No dividends were declared or paid during the half-year (Dec 2014: Nil).

Notes to the financial statements
For the half-year ended 31 December 2015 (continued)

NOTE 9 COMMITMENTS & CONTINGENT LIABILITIES

The material changes to exploration commitments reported in the June 2015 Annual Report are set out below:-

- *WA-488-P (MEO 100% interest)*

In October 2015, the Company announced that Rex International Holdings had withdrawn from its farm-in to WA-488-P. MEO's interest in Permit increased from 70% to 100%.

In December 2015, the company was advised by the National Offshore Petroleum Titles Administrator of approval to suspend and extend Permit Year 2 by 12 months to 21 November 2016. This additional time will provide an opportunity to undertake 150km of 2D broadband reprocessing and seismic inversion over the Beehive prospect. The potential drilling of the Beehive-1 exploration well has also been deferred 12 months until late 2017.

- *PEP51153 – New Zealand (MEO 30% interest)*

In September 2015, PEP51153 moved into a new permit year which has a work programme consisting of an exploration well.

- *Block 9 PSC – Cuba (MEO 100% interest)*

In September 2015, MEO executed the Cuba Block 9 Production Sharing Contract (PSC) with the national oil company Cuba Petróleo Union (CUPET). The exploration period of the Block 9 PSC is split into four sub-periods with withdrawal options at the end of each sub-period. Initial activity consists 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.

Summary

Should MEO proceed with its share of exploration commitments, they are now estimated to be $24.5 million of which $2.0 million is estimated within one year to 30 June 2016 and $22.5 million is estimated after one year but not more than five years. This compares to MEO share of exploration commitments reported in the 2015 Annual Report, 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.

Other than the above, there have been no material changes to commitments and contingent liabilities since the annual financial statements that were issued for the year ended 30 June 2015.

NOTE 10 SHARE-BASED PAYMENTS

In December 2015, 5,333,333 Exercisable Performance Rights were granted to Managing Director and Chief Executive Officer, Mr Peter Stickland under the Company's Long Term incentive Plan. Shareholders approved the grant of exercisable performance rights at the Annual General Meeting held 25 November 2015.

The Exercisable Performance Rights will vest and become exercisable upon Mr Stickland holding the position of Managing Director & Chief Executive Officer at 30 November 2016 (Service Condition). The exercise period for the Exercisable Performance Rights is 2 years; that is, they expire, if unexercised, at 5pm (Melbourne time) on 29 November 2018. There is no exercise price payable on exercise of the Exercisable Performance Rights. On exercise, each Exercisable Performance Right entitles Mr Stickland to 1 fully paid ordinary share in the Company.

If Mr Stickland ceases employment prior to the conclusion of the Service Period, a pro rata portion of the Exercisable Performance Rights will remain on foot subject to the original terms of grant, except that the Service Condition will be deemed to have been waived.

Notes to the financial statements
For the half-year ended 31 December 2015 (continued)

NOTE 10 SHARE-BASED PAYMENTS (cont)

For the six months ended 31 December 2015, the Group recognised $6,666 of share-based payment expense in the statement of profit or loss.

NOTE 11 EVENTS SUBSEQUENT TO BALANCE DATE

On 4th February 2016, MEO Australia advised of revised remuneration arrangements with its senior staff as part of the Company's ongoing cost reduction initiatives. The Company's senior staff members have voluntarily agreed to a 20% reduction in the cash component of their annual remuneration packages in exchange for Exercisable Performance Rights. 20,940,032 Exercisable Performance Rights were granted. The Vesting Date for the Exercisable Performance Rights is 31 January 2017 and Expiry Date on 31 January 2019. The Exercisable Performance Rights vest and become exercisable after 12 months continuous service ending 31 January 2017. There is no exercise price payable on exercise of the Exercisable Performance Rights.

On an annualised basis the revised arrangements result in a reduction in cash cost to MEO of approximately $200,000.

On 29 February 2016 the Company announced it had executed a Private Placement Agreement with London listed Leni Gas Cuba Limited raising $1.4 million, with funds to be used to advance MEO's exploration program in Block 9 onshore Cuba. Under the placement agreement, MEO issued 140,716,573 shares to Leni Gas Cuba at A$0.01 per share. The placement of shares to Leni Gas Cuba falls within MEO's placement capacity and Leni Gas Cuba is now MEO's single largest shareholder with a 15.8% interest in the Company.

Other than the above, there were no other significant matters that arose subsequent to 31 December 2015 and up until the date of this report.

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 for the half-year ended 31 December 2015 are 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 2015 and of its performance for the half-year ended on that date; and

  (ii) Complying 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.

Peter Stickland
Managing Director & Chief Executive Officer
Melbourne, 10th March 2016

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Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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 consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. The directors are also responsible for such internal controls that the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

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 a 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 2015 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.

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Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

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

Emphasis of Matter

Without qualification of our conclusion, 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.

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Matthew A. Honey
Partner
Melbourne
10 March 2016