MEO AUSTRALIA LIMITED

ABN 43 066 447 952

FINANCIAL REPORT

2012

MEO Australia Limited
ABN 43 066 447 952

Corporate Directory

Directors
Nicholas M Heath (Chairman)
Jürgen Hendrich (Managing Director and Chief Executive Officer)
Gregory A Short
Michael J F Sweeney
Stephen W Hopley

Company Secretary
Colin H Naylor

Registered office and Principal place of business
Level 23, 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

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
OTCQX Code: MEOAY
Website www.meoaustralia.com.au

Incorporated 14 September 1994
Victoria, Australia

Contents

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.

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2012

The directors of MEO Australia Limited (variously the "Company", "MEO" and "MEO Australia") submit their report for the financial year ended 30 June 2012. 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.

Nicholas M Heath B.Eng (Chem) (Hons)
Chairman (Appointed independent non-executive director 12 May 2008, appointed Chairman 13 November 2008)

Mr Heath is a chemical engineer with over 30 years industry experience in Australian and international energy markets gained through senior management positions with ExxonMobil in Australia and overseas. He was a Director of ExxonMobil Australia Pty Ltd, the holding company for all of ExxonMobil's Australian assets and had specific responsibility for the marketing of natural gas and natural gas liquids throughout Australia. Mr Heath served as Chairman of the Australian Petroleum Production and Exploration Association (APPEA) from 1997-99. His depth of industry experience brings valuable expertise to the Board of MEO Australia Limited. Mr Heath also serves as Chairman on the Board of ASX listed coal seam gas company – Metgasco Limited (ASX: MEL) and unlisted credit union – EECU Limited.

Mr Heath is Chairman of the Remuneration and Nomination Committee and was appointed to the Audit Committee on 17 May 2012.

Jürgen Hendrich B.Sc. (Geology) (Hons), PDM
Chief Executive Officer (Appointed 16 June 2008) and Managing Director (Appointed 25 July 2008)

Mr Hendrich brings over 25 years experience as a petroleum geologist and investment banker to MEO Australia. His professional career began at Esso Australia as a petroleum geologist and progressed from technical roles to commercial roles including strategic planning, Joint Venture relations and business evaluation. His investment banking career began in 1996 with JB Were (now Goldman Sachs & Partners Australia) where he became a top rated Energy Analyst prior to moving into funds management and eventually his own consulting practice specialising in providing strategic advice to emerging companies. In 2004 Jürgen joined Australian broking firm Tolhurst where he headed resources research and for two years prior to joining MEO he was a Director, Corporate Finance.

Gregory A Short B.Sc (Geology) (Hons)
Independent Non-Executive Director (Appointed 14 July 2008)

Mr Short retired from ExxonMobil in 2006 after a 33 year career as a geologist. He has extensive international experience in predominantly managerial roles in Malaysia, Africa and North America and spent the last 15 years of his career in management assignments that included Exploration Manager for USA, Chad and Nigeria as well as serving seven years in Angola as Geoscience Director. Mr Short brings valuable experience in taking several start-up ventures from exploration through to development and production start-up to MEO Australia. Mr Short is a non-executive director of Pryme Oil and Gas Limited (ASX: PYM) and Po Valley Energy Limited (ASX: PVE).

Mr Short is a member of the Audit Committee and was appointed to the Remuneration and Nomination Committee on 17 May 2012.

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 4 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 Committee and a member of the Remuneration and Nomination Committee.

1. DIRECTORS (cont)

Michael J F Sweeney LLB, FIAMA, FCIArb, Chartered Arbitrator
Independent Non-Executive Director (Appointed 1 October 2008)

Mr Sweeney practices as a Barrister at the Victorian Bar, Melbourne, specialising in the fields of energy and resources law, joint ventures and generally in commercial and contract law. He also specialises in alternative disputes resolution, particularly arbitration both as qualified arbitrator and as counsel in arbitrations. He is a nationally accredited mediator.

Mr Sweeney was the senior managing executive (prior to this, general counsel and company secretary) of the Mitsubishi and Mitsui interests (MIMI) in the Australian North West Shelf (NWS) Gas Joint Venture from 1986 to 1996. He served as a member of the NWS Joint Venture Project Committee and was deputised to the Board of the North West Shelf LNG Shipping Company. He was a member of the Tokyo based Operating Committee responsible for overseeing MIMI's investments in Australia.

Mr Sweeney is a member of the Remuneration and Nomination Committee and Audit Committee.

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:

	Ordinary Shares	27 October 2015 Options	Managing Director Options
N M Heath	1,233,079	900,000	-
S W Hopley	100,000	900,000	-
J Hendrich	1,261,000	-	3,000,000
G A Short	407,444	900,000	-
M J F Sweeney	206,130	900,000	-

The terms of the options are set out in Note 22 to the consolidated financial statements. Details, including fair value at date of grant of the options granted to directors, are set out in the Remuneration Report.

2. COMPANY SECRETARY

Mr Colin Naylor was appointed MEO Australia Limited 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 (2011: nil).

4. PRINCIPAL ACTIVITIES

The principal activities during the year of the entities within the consolidated entity were the development of the Tassie Shoal Methanol Project, the Timor Sea LNG Project and oil and gas exploration in offshore Australia and South East Asia.

The Company had 24 employees at 30 June 2012 including directors (2011:14). The Company also engages a number of full and part time consultants to assist in the development and management of its various activities.

5. REVIEW OF OPERATIONS

Environment, Health and Safety

The Group believes that workplace injuries are avoidable. It has implemented policies and procedures to ensure employees and contractors conduct their activities in a safe manner. Directors specifically addressed Health, Safety and Environment issues at each Board meeting. MEO has adopted an environmental, health and safety policy and conducts its operations in accordance with the Plastics and Chemicals Industries Association (PACIA) and Australian Petroleum Production & Exploration Association (APPEA) Codes of Practice.

The upstream activities by the Group of seismic surveys, well site surveys and drilling operations all require Commonwealth and/or State/Territory approvals of environment plans and safety cases to manage the conduct of the activities and the contractors engaged by the Group to undertake the work.

There were no reported environmental incidents or Lost Time Injuries (LTI's) during the year.

The Group's 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). During the year there were no known contraventions of any relevant environmental regulations.

North West Shelf Exploration Permits, Carnarvon Basin, Western Australia

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

In early 2012, WA-360-P was renewed for a further 5 year exploration period. Concurrent with this renewal, a mandatory 50% relinquishment left MEO with renewal of 8 of the initial 15 graticular blocks. Petrobras and Moby Oil & Gas both elected to withdraw from the permit and their participating interests were re-distributed between MEO and Cue in proportion to participating interests.

The Joint Venture licenced the available Foxhound multi-client 3D seismic data on permit to confirm the validity of the Maxwell prospect. This data provided sufficient encouragement that additional off-permit data was also licenced to provide full data coverage between the Maxwell prospect and the Wheatstone gas field.

WA-361-P (MEO 50%)

This permit was renewed for five years in early 2011. During the year, the Zeus multi-client 3D seismic survey was acquired over the permit. The Joint Venture has committed to licencing the data over a significant portion of the permit. At the time of writing, the 3D data was still in processing.

Bonaparte Basin

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

Following the May 2011 farm-out transaction with Eni, the Bathurst 3D seismic survey was acquired over East Blackwood. Acquisition of this 3D survey represented an acceleration of the Blackwood farm-in option by Eni. Concurrent with the accelerated seismic acquisition program, Eni also secured a slot on the Ensco-109 jack-up drilling rig to drill the first of two Heron wells required to earn their 50% participating interest. Drilling commenced on 24 August 2012. The election to drill a Blackwood well to complete the farm-in to the Blackwood discovery must be made by Eni by early January 2013. Timing of drilling will be a function of rig availability.

5. REVIEW OF OPERATIONS (cont)

Vulcan sub-Basin

- **AC/P50 & AC/P51 (MEO 100%)**

MEO acquired AC/P50 and AC/P51 in late 2010 from Silver Wave Energy for US$270,000. These permits are located proximal to several small to modest sized oil discoveries hosted in Jurassic aged reservoirs and on trend with the Crux gas/condensate field in which liquids rich gas is hosted in deeper, Triassic aged reservoirs. An option granted to Silver Wave Energy to reacquire a 10% interest in either or both permits, expired un-exercised during the year.

In early 2012, MEO acquired the Zeppelin 3D seismic survey covering a portion of both permits. Preliminary interpretation of the "fast-track" quality control volume of this survey has yielded encouragement in the form of a material 3-way dip closed structural lead along with two smaller similar features along trend. Additional technical work is required to determine whether this early encouragement will translate into maturing one or more of these leads to drillable prospects. If so, one or both of the permits will be offered for farmout in early 2013.

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

This permit was officially awarded to MEO in early July 2011 and is contiguous with the existing AC/P50 and 51 permits. During the year, the Zeppelin 2D seismic survey was acquired in the permit including a tie-line to the Zeppelin 3D.

- **WA-454-P (MEO 100%)**

MEO was awarded 100% interest in WA-454-P in June 2011. The permit contains the Marina gas and probable oil discovery drilled by ExxonMobil and Drillsearch in 2007. Following award of the permit, all available technical data was assimilated and analysed, leading MEO to conclude that Marina-1 intersected a probable oil leg within the uppermost of five hydrocarbon intervals. Two deeper zones also exhibited a similar liquids signature.

The Company engaged a global energy consulting firm, Senergy, to independently verify these findings and quantify the potential contingent resources at Marina. The contingent gas and oil resources calculated by Senergy at Marina, while modest at the "Most Likely" level, offers significant encouragement for follow up appraisal drilling to test the probable and possible oil legs. These findings also enhance the potential for significant oil legs to also be present at the nearby Breakwater prospect.

These technical findings significantly upgrade the commercial potential of this permit, so much so, that MEO elected to bring forward the Permit Year 3 3D seismic commitment into Permit Year 1. The Floyd 3D seismic survey was acquired in early 2012 over the Marina discovery and Breakwater prospect. At the time of writing, the "fast-track" volume of the data had been delivered for quality control and preliminary interpretation.

Indonesia

- **South Madura PSC (MEO 90%)**

In June 2011, MEO acquired all of the shares in South Madura Exploration Company (SMEC) which holds a 30% interest in the South Madura PSC, Madura Island. Following settlement of this transaction, AED Oil (60%) applied for and was voted in as Operator. Several weeks later, AED Oil went into voluntary administration and its 60% interest in the PSC was subsequently sold as part of a suite of assets purchased by Subaru who on sold the South Madura stake to SMEC.

Regulatory approval for the transfer of interest and Operatorship to SMEC was granted in June 2012. The preceding events precluded any significant work being undertaken in the PSC during the year. Following receipt of regulatory approvals, SMEC is now working closely with the regulator to develop a forward program including compensation for time lost to these and other events preceding SMEC's participation in the PSC.

5. REVIEW OF OPERATIONS (cont)

- **Seruway PSC (MEO 100%)**

In June 2011, MEO acquired all of the shares in Transworld Seruway Exploration Limited (TSEL) which holds a 100% interest in the Seruway PSC, offshore North Sumatra.. TSEL was subsequently renamed Seruway Offshore Exploration Limited (SOEL).

A commitment well is required to be drilled prior to the end of calendar 2012. Given the tight timeframe to drill the commitment well, a location was chosen on the existing Gurame oil and gas discovery which already has 3D seismic coverage. A drilling rig capable of operating in 10m water depth was contracted to drill this well.

In April 2012, a farmout process was launched with a data room opened in the Jakarta office at the beginning of May. Notwithstanding a significant effort to farmout an interest in the Production Sharing Contract, no acceptable offers were received. Discussions are continuing with a limited number of parties however the Company considers it unlikely that a transaction can be concluded before the commencement of drilling.

The planned Gurame SE-1X well will test a structural closure up dip of recovered oil samples in two reservoirs and will also determine the capability of the assumed gas cap to produce gas at commercial flow rates. If commercial flow rates are established, a domestic gas market exists immediately onshore of the field.

Thailand

- **G2/48 Concession (MEO 50%)**

In February 2012, MEO executed a binding agreement with Pearl Oil Offshore Limited to farm in to the G2/48 concession in the Gulf of Thailand. Consideration for the farm-in comprised MEO paying 50% of the 3D seismic survey acquired in late 2011 and funding 66.6% of the 2012 commitment well up to a gross cap of US$5 million. Any costs above the cap would be incurred at the participating interest level. The concession is proximal to two oil discoveries – the producing Jasmine oil field to the south and the Manora oil discovery to the west which has recently been sanctioned for development. The commitment well is currently scheduled to be drilled during fourth quarter 2012.

Tassie Shoal Gas Processing Projects

The Tassie Shoal projects comprise two stand-alone world scale 1.75 Mta methanol production plants and a single 3 Mta LNG plant. In the case of the methanol project Environmental Approvals are valid until 2052. Major Project Facilitation Status was renewed by the Federal Government during the year.

Tassie Shoal Methanol Project (TSMP, MEO 100%)

The TSMP comprises two 1.75 Mta natural gas reforming and methanol production plants, each housed on its own concrete gravity structure (CGS). Each plant is a stand-alone project and once constructed and pre-commissioned, will be towed to Tassie Shoal and grounded for operation using sea water as ballast. Each plant requires approximately 1.3 Tcf of raw gas, ideally containing up to 25% CO_2, to operate for 20 years.

During the year, MEO terminated the Joint Development Agreement (JDA) it had executed with Air Products in 2004 and amended in 2006. The termination resulted in the Company regaining an unencumbered 100% interest in the TSMP. This was considered necessary to provide the foundation required to re-invigorate discussions aimed at advancing the first stage of the project (TSMP1) towards commercial development.

Timor Sea LNG Project (TSLNGP, MEO 100%)

The TSLNGP requires approximately 3 Tcf of low CO_2 (<4%) raw gas to operate for 20 years. Gas supply for the LNG plant could come from MEO's own Heron gas discovery subject to confirmation of the resource by drilling or alternatively one or more of the neighbouring undeveloped gas fields.

During the year, the TSLNGP had its environmental approval upgraded and the next review is scheduled in 2017.

5. REVIEW OF OPERATIONS (cont)

Results for the year

The net loss of the Group for the financial year, after provision for income tax, was $5,697,933 (2011: net profit after tax of $13,707,010). The 2011 net profit was mainly due to a gain on disposal of 50% interest in WA-360-P ($29,611,847).

The successful drilling and commercialisation of any commercial oil and gas discoveries in offshore Australian exploration permits and overseas acreage and/or the development 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 $55,331,011. During the year the Group decreased the cash balance by $36,276,316 (before foreign exchange fluctuations) with funds used to meet exploration, investment and capital cash outflows of $33,399,689 and net corporate costs of $7,929,668 partly offset by interest received $4,177,798 and proceeds from sale of available for sale financial assets of $875,243.

Share Issues

There were no share issues during the year.

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity decreased to $205,621,844 from $209,936,130, a decrease of $4,314,286. The movement was mainly due to the net loss of $5,697,933.

7. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

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.

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

During the 2012/2013 financial year, MEO will be participating in a minimum of three exploration wells. Concurrent with the drilling program, interpretation of the 2D and 3D seismic programmes will be completed and the Company will initiate farm outs depending on prospectivity. The Group continue to pursue new venture opportunities as appropriate.

9. SHARE OPTIONS AND SHARE PERFORMANCE RIGHTS

Options granted to directors and executives of the Company

During the financial year 15,255,000 options were granted by the Company to employees and contractors. No further options have been granted since the end of the financial year.

Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry Date	Exercise Price		Number of Shares
4 October 2015	$0.50		1,500,000
1 March 2016	$0.50		900,000
4 April 2016	$0.50		1,200,000
1 July 2016	$0.50		500,000
27 October 2015	$0.50		3,600,000
1 July 2016	$0.50		3,000,000
3 October 2016	$0.50		2,075,000
1 December 2016	$0.50		4,580,000
3 April 2017	$0.50		1,500,000
		TOTAL	18,855,000

All options expire on the earlier of their expiry date or termination of the employee's employment. In addition, the ability to exercise the options is conditional on meeting the vesting conditions. These options do not entitle the holder to participate in any share issue of the Company.

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 (2011: nil).

10. INDEMNIFICATION AND INSURANCE OF DIRECTORS

The Company paid a premium in respect of a contract insuring all directors of the Company against legal costs incurred in defending proceedings as permitted by Section 199B of the *Corporations Act 2001*. Disclosure of premium details is prohibited under the policy.

11. 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 Committee		Remuneration and Nomination Committee	
	A	**B**	**A**	**B**	**A**	**B**
N M Heath	10	10	4[1]	4	4	4
J Hendrich	10	10	-	-	-	-
S W Hopley	10	10	4	4	4	4
G A Short	10	10	4	4	4[1]	4
M J F Sweeney	9	10	4	4	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 a risk management workshop with the executive team.

[1] Directors have attended meetings prior to formal appointment.

12. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors have received the independence declaration from the auditor, Ernst & Young, set out on page 10.

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 type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	$
Agreed Upon Procedures for "Non-Income Tax Review" and "Contractor to Payment Process" for offshore subsidiary company by overseas Ernst & Young firm	21,318

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

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

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 2012, 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
7 September 2012

13. REMUNERATION REPORT (Audited)

This remuneration report for the year ended 30 June 2012 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 FY2012
2. Remuneration Strategy and Board oversight of remuneration
3. Non-executive director remuneration arrangements
4. Executive remuneration arrangements
5. Remuneration outcomes for FY2012
6. Company performance

1. Key Management Personnel (KMP) for FY2012

The names and positions of the KMP during the 2012 financial year (FY2012) and up to the date of this remuneration report are listed below.

(i) Directors

N M Heath	Chairman (independent non-executive)
J Hendrich	Managing Director and Chief Executive Officer
G A Short	Director (independent non-executive)
S W Hopley	Director (independent non-executive)
M J F Sweeney	Director (independent non-executive)

(ii) Executives

C H Naylor	Chief Financial Officer and Company Secretary
R J D Gard	Commercial Manager
R Zammit	Executive Manager Business Development - appointed 1 December 2011

(iii) Consultants holding key management positions

K Hendrick	Implementation Manager
D Maughan	Exploration Manager

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.

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.

13. REMUNERATION REPORT (Audited) (cont)

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

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 of the Annual Report.

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 consultant's 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

With effect from 1 July 2011, 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, and accordingly no further disclosure is required.

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 through a Share Savings Plan.

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.

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.

13. REMUNERATION REPORT (Audited) (cont)

3. Non-executive director remuneration arrangements (cont)

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 receive independent remuneration reports 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 (previously $300,000).

Non-executive directors are encouraged by the Board to hold shares in the Company. The Company facilitates this through the Directors' Share Savings Plan. Under the plan, non-executive directors are eligible to take up to 100% of their director fees in the form of shares in the Company. The 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.

No additional remuneration is paid to directors for service on board committees or on the boards of wholly owned subsidiaries.

In addition, the 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 2012 and 30 June 2011 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.

13. REMUNERATION REPORT (Audited) (cont)

4. Executive remuneration arrangements (cont)

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 FY2012:

% of Total Remuneration			
		Performance-based remuneration	
	Fixed remuneration	Short Term Incentive	Long Term Incentive
Executives			
J Hendrich	58%	14%	28%
C H Naylor	78%	-	22%
R J D Gard	73%	6%	21%
R Zammit	70%	-	30%
Consultants holding key management positions			
K Hendrick	91%	-	9%
D Maughan	78%	10%	12%

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 recognise exceptional individual performances in any financial year through the award of a cash bonus.

In financial year 2011-2012, the Board approved a Short Term Incentive award of $125,000 to the Managing Director following the Remuneration and Nomination Committee's assessment of the Managing Director's performance against a suite of short term Key Performance Indicators (KPI's). During 2011-2012 priority was attributed to the successful implementation of several extensive seismic acquisition projects, the advancement of exploration and appraisal activities in key Indonesian and Australian permits and the re-positioning of the Tassie Shoal projects. With this preparation and the strengthening of the MEO executive team, the Company is well positioned for future growth. The Managing Director has been pro-actively communicating the Company's activities to the local and overseas markets. In recognition of his overall performance, the Board has agreed to make a Short Term Incentive award of $125,000. The KPIs were selected because of their strategic importance to the Company. In June/July 2012, the Remuneration and Nomination Committee formally assessed the extent to which each KPI had been achieved. In the Board's view this method of assessment is considered appropriate, reliable and verifiable.

13. REMUNERATION REPORT (Audited) (cont)

4. Executive remuneration arrangements (cont)

Variable Remuneration – Short Term Incentives

Also in the financial year, the Managing Director and Chief Executive Officer approved a bonus of $35,000 to exploration manager, Mr D Maughan and a bonus of $25,000 to the commercial manager, Mr R J D Gard in recognition of their contributions to secure Eni as a NT/P68 Joint Venture Partner. This performance measure was selected because of the strategic importance of the farm-in to the Company. The Managing Director and Chief Executive Officer assessed that the contribution and performance of Mr Maughan and Mr Gard was pivotal in securing Eni as a joint venture partner.

For the FY2012 STI to the Managing Director and Chief Executive Officer, 83% of the potential bonus was paid and 0% was forfeited. For the FY2012 STI's to Mr Gard and Mr Maughan, 100% of the bonus was paid and 0% was forfeited.

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.

13. REMUNERATION REPORT (Audited) (cont)

4. Executive remuneration arrangements (cont)

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.

Grants made during FY2012

During FY2012, grants of options were made to executives under the LTI Plan, which have time based vesting conditions. The conditions of these options require staff to remain employed with the Company through to the vesting date of the share options, which is usually for a period of twelve months or twenty four months.

Share options granted in FY12 were granted, subject to applicable vesting conditions, for nil consideration and carry an exercise price of $0.50. This exercise price is higher than the prevailing MEO share price (The 50 cent exercise price for the options represents a 277% increase above the prevailing share price at 1st July 2011 (the Company's share price as at 1 July 2011 was 18 cents)) and therefore provides an incentive for staff to build shareholder value and strive to grow the Company. In the Board's view this represents a challenging increase to the Company's prevailing share price and assists to align a significant proportion of executive remuneration with company performance. Given that the Company does not currently pay dividends, growth in the Company's share price is a strong indication of growth in shareholder wealth.

Each option entitles the holder to one fully paid ordinary share in the Company.

See page 20 for details of options granted to KMP 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.

13. REMUNERATION REPORT (Audited) (cont)

4. Executive remuneration arrangements (cont)

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 1 July 2011, the Company entered into a new executive agreement with Mr Hendrich which contains the following major key terms:-

- **Term**: From 1 July 2011 until either the Company or Mr Hendrich terminates the Agreement

- **Notice**: The Company may terminate the Agreement at any time by giving 3 Months' notice in writing. Mr Hendrich may terminate the Agreement at any time by giving 3 Months' notice in writing to the Company or immediately upon giving notice that a "fundamental change" to his employment has occurred. The Company may terminate without notice in the event of serious misconduct. The Company may elect to pay Mr Hendrich in lieu of part or all of any notice period.

- **Payments on Termination**: Where the Company terminates Mr Hendrich's employment (except in circumstances of serious misconduct) or Mr Hendrich's employment ceases because of a "fundamental change", Mr Hendrich is entitled to a lump sum payment of up to 12 months Total Fixed Remuneration (inclusive of any amount payable to Mr Hendrich in lieu of notice).

- *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.

- Consultants

The Company has secured the services for Mr Maughan and Mr Hendrick 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.

13. REMUNERATION REPORT (Audited) (cont)

5. Remuneration outcomes for FY2012

5.1 Remuneration of key management personnel of the Company

Details of the remuneration of KMP (including the non-executive directors) for FY2012 and comparative information for FY2011 are set out in Tables 1 and 2 below.

Table 1: Remuneration for the year ended 30 June 2012

	Short term				*Post employment*	*Share-based payments*	*Long term*	*Total*	*Performance related*
	Directors fees $	*Salary and fees* $	*Non-Monetary Benefits*	*STI cash bonus* $	*Super-annuation benefits* $	**Options* $	*Long service leave* $	$	%
Non - executive directors									
N M Heath	74,250	-	-	-	33,660	24,343	-	132,253	18.4
S W Hopley	17,580	-	-	-	50,000	24,343	-	91,923	26.5
G A Short	36,500	-	-	-	31,080	24,343	-	91,923	26.5
M J F Sweeney	62,000	-	-	-	5,580	24,343	-	91,923	26.5
Sub-total non-executive directors	**190,330**	**-**	**-**	**-**	**120,320**	**97,372**	**-**	**408,022**	**23.9**
Executive director									
J Hendrich (iii)	-	461,025	-	125,000	33,975	188,029	19,210	827,239	37.8
Other key management personnel									
C H Naylor	-	259,224	-	-	15,775	34,504	10,303	319,806	10.8
R J D Gard(iv)	-	259,224	-	25,000	15,775	34,504	13,324	347,827	17.1
R Zammit (i)	-	160,417	17,098	-	9,202	34,504	5,599	226,820	15.2
Sub-total executives	**-**	**1,139,890**	**17,098**	**150,000**	**74,727**	**291,541**	**48,436**	**1,721,692**	**25.6**
Consultants holding key management positions									
D Maughan (ii)(iv)	-	267,000	-	35,000	-	17,252	-	319,252	16.4
K Hendrick (ii)	-	400,850	-	-	-	17,252	-	418,102	4.1
Sub-total consultants	**-**	**667,850**	**-**	**35,000**	**-**	**34,504**	**-**	**737,354**	**9.4**
TOTAL	**190,330**	**1,807,740**	**17,098**	**185,000**	**195,047**	**423,417**	**48,436**	**2,867,068**	**21.2**

* Refer Note 22 to the consolidated financial statements for fair value calculation of options.
(i) Mr Zammit - appointed 1 December 2011.
(ii) Represents fees paid/payable for services provided by entities of the consultants.
(iii) In the FY2011-2012 the Board approved a bonus of $125,000 to the Managing Director. See Page 14 for details relating to the short term incentive. The bonus was paid in July 2012. A minimum level of performance was required to be achieved before the Board decided to award the bonus. Therefore, the minimum potential value of the award in respect of the year was nil. The value of the grant awarded to the Managing Director and Chief Executive Officer represented 83% of the potential STI. The percentage of the Managing Director and Chief Executive Officer remuneration comprising share options was 22.7%.
(iv) The Managing Director and Chief Executive Officer approved a bonus of $35,000 to the exploration manager, Mr D Maughan and a $25,000 to the commercial manager, Mr R J D Gard in recognition of their contribution to secure Eni as a NT/P68 Joint Venture Partner. The bonuses were paid in August 2011. A minimum level of performance was required to be achieved before the Managing Director and Chief Executive Officer approved award of the bonus. Therefore, the minimum potential value of the award in respect of the year was nil. The maximum value of the grant awarded to the commercial manager is the actual amount paid. The percentage of the exploration manager's remuneration comprising of options was 5.4% and the percentage of the commercial manager's remuneration comprising of options was 9.9%.

13. REMUNERATION REPORT (Audited) (cont)

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

Table 2: Remuneration for the year ended 30 June 2011

	Short term			*Post employment*	*Share-based payments*	*Long term*	*Total*	*Performance related*
	Directors fees $	*Salary and fees* $	*STI cash bonus* $	*Super-annuation benefits* $	**Options* $	*Long service leave* $	$	%
Non - executive directors								
N M Heath	83,000	-	-	7,470	-	-	90,470	-
S W Hopley	28,000	-	-	41,630	-	-	69,630	-
G A Short	14,250	-	-	47,880	-	-	62,130	-
M J F Sweeney	57,000	-	-	5,130	-	-	62,130	-
Sub-total non-executive directors	**182,250**	**-**	**-**	**102,110**	**-**	**-**	**284,360**	**-**
Executive director								
J Hendrich (ii)	-	423,150	150,000	34,650	400,856	13,122	1,021,778	53.9
Other key management personnel								
C H Naylor	-	209,998	-	50,000	29,797	8,585	298,380	10.0
R J D Gard	-	225,000	-	20,250	29,797	4,253	279,300	10.7
Sub-total executives	**-**	**858,148**	**150,000**	**104,900**	**460,450**	**25,960**	**1,599,458**	**38.2**
Consultants holding key management positions								
D Maughan (i)	-	299,000	-	-	14,899	-	313,899	4.7
K Hendrick (i)	-	452,475	-	-	14,899	-	467,374	3.2
Sub-total consultants	**-**	**751,475**	**-**	**-**	**29,798**	**-**	**781,273**	**3.8**
TOTAL	**182,250**	**1,609,623**	**150,000**	**207,010**	**490,248**	**25,960**	**2,665,091**	**24.0**

* Refer Note 22 to the consolidated financial statements for fair value calculation of options.
(i) Represents fees paid/payable for services provided by entities of the consultants.
(ii) In the 2010-2011 financial year the Board approved a bonus of $150,000 to the Managing Director largely in recognition of the significance to the Company of the Petrobras farm-in to WA-360-P. The $39,406,597 cash received from the farm-in resulted in a strengthening of the financial position of the Company which was further increased with a share placement prior to the drilling of the Artemis-1 exploration well. The farm-in is aligned with the corporate strategy of building shareholder value through the development of a portfolio of opportunities and strengthening the Company's financial position. The bonus was paid in December 2010. A minimum level of performance was required to be achieved before the Board decided to award the bonus. Therefore, the minimum potential value of the award in respect of the year was nil. The maximum value of the grant awarded to the Managing Director and Chief Executive Officer is the actual amount paid. The percentage of the Managing Director and Chief Executive Officer remuneration comprising of options was 39.2%.

13. REMUNERATION REPORT (Audited) (cont)

5.2 Equity instruments

Table 3: Options awarded, vested and lapsed during the year

30 June 2012	Award Date	Options awarded during the year No.*	Fair Value per option at award date (cents)	Vesting date	No. vested during year	No lapsed during year	Expiry Date
Non-executive directors							
N M Heath	27 Oct 2011	300,000	6.0	27 Oct 2012	-	-	27 Oct 2015
N M Heath	27 Oct 2011	300,000	7.0	27 Oct 2013	-	-	27 Oct 2015
N M Heath	27 Oct 2011	300,000	8.0	27 Oct 2014	-	-	27 Oct 2015
S W Hopley	27 Oct 2011	300,000	6.0	27 Oct 2012	-	-	27 Oct 2015
S W Hopley	27 Oct 2011	300,000	7.0	27 Oct 2013	-	-	27 Oct 2015
S W Hopley	27 Oct 2011	300,000	8.0	27 Oct 2014	-	-	27 Oct 2015
S W Hopley	30 Sep 2009	-	-	30 Sep 2009	-	1,000,000	30 Sep 2011
G A Short	27 Oct 2011	300,000	6.0	27 Oct 2012	-	-	27 Oct 2015
G A Short	27 Oct 2011	300,000	7.0	27 Oct 2013	-	-	27 Oct 2015
G A Short	27 Oct 2011	300,000	8.0	27 Oct 2014	-	-	27 Oct 2015
M J F Sweeney	27 Oct 2011	300,000	6.0	27 Oct 2012	-	-	27 Oct 2015
M J F Sweeney	27 Oct 2011	300,000	7.0	27 Oct 2013	-	-	27 Oct 2015
M J F Sweeney	27 Oct 2011	300,000	8.0	27 Oct 2014	-	-	27 Oct 2015
M J F Sweeney	30 Sep 2009	-	-	30 Sep 2009	-	1,000,000	30 Sep 2011
Executives							
J Hendrich	27 Oct 2011	1,000,000	7.1	1 Jul 2012	-	-	1 Jul 2016
J Hendrich	27 Oct 2011	1,000,000	8.1	1 Jul 2013	-	-	1 Jul 2016
J Hendrich	27 Oct 2011	1,000,000	9.0	1 Jul 2014	-	-	1 Jul 2016
J Hendrich	16 Jun 2008	-	-	Sep 2011	-	3,100,000	30 Sep 2011
C H Naylor	1 Dec 2011	500,000	7.5	1 Dec 2012	-	-	1 Dec 2016
C H Naylor	1 Dec 2011	500,000	8.6	1 Dec 2013	-	-	1 Dec 2016
C H Naylor	29 Jun 2009	-	-	Jun 2010 & June 2011	-	900,000	30 Jun 2012
R J D Gard	1 Dec 2011	500,000	7.5	1 Dec 2012	-	-	1 Dec 2016
R J D Gard	1 Dec 2011	500,000	8.6	1 Dec 2013	-	-	1 Dec 2016
R J D Gard	29 Jun 2009	-	-	Jun 2010 & June 2011	-	900,000	30 Jun 2012
R Zammit	1 Dec 2011	500,000	7.5	1 Dec 2012	-	-	1 Dec 2016
R Zammit	1 Dec 2011	500,000	8.6	1 Dec 2013	-	-	1 Dec 2016
D Maughan	1 Dec 2011	250,000	7.5	1 Dec 2012	-	-	1 Dec 2016
D Maughan	1 Dec 2011	250,000	8.6	1 Dec 2013	-	-	1 Dec 2016
D Maughan	29 Jun 2009	-	-	Jun 2010 & June 2011	-	450,000	30 Jun 2012
K Hendrick	1 Dec 2011	250,000	7.5	1 Dec 2012	-	-	1 Dec 2016
K Hendrick	1 Dec 2011	250,000	8.6	1 Dec 2013	-	-	1 Dec 2016
K Hendrick	29 Jun 2009	-	-	Jun 2010 & June 2011	-	450,000	30 Jun 2012
TOTAL		**13,300,000**				**7,800,000**	

*All options awarded during the year have a 50 cent exercise price.

13. REMUNERATION REPORT (Audited) (cont)

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

	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $
N M Heath	63,060	-	-
S W Hopley	63,060	-	38,200
G A Short	63,060	-	-
M J F Sweeney	63,060	-	38,200
J Hendrich	242,200	-	923,500
C H Naylor	80,600	-	108,000
R J D Gard	80,600	-	108,000
R Zammit	80,600	-	-
D Maughan	40,300	-	54,000
K Hendrick	40,300	-	54,000

For details on the valuation of the options, including models used and assumptions used please refer to note 22 to the consolidated financial statements.

Table 5: Share issued on exercise of options

There was no exercise of options during the reporting period (2011: nil).

6. Company performance

The remuneration of MEO executives and contractors is not formally linked to financial performance measures of the Company. However, as explained on page 16, 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	2012	2011	2010	2009	2008
Net (loss)/profit - $000	(5,698)	13,707	(4,826)	(28,185)	(1,871)
Basic (loss)/earnings per share – cents per share	(1.06)	2.67	(1.07)	(6.76)	(0.51)
Share price at the beginning of year - $	0.18	0.25	0.23	0.50	1.39
Share price at end of year - $	0.25	0.18	0.25	0.23	0.50
Dividends per share – cents	Nil	Nil	Nil	Nil	Nil

Signed in accordance with a resolution of the directors

J HENDRICH
Managing Director and Chief Executive Officer
Melbourne, 7 September 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012	2011
		$	**$**
Interest income		3,311,578	3,266,789
Gain on disposal of 50% interest in WA-360-P		-	29,611,847
Gain on disposal of "available for sale" financial assets		159,081	-
Total income		**3,470,659**	**32,878,636**
Net administration costs	4	(8,873,349)	(6,709,173)
Exploration expenditure written-off		(16,611)	(8,817,390)
Tassie Shoal Project expenditure		(1,090,866)	(18,204)
Share of losses of an associate		(315,000)	(600,000)
Foreign exchange gains/(losses)		1,353,693	(2,530,979)
(Loss)/profit before income tax		**(5,471,474)**	**14,202,890**
Income tax expense	5	(226,459)	(495,880)
Net (loss)/profit for the period		**(5,697,933)**	**13,707,010**
Other comprehensive income			
Exchange differences on translation of foreign operations		351,397	-
Net fair value gains on available-for-sale financial assets		-	52,445
Net fair value gains on available-for-sale financial assets reclassified to profit and loss		(52,445)	-
Income tax on items of other comprehensive income	5	15,734	(15,734)
Other comprehensive income for the period, net of tax		**314,686**	**36,711**
Total comprehensive (loss)/income for the period		**(5,383,247)**	**13,743,721**
Basic (loss)/earnings per share (cents per share)	6	(1.06)	2.67
Diluted (loss)/earnings per share (cents per share)	6	(1.06)	2.67

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

MEO Australia Limited
ABN 43 066 447 952

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	2012	2011
CURRENT ASSETS		**$**	**$**
Cash and cash equivalents	7	55,331,011	90,253,634
Other receivables	8	1,249,363	1,456,184
TOTAL CURRENT ASSETS		56,580,374	91,709,818
NON-CURRENT ASSETS			
Investment in associate	9	-	-
Property, plant and equipment	10	1,469,809	252,870
Intangible assets	11	747,755	295,917
Exploration and evaluation costs	12	150,329,325	118,677,023
Available for sale financial assets	13	-	755,207
TOTAL NON-CURRENT ASSETS		152,546,889	119,981,017
TOTAL ASSETS		**209,127,263**	**211,690,835**
CURRENT LIABILITIES			
Trade and other payables	14	3,128,050	1,568,530
Provisions	15	177,009	95,401
TOTAL CURRENT LIABILITIES		3,305,059	1,663,931
NON-CURRENT LIABILITIES			
Provisions	15	200,360	90,774
TOTAL NON-CURRENT LIABILITIES		200,360	90,774
TOTAL LIABILITIES		**3,505,419**	**1,754,705**
NET ASSETS		**205,621,844**	**209,936,130**
EQUITY			
Contributed equity	16	240,861,060	240,650,334
Reserves	16	1,406,172	1,557,151
Accumulated losses	16	(36,645,388)	(32,271,355)
TOTAL EQUITY		**205,621,844**	**209,936,130**

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

MEO Australia Limited
ABN 43 066 447 952

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

	Issued capital $	Share based payments reserve $	Foreign Currency Translation Reserve $	Net unrealised gains reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2011	**240,650,334**	**1,520,440**	**-**	**36,711**	**(32,271,355)**	**209,936,130**
Net (loss) for the period	-	-	-	-	(5,697,933)	(5,697,933)
Other comprehensive income/(loss)	-	-	351,397	(36,711)	-	314,686
Total comprehensive (loss) for the year	**-**	**-**	**351,397**	**(36,711)**	**(5,697,933)**	**(5,383,247)**
Transactions with owners in their capacity as owners:						
Cost of share based payments	-	858,235	-	-	-	858,235
Costs of issues (net of tax)	210,726	-	-	-	-	210,726
Transfer of equity instruments expired unexercised	-	(1,323,900)	-	-	1,323,900	-
At 30 June 2012	**240,861,060**	**1,054,775**	**351,397**	**-**	**(36,645,388)**	**205,621,844**

	Issued capital $	Share based payments reserve $	Foreign Currency Translation Reserve $	Net unrealised gains reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2010	**205,849,286**	**1,129,424**	**-**	**-**	**(46,320,465)**	**160,658,245**
Net profit for the period	-	-	-	-	13,707,010	13,707,010
Other comprehensive income	-	-	-	36,711	-	36,711
Total comprehensive income for the year	**-**	**-**	**-**	**36,711**	**13,707,010**	**13,743,721**
Transactions with owners in their capacity as owners:						
Cost of share based payments	-	733,116	-	-	-	733,116
Shares sold by Trustee of Trustee Share Scheme	3,441,792	-	-	-	-	3,441,792
Share issues	32,599,999	-	-	-	-	32,599,999
Costs of issues (net of tax)	(1,240,743)	-	-	-	-	(1,240,743)
Transfer of equity instruments expired unexercised	-	(342,100)	-	-	342,100	-
At 30 June 2011	**240,650,334**	**1,520,440**	**-**	**36,711**	**(32,271,355)**	**209,936,130**

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

MEO Australia Limited
ABN 43 066 447 952

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES	**$**	**$**
Payments to suppliers and employees	(8,353,152)	(5,896,270)
Cost recovery from joint venture partners	423,484	1,088,822
Interest received	4,177,798	2,362,459
Net cash (used in) operating activities (note 17)	**(3,751,870)**	**(2,444,989)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditure on plant and equipment	(1,308,989)	(187,596)
Expenditure on intangible assets	(679,788)	(273,981)
Investment in associate	(315,000)	(600,000)
Purchase of available for sale financial assets	(620,955)	(95,207)
Expenditure on exploration tenements	(30,474,957)	(13,298,870)
Proceeds from sale of 50% interest in WA-360-P	-	39,406,597
Proceeds from sale of available for sale financial assets	875,243	-
Net cash (used in) from investing activities	**(32,524,446)**	**24,950,943**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issues	-	32,599,999
Transaction costs on issue of shares	-	(1,752,357)
Proceeds from sale of trustee shares	-	3,441,792
Net cash from financing activities	**-**	**34,289,434**
Net increase/(decrease) in cash and cash equivalents	**(36,276,316)**	**56,795,388**
Cash and cash equivalents at beginning of period	90,253,634	35,989,225
Net foreign exchange differences	1,353,693	(2,530,979)
Cash and cash equivalents at end of period (note 7)	**55,331,011**	**90,253,634**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 CORPORATE INFORMATION

The financial report of MEO Australia Limited ("MEO Australia", or the "Company") for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 7 September 2012.

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. The financial report has also been prepared on a historical cost basis, except for available for sale financial assets, which are recorded at fair value.

(b) 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.

(c) New Accounting Standards and Interpretations

The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2011. Adoption of these Standards did not have a material effect on the financial position or performance of the Group:

Reference	Title
AASB 124 (Revised)	The revised AASB 124 *Related Party Disclosures (December 2009).*
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]
AASB 2010-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]
AASB 1054	Australian Additional Disclosures This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard, with AASB 2011-1 relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas: (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements (c) Whether the entity is a for-profit or not-for-profit entity (d) Whether the financial statements are general purpose or special purpose (e) Audit fees (f) Imputation credits

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(c) New Accounting Standards and Interpretations (cont)

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2012. 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 FY2012-2013.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities.* The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	1 July 2013
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-113 *Jointly- controlled Entities – Non-monetary Contributions by Ventures.* AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.	1 January 2013	1 July 2013

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(c) New Accounting Standards and Interpretations (cont)

The following standard has been issued by the AASB but is not yet effective for the period ending 30 June 2012. Adoption of this Standard is not expected to have a material effect on the financial position or performance of the Group but may result in additional disclosures in respect of joint ventures. The position will be further reviewed during FY2012-2013.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2012. Adoption of these Standards is not expected to have an impact on the Group however the position will be further reviewed during FY2012-2013.

Reference	Title
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]
AASB 13	Fair Value Measurement
AASB 119	Employee Benefits - The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.
Annual Improvements 2009–2011	Annual Improvements to IFRSs 2009–2011 Cycle
AASB 9	Financial Instruments

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of MEO Australia Limited and its subsidiaries as at 30 June 2012 and the results of all the subsidiaries for the year then ended (the Group).

Subsidiaries are all those entities over which the group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income, expenses and profits and losses from intra group transactions, have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(e) 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 by an external valuer using a binomial option pricing model, and using the assumptions detailed in note 22.

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 2012 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 2012 the Group had cash reserves of $55,331,011. The balance of these cash reserves may not be sufficient to meet the Group's planned expenditure exploration activities for the 12 months to 30 June 2013. In order to fully implement its planned exploration strategy the Group will require either additional funds and/or defray the exploration expenditures via farm-out.

The 2012 financial statements have 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(e) Significant accounting judgements, estimates and assumptions (cont)

To continue as a going concern the Group will fund the planned exploration activities by using its existing cash reserves and to undertake either:
- an equity raising , and/or
- the successful completion of a farm out or sale of participating interests in the Group's tenements (thereby reducing MEO's commitment to planned activities)

Or initiate a substantially reduced exploration program.

Having carefully assessed the potential uncertainties relating to the likelihood of securing additional funding, the Group's ability to effectively minimise exploration and operating expenditures and the opportunity to farm out participating interests in existing permits, 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.

In the event that the assumptions underpinning the basis of preparation do not occur as anticipated, the Group will be required to implement plans necessary to continue to operate as a going concern.

No adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the Group not continue as a going concern.

(f) 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.

(g) 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(h) 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.

(i) 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.

(j) 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-financial assets

Available-for-sale financial assets are those non-derivative financial assets, principally equity securities that are designated as available-for-sale or not classified as any of financial assets at fair value through profit and loss; held-to-maturity investments or loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis, and option pricing models, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(k) Investments in associates

The Group's investment in its associates is accounted for using the equity method of accounting in the consolidated financial statements and at cost in a subsidiary company. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

The Group generally deems they have significant influence if they have over 20% of the voting rights.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at costs plus post-acquisition changes in the Group's share of net assets of the associates.

The Group's share of an associate's profit or losses is recognised in the consolidated statement of comprehensive income, and its share of movements in reserves is recognised in reserves. The cumulative movements are adjusted against the carrying amount of the investment.

(l) 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 4 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 to sell 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.

(m) 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.

(n) 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(n) Exploration and evaluation costs (cont)

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.

(o) 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.

(p) 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(q) Interests in joint ventures

Jointly controlled assets

A jointly controlled asset involves joint control and offers joint ownership by the Group and other venturers of assets contributed to or acquired for the purposes of the joint venture, without the formation of a corporation, partnership or entity.

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

(r) 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.

(s) 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.

(t) 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

Wages, salaries, annual leave and sick leave

Liabilities for wage and salaries, including non-monetary benefits and 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(t) Provisions (cont)

Long service leave

The liability for long service leave is 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 national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(u) 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 by an external valuer 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.

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.

(v) 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(w) 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. Specific recognition criteria must also to be met:
Interest income

Revenue is recognised as the interest accrues using the effective interest method.

(x) 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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(x) Income tax (cont)

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.

(y) 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.

(z) 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.

(aa) Parent entity financial information

The financial information for the parent entity, MEO Australia Limited, disclosed in note 25 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

The Group's reportable segments are confined to development of methanol and LNG projects and petroleum exploration.

The following tables represent revenue, profit/(loss) information and certain asset and liability information regarding operating segments for the years ended 30 June 2012 and 30 June 2011.

BUSINESS SEGMENTS	**METHANOL & LNG DEVELOPMENT**		**PETROLEUM EXPLORATION**		**CONSOLIDATED**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**	**$**	**$**
Revenue:						
Segment income	-	-	-	29,611,847	-	29,611,847
Interest and other income					3,470,659	3,266,789
Total consolidated income					**3,470,659**	**32,878,636**
Result:						
Segment profit/(loss)	(1,090,866)	(18,204)	(16,611)	20,794,457	(1,107,477)	20,776,253
Non-segment revenue/(expenses):						
- Interest and other income					3,470,659	3,266,789
- Net administration costs					(8,873,349)	(6,709,173)
Share of losses of an associate					(315,000)	(600,000)
Foreign exchange gains (losses)					1,353,693	(2,530,979)
(Loss) profit before income tax					(5,471,474)	14,202,890
Income tax expense					(226,459)	(495,880)
Net (loss)/profit for the year					**(5,697,933)**	**13,707,010**

Further to the information disclosed above, the Board of Directors currently receive Consolidated Statement of Financial Position and Statement of Comprehensive Income information that is prepared in accordance with Australian Accounting Standards therefore there is no additional information to disclose.

The Board does not currently receive segment Statement of Financial Position and Statement of Comprehensive Income information other than that presented above. 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.

NOTE 4 NET ADMINISTRATION EXPENSES

	Consolidated	
	2012	**2011**
	$	**$**
Consultants fees and expenses	1,851,125	1,974,536
Directors remuneration (excluding share based payments)	310,650	284,360
Salaries and on-costs	4,040,918	2,001,606
Share based payments	858,235	733,116
Administration and other expenses	1,078,645	624,357
Audit costs	90,685	86,700
Securities exchange, share registry and reporting costs	218,377	235,346
Operating lease expenses	451,248	216,214
Investor relations and corporate promotion costs	237,381	83,328
Travel costs	882,183	607,818
Depreciation and amortisation expense	428,062	139,170
Gross administration costs	10,447,509	6,986,551
Less allocation to exploration activities	(1,574,160)	(277,378)
Net administration costs	8,873,349	6,709,173

NOTE 5 INCOME TAX

Statement of Comprehensive Income	Consolidated 2012 $	Consolidated 2011 $
Current income tax		
Current income tax credit/(expense)	12,099,095	(10,726,043)
Tax losses not recognised as not probable	(1,683,621)	-
Tax losses recognised and utilised	-	7,105,442
	10,415,474	(3,620,601)
Deferred income tax		
Relating to origination and reversal of temporary differences	(10,641,933)	3,124,721
	(10,641,933)	3,124,721
Income tax expense reported in the Statement of Comprehensive Income	(226,459)	(495,880)

Statement of Changes in Equity	Consolidated 2012 $	Consolidated 2011 $
Deferred income tax related to items charged or credited directly to equity		
Unrealised gain on available-for-sale investments	-	(15,734)
Unrealised gain on available-for-sale investments reclassified to profit and loss	15,734	-
Share issue costs	-	525,707
Not recognised as not probable	-	(315,424)
Amount recognised in respect of prior years share issue costs now considered probable	210,725	301,331
Income tax benefit reported in equity	226,459	495,880

Tax Reconciliation

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:

	Consolidated 2012 $	Consolidated 2011 $
Accounting profit (loss) before tax	(5,471,474)	14,202,890
At the Group's statutory 30% tax rate (2011: 30%)	1,641,442	(4,260,867)
Taxable gain on farm-in of WA-360-P	-	(3,112,940)
Share based payment expense	(257,471)	(219,935)
Non-deductible expenses	(7,140)	(7,580)
Tax losses recognised and utilised	-	7,105,442
Tax losses not brought to account	(1,603,290)	-
Income tax expense reported in the Statement of Comprehensive Income	(226,459)	(495,880)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 5 INCOME TAX (cont)

Deferred Income Tax	**Statement of Financial Position**		**Income Statement**	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED				
Deferred tax liabilities				
Interest receivable	(94,940)	(354,805)	259,865	(271,299)
Available-for-sale investments	-	(15,734)	-	-
Exploration and evaluation costs	(45,279,587)	(34,081,759)	(11,197,828)	3,183,513
Gross deferred income tax liabilities	(45,374,527)	(34,452,298)		
Deferred tax assets				
Investment in associate	274,500	180,000	94,500	180,000
Accruals	309,481	165,311	144,170	15,209
Provisions	113,211	55,853	57,358	17,300
Share issue costs	315,867	827,038	-	-
Temporary differences not recognised as not probable	-	(315,424)	-	-
Tax losses brought to account to offset net deferred tax liability	44,361,468	33,539,520	10,415,476	(3,620,603)
Gross deferred income tax assets	45,374,527	34,452,298		
Net Deferred Tax Asset	-	-		
Deferred tax expense			(226,459)	(495,880)

Tax consolidation

(i) Members of the tax consolidated group

MEO Australia Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2004. MEO Australia Limited is the head entity of the tax consolidated group.

(ii) Tax effect accounting by members of the tax consolidated group

Measurement method adopted under UIG 1052 Tax Consolidated Accounting

The head entity 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 taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the principles in AASB 112 *Income Taxes*.

In addition to its own current and deferred tax amounts, the head entity also recognises 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.

Tax losses

At balance date, the Group has estimated unused gross tax losses of $153.0 million (2011: $131.5 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.

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 2012 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:	Consolidated	
	2012	**2011**
	$	**$**
Net (loss)/profit	(5,697,933)	13,707,010
	Shares	**Shares**
Weighted average number of ordinary shares used in calculation of basic and diluted loss per share	539,913,260	513,118,741

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

	Consolidated	
	2012	**2011**
	$	**$**
Cash at bank and in hand	4,362,769	160,050
Short term deposits	50,968,242	90,093,584
	55,331,011	90,253,634

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

	Consolidated	
	2012	**2011**
	$	**$**
Goods and services tax refund	175,147	59,430
Interest receivable	316,465	1,182,684
Other	757,751	214,070
	1,249,363	1,456,184

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.

NOTE 9 INVESTMENT IN ASSOCIATE

	Consolidated 2012 $	Consolidated 2011 $
Investment - unlisted entity	-	-

Movements in the carrying value of the Group's investment in associate

Investment at 1 July 2011	-	-
Investment in associate	915,000	600,000
Cumulative share of losses after tax	(915,000)	(600,000)
Investment at 30 June 2012	-	-

NOTE 10 PROPERTY, PLANT AND EQUIPMENT

Plant and Equipment

	Consolidated 2012 $	Consolidated 2011 $
Plant and Equipment		
At cost	688,542	334,515
Accumulated depreciation	(198,690)	(163,451)
	489,852	171,064
Motor Vehicles		
At cost	264,455	90,184
Accumulated depreciation	(33,139)	(8,378)
	231,316	81,806
Leasehold Improvements		
At cost	767,837	110,659
Accumulated depreciation	(19,196)	(110,659)
	748,641	-
Total Property, Plant and Equipment	**1,469,809**	**252,870**
Movement in Plant and Equipment		
Net carrying amount at beginning of year	171,064	132,662
Additions	460,113	97,412
Disposals	(106,086)	-
Depreciation	(35,239)	(59,010)
	489,852	171,064
Movement in Motor Vehicles		
Net carrying amount at beginning of year	81,806	-
Additions	174,271	90,184
Depreciation	(24,761)	(8,378)
	231,316	81,806
Leasehold Improvements		
Net carrying amount at beginning of year	-	411
Additions	767,837	-
Depreciation	(19,196)	(411)
	748,641	-
Net carrying amount at end of year	**1,469,809**	**252,870**

The useful life of the plant and equipment is estimated for 2012 and 2011 is 5 to 15 years.
The useful life of the motor vehicle is estimated for 2012 and 2011 is 8 years.
The useful life of the leasehold is estimated for 2012 and 2011 is 5 years.

NOTE 11 INTANGIBLE ASSETS

	Consolidated	
	2012	**2011**
	$	**$**
Software licences at cost	1,184,834	490,215
Accumulated amortisation	(437,079)	(194,298)
	747,755	295,917
Movement in Intangibles		
Net carrying amounts at beginning of year	295,917	93,307
Additions	694,618	273,981
Amortisation	(242,780)	(71,371)
Net carrying amount at end of year	747,755	295,917

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

NOTE 12 EXPLORATION AND EVALUATION COSTS

	Consolidated	
	2012	**2011**
	$	**$**
Balance at beginning of year	118,677,023	124,217,572
Expenditure for the year	30,975,574	8,000,433
Exploration properties/licences acquired	676,728	5,071,159
Expenditure written-off during the year	-	(18,612,141)
	150,329,325	118,677,023

Capitalised exploration and evaluation costs at 30 June 2012 are $150,329,325 which relate to NT/P68 ($112,810,322), WA-360-P ($2,219,675), WA-361-P ($998, 096), AC/P50 & AC/P51 & AC/P53 ($8,128,276), WA-454-P ($6,446,584), Seruway and South Madura Production Sharing Contracts in Indonesia ($16,794,928) and Gulf of Thailand Concession G2/48 ($2,931,444).

Capitalised exploration and evaluation costs at 30 June 2011 are $118,677,023 which relate to NT/P68 ($112,963,358), AC/P50 and AC/P51 ($642,506), Seruway and South Madura Production Sharing Contracts in Indonesia ($5,071,159). In 2011, the Artemis-1 dry hole result in WA-360-P and exploration in other permits resulted in exploration write-offs totalling $18,612,141.

NOTE 13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Consolidated	
	2012	**2011**
At fair value	**$**	**$**
Shares – Australian listed	-	755,207

NOTE 14 TRADE AND OTHER PAYABLES

	Consolidated	
	2012	**2011**
	$	**$**
Trade and other payables	3,128,050	1,568,530

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

NOTE 15 PROVISIONS

	Consolidated	
CURRENT	**2012**	**2011**
	$	**$**
Employee benefits		
Annual leave entitlement	177,009	95,401
NON-CURRENT		
Employee benefits		
Long service leave entitlement	200,360	90,774

NOTE 16 CONTRIBUTED EQUITY AND RESERVES

	Consolidated			
	2012	**2012**	**2011**	**2011**
	Shares	**$**	**Shares**	**$**
ISSUED AND PAID UP CAPITAL				
Ordinary shares	539,913,260	240,861,060	539,913,260	240,650,334

	2012	**2012**	**2011**	**2011**
	Shares	**$**	**Shares**	**$**
Movements in Ordinary Shares				
Balance at beginning of year	539,913,260	240,650,334	467,098,037	205,849,286
Share Issues:				
Placement of shares at $0.52 per share	-	-	62,692,305	32,599,999
Transaction costs (net of tax)	-	210,726	-	(1,240,743)
Shares sold by Trustee of Trustee Stock Scheme	-	-	10,122,918	3,441,792
Balance at end of year	539,913,260	240,861,060	539,913,260	240,650,334

(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

At 30 June 2012 18,855,000 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 22.

(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.

NOTE 16 CONTRIBUTED EQUITY AND RESERVES (cont)

(c) Capital Management (cont)

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.

ACCUMULATED LOSSES

	Consolidated	
	2012	**2011**
	$	**$**
Balance at beginning of year	(32,271,355)	(46,320,465)
Net (loss)/profit for the year	(5,697,933)	13,707,010
Transfer from share based payments reserve - cost of equity instruments expired unexercised	1,323,900	342,100
Balance at end of year	(36,645,388)	(32,271,355)

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

NOTE 16 CONTRIBUTED EQUITY AND RESERVES (cont)

OTHER RESERVES	Consolidated			
	***Share based payments reserve**	****Net unrealised gains reserve**	*****Foreign currency translation reserve**	**Total**
	$	$	$	$
At 1 July 2010	1,129,424	-	-	1,129,424
Cost of share based payments	733,116	-	-	733,116
Cost of unvested expired equity instruments transferred to accumulated losses	(342,100)	-	-	(342,100)
Net gains on available-for-sale investments	-	52,445	-	52,445
Income tax on items taken directly to or transferred from equity	-	(15,734)	-	(15,734)
At 30 June 2011	1,520,440	36,711	-	1,557,151
Cost of share based payments	858,235	-	-	858,235
Cost of unvested expired equity instruments transferred to accumulated losses	(1,323,900)	-	-	(1,323,900)
Net gains on available-for-sale investments reclassified to profit and loss	-	(52,445)	-	(52,445)
Income tax on items taken directly to or transferred from equity reclassified to profit and loss	-	15,734	-	15,734
Exchange differences on translation of foreign operations	-	-	351,397	351,397
At 30 June 2012	1,054,775	-	351,397	1,406,172

**** 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 22 for further details of the plan.

***** Net unrealised gain reserve***

This reserve records movements in fair value of available for sale financial assets.

****** 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

	Consolidated	
	2012	**2011**
	$	**$**
Net (loss)/profit	(5,697,933)	13,707,010
Adjustments for:		
Gain on disposal of 50% interest in WA-360-P	-	(29,611,847)
Gain on disposal of "available for sale" financial assets	(159,081)	-
Share of losses of an associate	315,000	600,000
Exploration expenditure written-off	16,611	8,817,390
Depreciation and amortisation	428,062	139,170
Share based payments	858,235	733,116
Exchange rate adjustments	(1,353,693)	2,530,979
Deferred income tax expense	226,459	495,880
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	755,969	(132,679)
(Decrease)/increase in trade and other payables	667,307	218,328
(Decrease)/increase in provisions	191,194	57,664
Net cash flows (used in) operating activities	(3,751,870)	(2,444,989)

NOTE 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, 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 and trade payables, 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 2012 (2011: $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.

NOTE 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont)

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:

	Consolidated	
	2012	2011
	$	$
Cash and cash equivalents	55,331,011	90,253,634

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 past performances, future expectations economic forecasts, and management's knowledge and experience of the financial markets, the group believes that -/+ 1.0% from the year-end Australian rates of 4.5% (2011: 6.0%) represents the 'reasonably possible' movement interest rates over the next 12 months. The following is the impact of this on the profit or loss with all other variables including foreign exchange rates held constant:

	Consolidated Net Profit	
	2012	2011
	$	$
+1.0% (100 basis points) increase/decrease in interest rates with all other variables held constant	365,000	654,000
-1.0% (100 basis points) increase/decrease in interest rates with all other variables held constant	(365,000)	(654,000)

There is no impact on equity other than the above net profit sensitivities on retained earnings/accumulated losses.

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. This includes entering into various forward currency contracts throughout the year. At balance date and at 30 June 2011, all the contracts were closed.

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

	Consolidated	
	2012	2011
USD	$	$
Cash	18,786,807	26,570,176
Total Financial Assets	18,786,807	26,570,176
	2012	2011
	$	$
Trade Creditors	505,182	142,636
Total Financial Liabilities	505,182	142,636

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:

	Consolidated Net Profit	
	2012 $	2011 $
10% strengthening in AUD/USD rate (for 2012 from 1.0191 to 1.12101 and for 2011 from 1.0739 to 1.1813) with all other variables held constant	(1,714,000)	(2,249,000)
10% weakening in AUD/USD rate (for 2012 from 1.0191 to 0.91719 and for 2011 from 1.0739 to 0.96651) with all other variables held constant	2,095,000	2,749,000

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.

Maturity Analysis

At balance date, the group holds $3,128,050 (2011: $1,568,530) of financial liabilities consisting of trade and other payables. All financial liabilities have a contractual maturity of 30 days.

Fair Values

The aggregate net fair values of the financial assets and liabilities are the same as the carrying values in the statement of financial position.

NOTE 19 COMMITMENTS AND CONTINGENCIES

Commitments

	Consolidated	
	2012	**2011**
	$	**$**
Operating Lease		
Future minimum rentals payable under operating lease for office premises at balance date:		
Payable not later than one year	490,802	-
Payable later than one year but not later than five years	1,732,732	-
	2,223,534	-

Exploration Commitments

- NT/P68 (MEO 50%)

In February 2010, NT/P68 was renewed for a further five years with the minimum commitment being the three year primary term ending 26th April 2013. 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.

The Year 3 Permit obligation (ending 26 March 2013) consists of seismic interpretation studies, however, during Permit Year 3 Eni will drill and 100% fund exploration well Heron South-l which will meet work program obligations.

-WA-360-P (MEO 62.5%)

WA-360-P was renewed for a further five year period with the minimum commitment being the three year primary term ending 6 March 2014. Permit Year 1 (ending 6 March 2012) obligation is 363km^2 of Existing Multi-Client 3D seismic data. The Joint Venture acquired the Foxhound 3D seismic dataset during FY2012, thereby meeting the Permit Year 1 work program. Permit Year 2 (ending 6 March 2013) consists of seismic reprocessing and Permit Year 3 (ending 6 March 2014) consists of geotechnical studies.

-WA-361-P (MEO 50%)

In January 2011, WA-361-P was renewed for a further five years with a minimum commitment being the three-year primary term ending 30 January 2014. Permit Year 2 (ending 30 January 2013) obligation is 150km^2 3D seismic and geotechnical studies. During FY2012, the Joint Venture purchased the 363km^2 Zeus multi-client survey which fulfils the Permit Year 2 work program. Permit Year 3 (ending 30 January 2014) consists of 3D seismic interpretation and geotechnical studies.

-AC/50 and AC/P51 (MEO 100%)

AC/P50 and AC/P51 have entered into the secondary term (permit years 4-6) of their six year permit term. On commencement of the fourth permit year, the secondary work program becomes guaranteed on a year by year basis. Once a permit year has commenced all work specified for that year must be completed. The work program for Permit Year 4 (ending 21 July 2013) consists of geotechnical studies.

AC/P53 (MEO 100%)

In July 2011, MEO was awarded AC/P53 for a six year period with a minimum commitment being the three year primary term ending 6 July 2014. Permit Year 1 obligation (ending 6 July 2012) is 825km^2 3D seismic reprocessing and geotechnical studies and the Permit Year 2 obligation (ending 6 July 2013) is 150km long offset 2D seismic survey. MEO have advanced/fulfilled the Year 2 obligation by completing the 170km 2D Zeppelin seismic survey. Permit Year 3 (ending 6 July 2014) work program consists of geotechnical studies.

NOTE 19 COMMITMENTS AND CONTINGENCIES (cont)

WA-454-P

In June 2011, MEO was awarded WA-454-P for a six year period with a minimum commitment being the three year primary term ending 8 June 2014. In February 2012 MEO received approval from the Designated Authority to vary the minimum work program with the Permit Year 1 work program (ending 8 June 2012) - 583km^2 3D seismic survey; Permit Year 2 work program (ending 8 June 2013) is geological studies, and Permit Year 3 work program (ending 8 June 2014) is geological studies. MEO has fulfilled the Year 1 obligation by completing the 601km^2 Floyd 3D seismic survey.

	Consolidated	
	2012	**2011**
	US$	**US$**
-Seruway Production Sharing Contract (MEO 100%)		
Estimated cost of minimum work requirements contracted for under exploration permit is estimated at balance date		
Payable not later than one year	10,000,000	3,500,000
Payable later than one year but not later than five years	-	10,000,000
	10,000,000	13,500,000

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

In June 2012, MEO received Indonesian Government approval for the transfer of 60% interest in the South Madura PSC and assumed operatorship of the PSC.

The 9th contract year of the South Madura PSC ends 13 October 2012 and the 10th and final contract year of the PSC ends on 13 October 2013. At the conclusion of the 10th contract year, there is an obligation to relinquish the South Madura PSC unless a Plan of Development (POD) has been submitted. The work programme for year nine consists of 2 exploration wells, seismic acquisition and processing and geological and geophysical studies while the year ten programme consists of four wells and the completion/lodgement of a Plan of Development. Discussions have commenced with the regulator for approval of an amended work program for 2012 and a preliminary work program and budget for 2013. MEO is not able to complete the 2012 and 2013 work programs due to lack of progress when the PSC was operated by other companies and is working with BPMIGAS/MIGAS to develop a way forward.

-Gulf of Thailand Concession G2/48 (MEO 50%)

Subject to receiving Thai government approval, MEO will acquire a 50% interest in the Gulf of Thailand Block G2/48 Concession from Pearl Oil Offshore Limited. MEO will reimburse Pearl for 50% of the previously acquired 3D seismic survey and pay 66.6% of the 2012 Commitment Well - capped at a gross cost of US$5.0million, above which MEO will pay its 50% participating interest.

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

MEO’s share of total committed exploration expenditure in estimated to be $20.0 million.

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 2012 %	2011 %
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	-
Seruway Offshore Exploration Limited	British Virgin Islands	100	100
South Madura Exploration Company Ltd	British Virgin Islands	100	100
Rayong Offshore Exploration Limited**	British Virgin Islands	100	-

*MEO International Pty Ltd was incorporated in 2011 and 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 South Madura Exploration Company Ltd which in turn holds a 90% interest in the South Madura Production Sharing Contract in Indonesia.
- a 100% interest in Rayong Offshore Exploration Limited which will hold a 50% interest in the Gulf of Thailand Concession G2/48.

**Rayong Offshore Exploration Limited was incorporated in 2012.

***Innovative Energy Pty Ltd holds a 50% interest in Territory Biofuels Pty Limited a company incorporated in Australia.

NOTE 21 KEY MANAGEMENT PERSONNEL

Directors

N M Heath J Hendrich G A Short M J F Sweeney S W Hopley

Executives

C H Naylor R J D Gard R Zammit - appointed 1 December 2011

Consultants holding key management positions

K Hendrick Implementation Manager D Maughan Exploration Manager

There were no other changes to the directors and executive after the reporting date and before the date the financial report was authorised for issue.

NOTE 21 KEY MANAGEMENT PERSONNEL (cont)

Compensation of key management personnel by category:

	Consolidated	
	2012	**2011**
	$	$
Short term employee benefits and fees	2,200,168	1,941,873
Post employment benefits	195,047	207,010
Share-based payments	423,417	490,248
Long service leave	48,436	25,960
	2,867,068	2,665,091

Details of compensation of individual key management personnel are set out in the Remuneration Report.

During the year fees for consulting services were paid by the Group to entities controlled by directors as follows:

Director	Consulting Services Fees Paid		Outstanding at Balance Date	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
G A Short	21,850	60,850	-	-
S W Hopley	3,150	6,000	-	-
	25,000	66,850	-	-

Movement in shares

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:

30 June 2012	Held at 1 July 2011	Purchases	Received on Exercise of Options	Sales	Held at 30 June 2012
Shares held in MEO Australia Limited (number)					
Non-executive directors					
N M Heath	1,035,088	197,991	-	-	1,233,079
G A Short	207,444	200,000	-	-	407,444
M J F Sweeney	139,984	66,146	-	-	206,130
S W Hopley	70,000	30,000	-	-	100,000
Executives					
J Hendrich (Executive Director)	1,261,000	-	-	-	1,261,000
C H Naylor	490,000	-	-	-	490,000
R J D Gard	2,000,000	200,000	-	-	2,200,000
R Zammit*	-	380,000	-	-	380,000
Contractors					
D Maughan	317,498	-	-	-	317,498
K Hendrick	1,555,000	-	-	-	1,555,000

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

* Mr Zammit held no MEO shares at commencement of employment with MEO Australia on 1 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 21 KEY MANAGEMENT PERSONNEL (cont)

30 June 2011	Held at 1 July 2010	Purchases*	Received on Exercise of Options	Sales**	Held at 30 June 2011
Shares held in MEO Australia Limited (number)					
Non-executive directors					
N M Heath	1,000,000	35,088	-	-	1,035,088
G A Short	112,444	95,000	-	-	207,444
M J F Sweeney	139,984	-	-	-	139,984
S W Hopley	70,000	-	-	-	70,000
Executives					
J Hendrich (Executive Director)	1,700,000	-	-	(439,000)	1,261,000
C H Naylor	490,000	-	-	-	490,000
R J D Gard	2,200,000	-	-	(200,000)	2,000,000
Contractors					
D Maughan	221,600	95,898	-	-	317,498
K Hendrick	1,555,000	-	-	-	1,555,000

*Purchases include purchase of shares on market pursuant to Directors' Share Savings Plan. No shares were granted to key management personnel during the reported period as compensation.

**Includes 439,000 shares sold by entity controlled by spouse of Managing Director and Chief Executive Officer.

Options over equity instruments

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 2011	Granted as Remuneration	Options Exercised	Options Lapsed	Held at 30 June 2012	Vested in 2012	Vested and exercisable at 30 June 2012
Options (number)							
Non-executive directors							
N M Heath	-	900,000	-	-	900,000	-	-
G A Short	-	900,000	-	-	900,000	-	-
M J Sweeney	1,000,000	900,000	-	1,000,000	900,000	-	-
S W Hopley	1,000,000	900,000	-	1,000,000	900,000	-	-
Executive Director and other Executives							
J Hendrich	3,100,000	3,000,000	-	3,100,000	3,000,000	-	-
C H Naylor	900,000	1,000,000	-	900,000	1,000,000	-	-
R J D Gard	900,000	1,000,000	-	900,000	1,000,000	-	-
R Zammit	-	1,000,000	-	-	1,000,000	-	-
Contractors							
D Maughan	450,000	500,000	-	450,000	500,000	-	-
K Hendrick	450,000	500,000	-	450,000	500,000	-	-

NOTE 21 KEY MANAGEMENT PERSONNEL (cont)

Options over equity instruments (cont)

	Held at 1 July 2010	Granted as Remuneration	Options Exercised	Options Lapsed	Held at 30 June 2011	Vested in 2011	Vested and exercisable at 30 June 2011
Options (number)							
Non-executive directors							
M J Sweeney	1,000,000	-	-	-	1,000,000	-	1,000,000
S W Hopley	1,000,000	-	-	-	1,000,000	-	1,000,000
Executive Director and other Executives							
J Hendrich	4,200,000	-	-	1,100,000	3,100,000	-	-
C H Naylor	900,000	-	-	-	900,000	450,000	900,000
R J D Gard	900,000	-	-	-	900,000	450,000	900,000
Contractors							
D Maughan	450,000	-	-	-	450,000	225,000	450,000
K Hendrick	450,000	-	-	-	450,000	225,000	450,000

NOTE 22 SHARE BASED PAYMENT PLANS

Senior Executives and Officers Option Plan

Share options are granted to senior executives and non-executive directors. There were 15,255,000 share options granted during the financial year (2011: 3,600,000). 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:

	2012 Options	**2011 Options**
Outstanding at the beginning of the year	11,400,000	8,900,000
Granted during the year	15,255,000	3,600,000
Forfeited during the year	(7,800,000)	(1,100,000)
Exercised during the year	-	-
Outstanding at the end of the year	18,855,000	11,400,000

- 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 vest 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

  The total amount expensed in the year relating to these share options was $27,925.

NOTE 22 SHARE BASED PAYMENT PLANS (cont)

- 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 vest 50% on 3 October 2012 and 50% on 3 October 2013.

  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

  The total amount expensed in the year relating to these share options was $71,354.

- 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 vest 1/3rd on 27 October 2012, 1/3rd on 27 October 2013 and 1/3rd on 27 October 2014.

  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 $97,373.

- 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 vest 1/3rd on 1 July 2012, 1/3rd on 1 July 2013 and 1/3rd on 1 July 2014.

  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, 8.10 cents for the options vesting on 1 July 2013 and 9.0 cents for options vesting on 1 July 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	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
  Early exercise multiple/estimated life for options expiring 1 July 2014 – 4.0 years

  The total amount expensed in the year relating to these share options was $141,700.

NOTE 22 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 vest 50% on 1 December 2012 and 50% on 1 December 2013.

  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

  The total amount expensed in the year relating to these share options was $158,029.

- 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 vest 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

  The total amount expensed in the year relating to these share options was $53,737.

	Consolidated	
	2012	**2011**
NOTE 23 AUDITORS' REMUNERATION	**$**	**$**
Amounts received or due and receivable by Ernst & Young (Australia) for:		
Audit or review of the financial reports	90,685	86,700
Non-audit services: Tax advice & Risk Management services	-	25,960
	90,685	112,660
Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:		
Due diligence services provided by overseas Ernst & Young firm	-	33,264
Agreed Upon Procedures for "Non-Income Tax Review" and "Contractor to Payment Process" for offshore subsidiary company	21,318	-
	112,003	145,924

NOTE 24 INTERESTS IN JOINTLY CONTROLLED ASSETS

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 Venture. The principal activity of the joint venture 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 venture is the exploration, development and production of hydrocarbons.

MEO Australia, through its wholly-owned subsidiary – South Madura Exploration Company Ltd, holds a 90% interest in the South Madura Production Sharing Contract. The principal activity of the joint venture is the exploration, development and production of hydrocarbons.

Commitments related to joint venture assets

Commitments relating to the joint venture assets are set out in Note 19 to the accounts.

Contingent liabilities

As at 30 June 2012, there are no contingent liabilities relating to NT/P68, WA-361-P, WA-360-P or South Madura PSC.

NOTE 25 PARENT ENTITY INFORMATION

	2012	**2011**
Information relating to MEO Australia Limited	**$**	**$**
Current assets	55,856,734	91,389,397
Total assets	**200,199,917**	**203,405,977**
Current liabilities	2,600,001	1,548,403
Total liabilities	**2,800,361**	**1,639,177**
Issued capital	238,261,144	238,261,144
Share based payments reserve	1,054,775	1,520,440
Accumulated losses	(41,916,363)	(38,014,784)
Total shareholders' equity	**197,399,556**	**201,766,800**
(Loss)/profit of the parent entity	(5,225,479)	6,159,301
Total comprehensive (loss)/income of the parent entity	(5,225,479)	6,159,301
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 26 EVENTS SUBSEQUENT TO BALANCE DATE

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.

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 2012 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 2012.

   (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 1(b).

   (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 in accordance with Section 295A of the *Corporations Act* 2001 for the financial year ended 30 June 2012.

On behalf of the Board

J HENDRICH
Managing Director & Chief Executive Officer
Melbourne, 7th September 2012

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

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

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 2012, 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 (b), 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 2012 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 (b).

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Matthew A. Honey
Partner
Melbourne
7 September 2012