



**MEO**Australia  
energy for the future



Annual Report 2016

# About the Company



MEO Australia has a focused objective of growing a material oil and gas business through a three-pronged strategy:

- Risk-managed exploration
- Commercialisation of the Tassie Shoal Projects
- Low-cost and value accretive acquisitions

The Company has a significant early mover advantage with its onshore Block 9 Production Sharing Contract in Cuba where enormous prospective potential for oil has been identified, lending itself to an accelerated exploration program, which may include the identification of early drilling opportunities. MEO also has a high impact portfolio of exploration opportunities offshore northern Australia and onshore New Zealand as well as the potential to re-start production at the suspended Puka oil field should market conditions improve. In addition, MEO continues to seek and assess new venture opportunities that will enhance the Company's asset base.

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### Forward Looking Statements

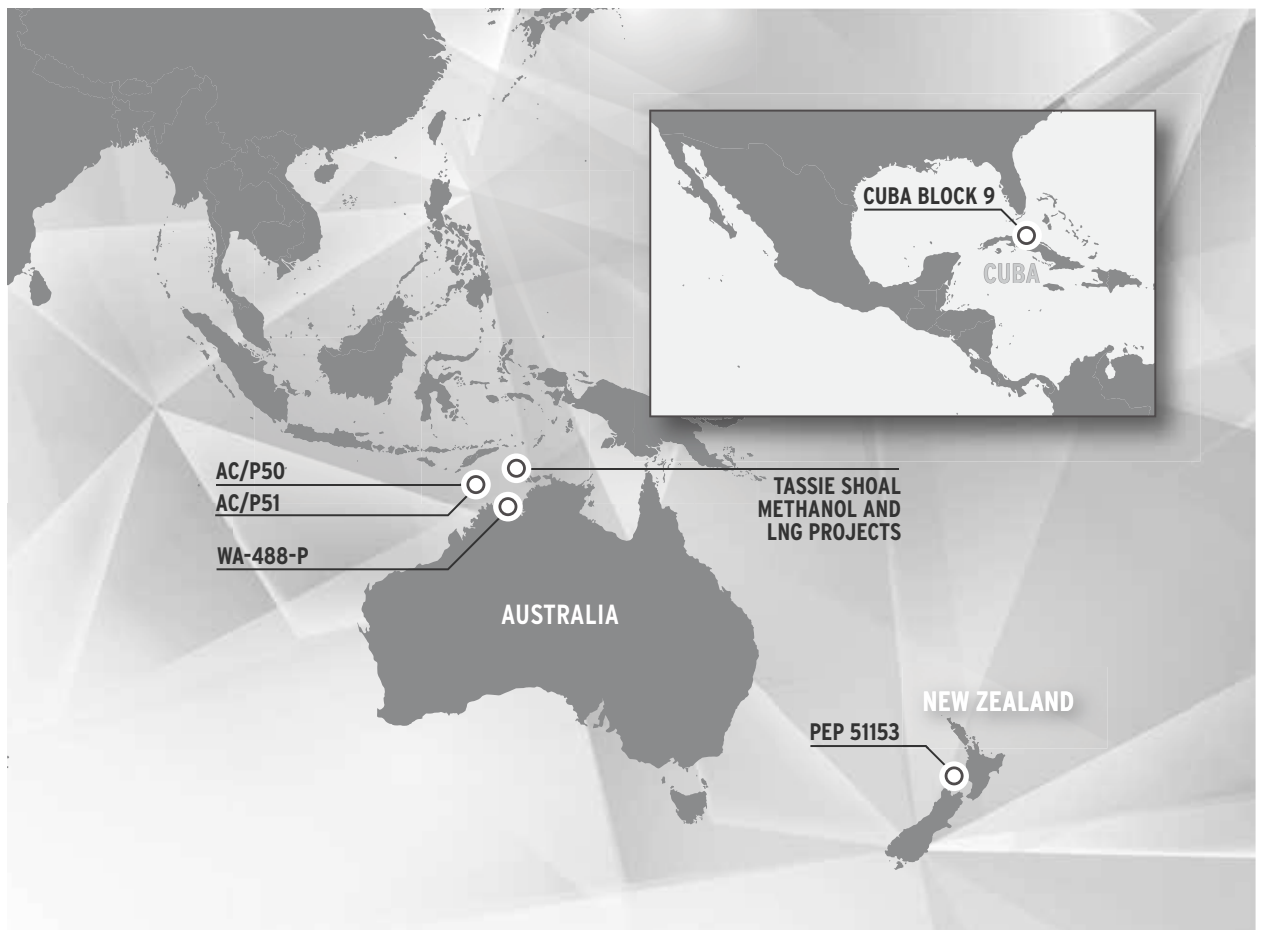
This Financial Report includes certain forward-looking statements that have been based on current expectations about future acts, events and circumstances. These forward-looking statements are, however, subject to risks, uncertainties and assumptions that could cause those acts, events and circumstances to differ materially from the expectations described in such forward-looking statements.

These factors include, among other things, commercial and other risks associated with the meeting of objectives and other investment considerations, as well as other matters not yet known to the Company or not currently considered material by the Company.

## Highlights for the Year

- Secured Block 9 Production Sharing Contract, onshore Cuba  
*Early mover advantage in a new onshore block in proven hydrocarbon area*
- Identified very significant oil potential in Cuba Block 9  
*Results so far from only one of three identified plays. Reviewing opportunities to accelerate exploration activities, including early drilling opportunities*
- Beehive prospect (WA-488-P) enhanced by reprocessing of seismic data  
*Seeking to farmout to fund potential drilling*
- New experienced local operator for PEP51153, onshore New Zealand and realigned work program  
*Potential for both production and high impact exploration opportunities*
- Successful farmout of AC/P50 & AC/P51  
*MEO carried through next two years work program*
- Transition to new leadership  
*Refreshed MEO Board with appointment of new Directors and Chairman*
- High-graded exploration portfolio  
*Expenditure prioritised based on potential to deliver significant shareholder value with MEO discontinuing involvement in lowest value exploration acreage*

## MEO Project Area's



## Chairman's Letter



It is my pleasure to present MEO Australia's Annual Report for the 2016 Financial Year, and my first as Chairman of your company.

Similar to the previous year, 2016 was an extraordinarily difficult one for the energy sector. Over the year the oil price fell approximately 20% to less than US\$50/bbl at year-end, while the S&P/ASX300 Energy Index declined approximately 25%. At one point during the year, the oil price had fallen to a level lower than that during the Global Financial Crisis in 2008-09.

However, I am pleased to report that your company has emerged from this time of great turbulence in the oil and gas sector in a strong position on all fronts.

After a period of change at the Executive and Board level, your company has a stable and experienced management team to lead the company through the coming phase of exploration and growth. During the year, the Managing Director, Peter Stickland extended his Employment Agreement and, importantly, agreed to receive a material portion of his remuneration in shares, ensuring alignment with shareholders.

The company has also attracted an important cornerstone shareholder. Leni Gas Cuba invested in your company in February 2016, becoming MEO's single largest shareholder with a 15.8% interest. Leni Gas Cuba is the first specialist investment company focusing on Cuba and is listed on the Toronto Stock Exchange as LGC Capital.

The company's efforts to improve the risk reward profile of its exploration portfolio and reduce the financial commitment required of it is all but complete. The centre piece of this strategy was the identification of, and securing the rights to, at low cost, a high impact acreage position in a proven oil and gas basin. This we have achieved with our position in Block 9 in Cuba with the official granting of a Production Sharing Contract by Cuba Petroleo Union (CUPET), the Cuban national oil company.

I will let Peter Stickland elaborate on the precise details but rest assured your Board and Management team are extremely encouraged by the potential that has been identified thus far on Block 9. Post the close of the financial year the initial results of the analysis of the oil prospectivity of the Block were released to the ASX. This resulted in, as of the time of this report, a near 200% increase in the company's market capitalisation. The additional funds we recently raised via placements and the share purchase plan are to allow us to accelerate our exploration efforts.

The company's move into Cuba has been timely, coinciding with a rapprochement with the US. President Obama's March 2016 visit to Cuba was the first by a sitting US president in over eighty-five years. A new era seems to be dawning for Cuba and MEO is uniquely positioned.

On behalf of the Board and Management I would like to thank our employees, retiring directors and shareholders for their efforts and support throughout the year. The company looks forward to utilising its sound fiscal position to uncover the true potential of its upstream portfolio and Block 9 in particular. The coming year's activities truly have the potential to transform MEO.

A handwritten signature in black ink, appearing to read 'Andrew G Purcell'. The signature is stylized and fluid, with a large initial 'A' and 'P'.

**Andrew G Purcell**  
Chairman

## Managing Director's Message



After my first full financial year as the company's Managing Director I am pleased to report that MEO is transformed. Your company is now leaner with a lower cost, high impact exploration portfolio and a potentially company-making asset in Block 9 in Cuba.

MEO has progressed its position onshore in Cuba and executed a Production Sharing Contract for Block 9. This was the culmination of nearly 3 years work by the company and our initial review of the Block's oil prospectivity is very encouraging. The first of 3 identified oil plays on the Block has been assessed by MEO to contain over 8 billion barrels of oil-in-place with a Prospective (Recoverable) Resource of 395 million barrels (unrisked, Best Estimate, 100% basis) of potentially high quality light oil. The ongoing review of the 2 remaining play types may yield further material upside to this estimate.

To allow the company to better allocate capital to strategic opportunities and reduce risk, MEO has farmed out its statutory work obligations in AC/P50 and AC/P51 permits, assigned the company's stake in WA-454-P to Origin Energy, initiated a farm-out program on WA-488-P containing the exciting Beehive prospect and exited several other permits.

Your management team has also worked hard to create a more efficient organisation focused on deploying capital into, and maximising the value of, its upstream assets. This has seen a 70% reduction in total overhead costs in the last 18 months. Senior staff, including myself have shown their confidence in the outlook for MEO by agreeing to a reduction in cash component of their salaries in exchange for Exercisable Performance Rights.

Work continues in the background on the company's Tassie Shoals Projects. Post the close of the Financial Year the LNG project received updated environmental approvals which are valid until 2052. The Tassie Shoals Project represents a high potential long term opportunity for MEO shareholders with minimal ongoing expenditure.

The coming 12 months will see a high level of activity in the company's upstream portfolio, particularly in Cuba, with the potential to greatly impact the company's market valuation. Your company's management team looks forward to updating shareholders in FY16/17 on the following:

- Further updates to the assessment of the resource potential of Cuba Block 9 in Q4 2016;
- The preparation of a plan in Q1 2017 for an initial drilling program for up to two wells on Block 9;
- The conclusion of the farm-out process for the potentially giant Beehive Prospect in the Bonaparte Basin by Q4 2016. MEO's analysis of the Beehive prospect indicates that it is possibly one of the largest undrilled hydrocarbon prospects in Australia; and
- The completion of the assessment of the prospectivity of PEP 51153 in New Zealand in Q4 2016 to determine the potential for drilling a high impact exploration well.

Following the investment into the company by Leni Gas Cuba in FY2016, a successful fund raising completed shortly after the end of the Financial Year, and with the support of its highly valued employees, MEO is well placed to execute on these plans.

**Peter Stickland**  
Managing Director & Chief Executive Officer

# Director's Report

For The Year Ended 30 June 2016

The directors of MEO Australia Limited (variously the "Company", "MEO" and "MEO Australia") submit their report for the financial year ended 30 June 2016. MEO Australia is a company limited by shares, incorporated and domiciled in Australia.

## 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.



**Andrew G Purcell**, B Eng; MBA  
*Chairman (Appointed Independent Non-Executive Director 30 July 2015, appointed Chairman 25 November 2015)*

Mr Purcell founded Lawndale Group (formerly Teknix Capital) in Hong Kong over 10 years ago, a company specialising in the development and management of projects in emerging markets across the heavy engineering, petrochemical, resources and infrastructure sectors. Prior to this, Mr Purcell spent 12 years working in investment banking across the region for Macquarie Bank then Credit Suisse. Mr Purcell also has significant experience as a public company director, both in Australia and across Asia.

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

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



**Peter J Stickland**, BSc, Hons (Geology), GDipAppFin (Finsia), GAICD  
*Chief Executive Officer (Appointed 19 December 2014) and Managing Director (Appointed 30 January 2015)*

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



**Michael J Sandy**, BSC Hons (Geology), MAICD  
*Independent Non-Executive Director (Appointed 30 July 2015)*

Michael Sandy is a geologist with 40 years' experience in the resources industry - mostly focused on oil and gas. Michael had a varied early career with roles in minerals exploration and research and a role with the PNG Government based in Port Moresby. In the early 1990s he was Technical Manager of Oil Search Limited also based in Port Moresby. Michael was involved in establishing Novus Petroleum Ltd and preparing that company for its \$186m IPO in April 1995. Over 10 years, he held various senior management roles with Novus including manager of assets in Australia, Asia, the Middle East and the USA

and as Business Development Manager was involved in numerous acquisitions and divestments. He co-managed the defence effort in 2004 when Novus was taken over by Medco Energi.

For the last 12 years, Michael has been the principal of consultancy company Sandy Associates P/L involved in petroleum, minerals, geothermal, environmental and disaster management projects and resources industry start-ups.

He was previously a non-executive director of Tap Oil Limited (ASX: TAP), Hot Rock Ltd (ASX: HRL), Caspian Oil and Gas (ASX: CIG) and Pan Pacific Petroleum (ASX:PPP) and ex-chairman of Bursleson Energy Limited (ASX: BUR).

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

At MEO's Annual General Meeting on 25 November 2015, Mr Greg Short retired as MEO's Chairman and as a Non-Executive Director and Mr Stephen Hopley did not seek re-election as a Non-Executive Director. Mr Andrew Purcell was appointed Chairman of MEO at the conclusion of the Annual General Meeting.

Mr Short became Chairman of MEO in 2013 after 5 years as a non-executive director. As at the retirement date, Mr Short was also a Non-Executive Director of Po Valley Energy Limited (ASX: PVE) and Metgasco Limited (ASX: MEL).

Mr Hopley did not hold any other directorships during the financial year up to the date of retirement.

### 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 | Share Performance Rights |
|---------------|-----------------|--------------------------|
| A G Purcell   | 1,971,531       | -                        |
| M J Sandy     | 800,000         | -                        |
| P J Stickland | 5,453,700       | 5,333,333                |

## COMPANY SECRETARY



### Mr Colin Naylor

*Chief Financial Officer and Company Secretary*

Mr Colin Naylor was appointed Chief Financial Officer on 5 February 2007 and Company Secretary on 23 February 2007. Mr Naylor has previously worked in senior financial roles in major resource companies and is a Fellow of CPA Australia.

## DIVIDENDS

No dividend has been paid, provided or recommended during the financial year and to the date of this report (2015: nil).

## PRINCIPAL ACTIVITIES

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

At 30 June 2016 the Company had 3 full-time and 6 part-time employees including directors (2015: 3 full-time and 6 part-time employees including directors). In addition, the Company engages consultants to assist in the development and management of its various activities on an as required basis.

## REVIEW OF OPERATIONS

### Environment, Health and Safety

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

Directors specifically address Health, Safety and Environment issues at each Board meeting and are pleased to advise there were no reported Lost Time Injuries or environmental incidents during the year.

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

Any proposed development activities on Tassie Shoal are subject to environment conditions specified in the Offshore Petroleum and Greenhouse Gas Storage Act (2006), associated Regulations and Directions, as well as the Environment Protection and Biodiversity Conservation (EPBC) Act (1999).

### Australian Operations

During the year, the company conducted a strategic review of its exploration portfolio that identified and prioritised the projects that MEO considers have the most potential to deliver significant shareholder value. This resulted in a number of changes to MEO's exploration portfolio during the year.

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

MEO was awarded 100% interest in WA-488-P, located in the Bonaparte Basin, in May 2013. The permit is located between the producing Blacktip gas field and the undeveloped Turtle and Barnett oil fields and contains the giant Beehive prospect. Beehive was identified as a follow-up to the 2011 Ungani-1 oil discovery in the adjacent Canning Basin and represents a new play type in the Bonaparte Basin.

Beehive is considered prospective for oil at the upper Carboniferous aged carbonate target and is considered analogous to the giant Tengiz oil field in the Caspian Sea.

During the year, MEO regained 100% interest in WA-488-P after reaching a commercial settlement to allow Rex Bonaparte Gulf Pty Ltd ("Rex BG"), who had held a 30% interest in WA-488-P, to withdraw from its farm-in into the permit. MEO received US\$53,500 as cash compensation in recognition of the costs incurred by the company in the process of negotiating the original transaction to bring Rex BG into WA-488-P earlier in 2015 and its subsequent exit.

In December 2015 the regulator approved a 12 month extension to Permit Year 2 to enable MEO to undertake 2D seismic reprocessing and inversion studies over the Beehive prospect. As a result of the work program changes, the potential drilling of the prospect has also been deferred until late 2017. Results from the seismic reprocessing are showing a significant enhancement to data quality with higher quality definition of key aspects of the prospect.

A renewed farmout/partial sale process commenced during the third quarter of 2016.

### Net Prospective Resources (100% share)

| Beehive - Carboniferous Prospect |               |       | CoS* | Low | Best  | Mean  | High  |
|----------------------------------|---------------|-------|------|-----|-------|-------|-------|
| Oil Dominant Scenario            | Gas           | Bscf  | -    | -   | -     | -     | -     |
|                                  | Total Liquids | MMstb | 13%  | 104 | 598   | 1,009 | 2,182 |
| Gas Dominant Scenario            | Gas           | Bscf  | 3%   | 415 | 2,374 | 3,996 | 8,615 |
|                                  | Total Liquids | MMstb |      | 20  | 117   | 207   | 457   |
| Aggregate (oil equivalent)**     | Barrels Equiv | MMboe | 16%  | 101 | 581   | 982   | 2,124 |

\* CoS = Chance of Geologic Success

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

These tables should be read with reference to the footnote "Notes regarding Contingent and Prospective resource estimates" on page 14.



**AC/P50 & AC/P51 (both MEO 100%\*)**

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

After the close of the financial year (5 July 2016), MEO executed an agreement with Rouge Rock Pty Ltd ("Rouge Rock") which grants Rouge Rock an option to acquire a 45% interest in the AC/P50 and AC/P51 Exploration Permits ("Permits"). In exchange for the grant of the option, Rouge Rock will undertake and fund the remaining primary statutory work program for each permit consisting of seismic reprocessing and other technical activities ("Reprocessing Work").

The Reprocessing Work must be completed in stages no later than as required by timing stated in the primary statutory work program which currently ends on 18 May 2018 for both Permits. Subject to completing the Reprocessing Work, Rouge Rock may exercise its option by providing notice to MEO prior 18 May 2018, at which point it will acquire a 45% interest in the Permits.

Both permits are also subject to an option to acquire a 5% interest in each permit currently held by Far Cape Energy Pte Ltd ("Far Cape"). Far Cape is the successor to RedRock Pte Ltd who was granted this option in 2010 at the time MEO acquired AC/P50 and AC/P51. Under this option agreement, MEO will carry Far Cape's participating interest in the first well should MEO elect to drill a well in either of the permits.

\* As at 30 June 2016, subject to a 5% option granted to Far Cape Energy Pte Ltd.

**Prospective Resources (100% share)**

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

\* CoS = Chance of Geologic Success

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

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

\* CoS = Chance of Geologic Success

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

These tables should be read with reference to the footnote "Notes regarding Contingent and Prospective resource estimates" on page 14.

## REVIEW OF OPERATIONS (Cont)

### AC/P53

During the year, MEO's assessment of the AC/P53 exploration permit, located in the Vulcan sub-basin, did not identify any commercially attractive prospect, and consistent with its strategy of high grading its exploration portfolio, MEO surrendered the permit.

### WA-454-P

During the year, MEO reached agreement to assign its 50% interest in the WA-454-P exploration permit, located in the Bonaparte Basin, to Origin Energy Resources Limited. The assignment follows consideration by the Company of its strategic focus and allocation of capital to its asset portfolio. The agreement includes provisions to effectively back-date the assignment to December 2015 as consideration for MEO's 50% interest, allowing MEO to avoid all expenditure associated with WA-454-P in 2016 and 2017, when an exploration well is obligated to be drilled and substantial expenditure incurred.

### NT/P68 - Heron Area

During the year MEO assessed that the Heron discovery was too small to be a potential gas supply source for the Tassie Shoal projects and consistent with its strategy of high grading its exploration portfolio, MEO withdrew from the NT/P68 permit.

### WA-360-P and WA-361-P

During the year, MEO's assessment of the WA-360-P and WA-361-P permits, both located in the Carnarvon Basin, concluded that the remaining exploration prospectivity in these permits was too high risk relative to MEO's other assets and consistent with its strategy of high grading its exploration portfolio, MEO discontinued its involvement in the exploration permits.

### Tassie Shoal Gas Processing Projects

MEO has Australian Government environmental approvals to construct, install and operate two stand-alone world scale 1.75 Mta methanol plants collectively referred to as the Tassie Shoal Methanol Project (TSMP) and a single 3 Mta LNG plant known as the Tassie Shoal LNG Project (TSLNG) on Tassie Shoal, an area of shallow water in the Australian waters of the Timor Sea approximately 275 km north-west of Darwin, Northern Territory. Environmental Approvals are valid until 2052.

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

MEO proposes the staged construction of two large natural gas reforming and methanol production plants, each with an annual production capacity of 1.75 million tonnes on its own concrete gravity structure (CGS). Each TSMP requires ~200 - 220 Million Standard Cubic Feet per day (MSCFD) of raw gas, preferably with up to 25% CO<sub>2</sub>, resulting in a potential total requirement of up to 440 MSCFD and ~4 Trillion Cubic Feet (TCF) of gas over an initial 25 year period.

During the year MEO maintained dialogue with industry and regulatory stakeholders regarding the Projects. As the regional gas supply market consolidates over the medium term and industry participants rationalise their global exploration portfolio, there is the potential for suitable discovered undeveloped gas to become available for the Projects. MEO continues to work with prospective partners to secure gas for its proposed projects.

### Tassie Shoal LNG Project (TSLNG, MEO 100%)

The TSLNG requires approximately 3 Tcf of low CO<sub>2</sub> gas to operate for 20 years. Gas supply for the LNG plant could come from one or more of the neighbouring undeveloped gas fields confronting economic challenges imposed by long distances from land, high domestic construction costs and/or high FLNG development costs. The Greater Sunrise resource represents the most obvious source of gas for the LNG project. Any LNG project proposed for gas in the region of Tassie Shoal has the potential to utilise the TSLNG development path as an alternative to FLNG or piping gas to an onshore LNG facility. Due to its proximity to the resource and modularised construction, TSLNG has a significant cost advantage when compared to both floating LNG (FLNG) and onshore Australia development paths.

In August 2016, the company was advised that the environmental approvals for TSLNG were extended to 2052, and, the limit of 3% CO<sub>2</sub> feed gas was removed with the project now able to receive gas of varying qualities.

## International Operations

### Cuba

#### Block 9 (MEO 100%\*\*)

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

During the year MEO received a considerable quantity of historical technical data for Block 9 and commenced a detailed assessment of the prospectivity of the Block. In addition, MEO commenced reprocessing a selection of 2D seismic data in Block 9.

Subsequent to year end (5 July 2016), MEO announced the first of three identified oil plays on Block 9 has been assessed to contain 8.183 billion barrels of Oil-in-Place, with a Prospective (Recoverable) Resource of 395 million barrels (Best Estimate, 100% basis)\*# of potentially high quality light oil. Further work on the other, shallower oil plays, which also have significant oil potential, is continuing.

#### Net Entitlement Interest (based on approximate 67.5% contractor share under Production Sharing Contract)

| Block 9 Lower Sheet Leads | Oil        | MMstb        | CoS* | Low       | Best       | Mean       | High       |
|---------------------------|------------|--------------|------|-----------|------------|------------|------------|
| A1                        |            |              | 20%  | 5         | 33         | 48         | 107        |
| A2                        |            |              | 25%  | 4         | 43         | 65         | 150        |
| B                         |            |              | 16%  | 6         | 58         | 84         | 195        |
| C1                        |            |              | 17%  | 5         | 30         | 41         | 90         |
| C2                        |            |              | 18%  | 5         | 36         | 50         | 110        |
| C3                        |            |              | 12%  | 1         | 2          | 2          | 4          |
| D                         |            |              | 22%  | 2         | 11         | 16         | 37         |
| H                         |            |              | 31%  | 0         | 4          | 6          | 14         |
| I                         |            |              | 29%  | 1         | 7          | 10         | 23         |
| J                         |            |              | 29%  | 2         | 16         | 26         | 62         |
| L                         |            |              | 18%  | 1         | 8          | 11         | 24         |
| N                         |            |              | 14%  | 2         | 15         | 23         | 52         |
| O                         |            |              | 19%  | 1         | 3          | 4          | 10         |
| P                         |            |              | 14%  | 1         | 2          | 3          | 6          |
| <b>Total unrisksd</b>     | <b>Oil</b> | <b>MMstb</b> |      | <b>36</b> | <b>268</b> | <b>389</b> | <b>884</b> |

\* CoS = Chance of Geologic Success

# These estimates should be read with reference to the footnote "Notes regarding Contingent and Prospective resource estimates" on page 14.

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

## REVIEW OF OPERATIONS (Cont)

### New Zealand

#### PEP51153 (MEO 30%)

In April 2014, MEO farmed into a 30% Participating Interest in PEP51153 onshore New Zealand in the Taranaki Basin. The permit contains the Puka oil discovery in the Mount Messenger sands. The Puka-1 and Puka-2 exploration wells were producing oil under a long term production test from this formation, but were temporarily shut-in in January 2015 due to unresolved mechanical problems with the Puka-1 well and the low oil price environment.

PEP51153 also contains the Pukatea (formerly Shannon) prospect, identified on 3D seismic data at a deeper Tikorangi level below the Puka oil field. Pukatea is updip of where Douglas-1 penetrated the Tikorangi, encountering oil shows, and is analogous to the nearby producing Waihapa oil field.

During the year, TAG Oil, a Canadian listed, Australasian focused oil and gas production and exploration company, with extensive operations and production infrastructure in the Taranaki Basin, acquired a 70% interest and Operatorship of the permit. TAG Oil holds a 100% interest in the nearby producing Cheal Oil Field, which sits in the same Mt Messenger formation.

The Joint Venture is progressing its assessment of the prospectivity of PEP51153 and in the fourth quarter 2016 will consider whether to proceed with drilling a high impact exploration well.

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

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

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

| Prospect Name |               |       | CoS* | Low | Best | Mean | High |
|---------------|---------------|-------|------|-----|------|------|------|
| Pukatea       | Gas           | Bscf  |      | -   | -    | -    | -    |
| Prospect      | Total Liquids | MMstb | 16%  | 0.1 | 1.6  | 2.1  | 4.8  |

\* CoS = Chance of Geologic Success

These tables should be read with reference to the footnote "Notes regarding Contingent and Prospective resource estimates" on page 14.

### Indonesia

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

During the year, the surrender of the PSC was formalised with the Indonesian regulatory authorities.

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

During the year, the surrender of the PSC was formalised with the Indonesian regulatory authorities.

## Results For The Year

The net loss of the Group for the financial year, after provision for income tax, was \$10,406,105 (2015: net loss after tax of \$10,042,223). The loss for the year was mainly due to a write-off of exploration expenditure totalling \$10,774,401 and administration costs of \$1,980,008 partly offset by re-classification to the Profit and Loss Account of a foreign currency gain previously recorded in Reserves following closure of a foreign operation (\$2,264,862).

The successful drilling and commercialisation of any commercial oil and gas discoveries in offshore Australian exploration permits and onshore overseas acreage and/or the development/sale of the Group's methanol and LNG Projects could ultimately lead to the establishment of a profitable business. While the Group is in the exploration/appraisal stage of drilling for hydrocarbons in offshore Australian exploration permits and overseas acreage and in the project development phase, funding will be provided by equity capital raised from the issue of new shares and/or farm out or joint development arrangements with other companies.

## Review Of Financial Condition

At balance date the Group held cash and cash equivalents of \$4,135,989 (2015: \$5,785,454). During the year the Group decreased the cash balance by \$1,679,570 (before foreign exchange fluctuations) with funds used to meet exploration cash outflows of \$1,577,994 and net corporate costs of \$1,592,445 partly offset by a share placement of \$1,372,992 (net of costs) and interest received of \$117,877.

## Share Issues

During the year the Company raised a total of \$1,407,166, before transaction costs of \$34,174, from the placement of 140,716,573 shares at \$0.01 per share from a Share Placement to Leni Gas Cuba Limited.

## Corporate

During the year MEO undertook a renewal of the Board, with the appointment of Mr Andrew Purcell and Mr Michael Sandy as non-executive directors on 30 July 2015 and the retirement of Mr Greg Short and Mr Stephen Hopley in November 2015.

MEO's future prospects are centred on continuing to secure quality exploration, development and producing opportunities and seeking to maximise the value to shareholders of its current portfolio including the Tassie Shoal Project and/or undertaking a corporate transaction.

Adequacy of funding will, for the immediate future, remain a key focus for the Group and its Shareholders. The Group will look to raise additional funding either through farm-in/sale and/or capital injection to advance

its projects. In the event that the Group cannot meet its share of work program commitments, permits may need to be surrendered.

On 29 February 2016 the Company announced it had executed a Private Placement Agreement with London listed Leni Gas Cuba Limited raising \$1,407,166, with funds to be used to advance MEO's exploration program in Block 9 onshore Cuba. Under the placement agreement, MEO issued 140,716,573 shares to Leni Gas Cuba at A\$0.01 per share. The placement of shares to Leni Gas Cuba falls within MEO's placement capacity and Leni Gas Cuba is now MEO's single largest shareholder with a 15.8% interest in the Company.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity decreased to \$5,603,741 from \$16,715,234, a decrease of \$11,111,493. The movement was mainly due to the net loss of \$10,406,105.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

During FY2017, MEO will continue with farmout/partial sale opportunities and pursue attractive new venture opportunities.

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 18 August 2016 MEO announced it had raised approximately \$1.69 million through a placement of approximately 46.9 million shares at \$0.036 per share to qualified institutional and sophisticated investors ("Placement"). The company also provided the opportunity for eligible shareholders to acquire new shares at the same discounted share price as under the Placement of \$0.036 per share via a non-underwritten share purchase plan ("SPP"). The SPP closes on 16 September 2016. Funds from the share placement and SPP will be used to accelerate MEO's onshore exploration activities on Block 9 in Cuba, including the preparation of a drilling program for up to two wells in Block 9 and for additional working capital purposes.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or state of affairs of the Group, in future financial years.

## BUSINESS STRATEGY AND PROSPECTS

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

### Future Prospects

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

### Business Risks

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

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

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

Permits in which MEO has an interest are subject to compulsory work or expenditure obligations for each permit year which must be met in order to keep the permit in good standing. It is possible for

these commitments to be varied by deferment and combination with later year requirements on application of the holders but any such variation is at the discretion of the relevant Minister administering the relevant legislation and regulatory authorities in Australia and foreign jurisdictions. If no variation is approved by the relevant Minister then a failure to meet compulsory obligation could lead to forfeiture of the permit.

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

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

## SHARE OPTIONS AND SHARE PERFORMANCE RIGHTS

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

During the financial year, and after receiving shareholder approval, the company granted 5,333,333 Exercisable Performance Rights to the Managing Director and Chief Executive Officer, Mr Peter Stickland under the Company's Long Term incentive Plan in return for reducing the cash component of his annual remuneration from \$400,000 to \$320,000 per annum for the period 1 December 2015 to 30 November 2016. There is no price payable on exercising the Performance Rights.

In February 2016, revised remuneration arrangements were announced for senior staff as part of the cost reduction initiatives. Senior staff members have voluntarily agreed to a 20% reduction in the cash component of their annual remuneration packages in exchange for Exercisable Performance Rights. 20,940,032 Exercisable Performance Rights were granted, of which 10,550,131 Rights were granted to Key Management Personnel. There is no price payable on exercising the Performance Rights.

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

### Unissued shares under options and share performance rights

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

#### Options

| Expiry Date     | Exercise Price | Number of Shares |
|-----------------|----------------|------------------|
| 3 October 2016  | \$0.50         | 1,200,000        |
| 1 December 2016 | \$0.50         | 2,500,000        |
| <b>TOTAL</b>    |                | <b>3,700,000</b> |

#### Share Performance Rights

| Expiry Date      | Exercise Price | Number of Shares  |
|------------------|----------------|-------------------|
| 29 November 2018 |                | 5,333,333         |
| 31 January 2019  |                | 20,940,032        |
| <b>TOTAL</b>     |                | <b>26,273,365</b> |

### Shares issued on the Exercise of Compensation Options or Performance Rights

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 or performance rights (2015: nil).

## INDEMNIFICATION AND INSURANCE OF DIRECTORS

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

## INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the end of the financial year.

## BOARD AND COMMITTEE MEETINGS

The following table sets out the members of the Board of Directors and the members of the Committees of the Board, the number of meetings of the Board and of the Committees held during the year and the number of meetings attended during each Director's period of office.

|               | Board of Directors |    | Audit & Risk Committee |   | Remuneration & Nomination Committee |   |
|---------------|--------------------|----|------------------------|---|-------------------------------------|---|
|               | A                  | B  | A                      | B | A                                   | B |
| A G Purcell   | 10                 | 10 | 3                      | 3 | 1                                   | 1 |
| M J Sandy     | 10                 | 10 | 3                      | 3 | 1                                   | 1 |
| P J Stickland | 10                 | 10 | -                      | - | -                                   | - |
| G A Short     | 3                  | 3  | 2                      | 2 | 2                                   | 2 |
| S W Hopley    | 3                  | 3  | 2                      | 2 | 2                                   | 2 |

**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 number of informal meetings particularly during the transition period following the appointment of new Non-executive Directors in July 2015 until the Annual General Meeting held in November 2015.

## AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

On 18 June 2015, the Board granted approval under section 324DAA of the *Corporation Act 2001* and the Corporations Legislation Amendment (Audit Enhancement) Act 2012 for Mr Matthew Honey to continue, as lead auditor, to play a significant role in the audit of the Company for one additional financial year, being the financial year ending 30 June 2016.

The reasons why the Board approved the extension include:

- Mr Honey, the Lead Audit Partner, has a detailed understanding of the Group's business and strategies, its systems and controls.
- The Audit & Risk Committee was satisfied with the quality of EY and Mr Honey's work as auditor.
- At the time of the proposed audit partner rotation, the Group was pursuing a number of concurrent strategies, including the proposed merger with Neon Energy Limited and entry into the Cuba Block 9 area of interest, and the Board were of the view that the Group would be well served by continuity of the audit partner through this process.
- The existing independence and service metrics in place with EY and Mr Honey are sufficient to ensure that auditor independence would not be diminished in any way by such an extension.
- Mr Honey will continue to abide by the independence guidance provided in APES 110 'Code of Ethics for Professional Accountants' as issued by the Accounting Professional and Ethical Standards Board and EY's own independence requirements.

The directors have received the independence declaration from the auditor, Ernst & Young, set out on page 15.

### Non Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each non-audit service provided means that auditor independence was not compromised. Tax services (\$4,471) were provided by Ernst & Young during the year.

### Notes regarding Contingent and Prospective resource estimates

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



# Independence Declaration



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

As lead auditor for the audit of MEO Australia Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

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

*Ernst & Young*

Ernst & Young

A handwritten signature in black ink, appearing to read 'Matthew A. Honey', is written over a faint, illegible background.

Matthew A. Honey  
Partner  
8 September 2016

# Remuneration Report (Audited)

This remuneration report for the year ended 30 June 2016 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 FY2016
2. Remuneration Strategy and Board oversight of remuneration
3. Non-executive director remuneration arrangements
4. Executive remuneration arrangements
5. Remuneration outcomes for FY2016
6. Additional disclosures relating to shares and options
7. Company performance

## 1. Key Management Personnel (KMP) for FY2016

The names and positions of the KMP during the 2016 financial year (FY2016) and up to the date of this remuneration report are listed below.

### (i) Directors

#### A G Purcell

Director (Independent non-executive appointed 30 July 2015) (Appointed Chairman 25 November 2015)

#### M J Sandy

Director (Independent non-executive. Appointed 30 July 2015)

#### P J Stickland

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

#### G A Short

Resigned as Chairman and non-executive director on 25 November 2015

#### S W Hopley

Retired as non-executive director on 25 November 2015

### (ii) Executives

#### C H Naylor

Chief Financial Officer and Company Secretary

#### R Zammit

Executive Manager - Commercial & Business Development

## 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.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of remuneration on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of high quality directors and the Managing Director and Chief Executive Officer.

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

### Remuneration approval process

The Board approves the remuneration arrangements of the Managing Director and Chief Executive Officer and awards under short term and long term incentive arrangements following recommendations from the Remuneration and Nomination Committee. The Board also sets the remuneration of non-executive directors which is within the aggregate amount approved by shareholders.

The Managing Director and Chief Executive Officer approves the annual extension of consultants' contracts and their consulting fees and will make recommendations to the Remuneration and Nomination Committee for granting of awards to executives and contractors under the short term and long term incentive arrangements.

### Remuneration consultants and external advisors

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

### Remuneration strategy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- Offer competitive remuneration benchmarked against the external market to attract high calibre executives;
- Where appropriate, provide executive rewards linked to shareholder value; and
- Encourage non-executive directors to hold shares in the Company.

### Remuneration structure

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

### Changes in Remuneration: 2015 - 2016

Following the significant changes in the size of the organisation during FY2015 in response to the company's financial position, the Board implemented further remuneration changes during FY2016 as follows:

- (i) In November 2015, after receiving shareholder approval, the company granted 5,333,333 Exercisable Performance Rights to the Managing Director and Chief Executive Officer, Mr Peter Stickland under the Company's Long Term Incentive Plan in return for reducing the cash component of Mr Stickland's annual remuneration from \$400,000 to \$320,000 per annum for the period 1 December 2015 to 30 November 2016.
- (ii) In February 2016, the company revised the remuneration arrangements for senior staff. Senior staff members voluntarily agreed to a 20% reduction in the cash component of their annual remuneration packages in exchange for Exercisable Performance Rights. 20,940,032 Exercisable Performance Rights were granted to senior staff, of which 10,550,131 Rights were granted to Key Management Personnel.
- (iii) Following a review of fees paid/payable to the Chairman of peer companies, effective 1st December 2015, the annual fee payable to the Chairman was increased from \$50,000 (inclusive of superannuation) to \$75,000 (inclusive of superannuation).

As a result of the above changes, remuneration to Key Management Personnel decreased by 37% or \$650,325 from \$1,738,059 in FY2015 (excluding the impact of termination payments in FY2015 of \$643,390) to \$1,087,734 in FY2016.

### 3. Non-executive director remuneration arrangements

#### Remuneration policy and structure

The Board seeks to set remuneration at a level which provides the Company with the ability to attract and retain directors of high calibre, at a cost which is acceptable to shareholders.

The amount of aggregate remuneration approved by shareholders and the fee structure is reviewed annually by the Remuneration and Nomination Committee against fees paid to non-executive directors of comparable companies. The Remuneration and Nomination Committee receives independent market data when undertaking this annual review process.

The Chairman, Mr Andrew Purcell and non-executive director, Mr Michael Sandy have been engaged by the Company under consulting contracts. Under such agreements current at the date of this report, there are no annual, long service leave, other termination entitlements or retirement benefits.

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 a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. At the Annual General Meeting held on 18 November 2010 shareholders approved an increase in the aggregate annual remuneration to \$500,000 per year, with effect from the financial year commencing 1 July 2010.

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

During FY2016, 2.7 million options previously granted under the Company's Long Term Incentive Plan (LTI) to ex-non-executive directors lapsed. There are currently no options or performance rights granted to non-executive directors. Directors may consider the granting of options or performance rights in the future, subject to shareholder approval at a General Meeting.

During the year, no additional remuneration was paid to Directors for service on Board committees.

In addition, Directors are entitled to be paid all travelling and other expenses they incur in attending to the Company's affairs, including attending and returning from general meetings of the Company or meetings of the Directors or of Committees of the Directors.

The remuneration of non-executive directors for the year ended 30 June 2016 and 30 June 2015 is detailed in Table 1 and Table 2 of this report.

#### 4. Executive remuneration arrangements

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- ensure total remuneration is competitive by market standards;
- reward executives for exceptional individual performance; and
- align the interests of executives with those of shareholders.

##### Remuneration mix

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

The table below sets out the relative proportion and components of the senior executives' total remuneration packages for FY2016:

| % of Total Remuneration |                    |                                |                      |                     |
|-------------------------|--------------------|--------------------------------|----------------------|---------------------|
|                         | Fixed Remuneration | Performance-based Remuneration |                      |                     |
|                         |                    | Share Performance Rights       | Short Term Incentive | Long Term Incentive |
| <b>Executives</b>       |                    |                                |                      |                     |
| P J Stickland           | 88.8%              | 11.2%                          | -                    | -                   |
| C H Naylor              | 92.8%              | 7.2%                           | -                    | -                   |
| R Zammit                | 91.2%              | 8.8%                           | -                    | -                   |

##### Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Executive contracts of employment do not include any guaranteed base pay increases.

The fixed component of executives' remuneration is detailed in Table 1 and Table 2 of this report.

##### Variable Remuneration - Short Term Incentives

MEO does not have a formal Short Term Incentive Program, however the Company does, when applicable, recognise exceptional individual performances in any financial year through the award of a cash bonus.

There were no short term incentives awarded in the financial year.

##### Variable Remuneration - Long Term Incentives

MEO considers the retention of high calibre staff as essential to the growth of the Company. Therefore as an incentive to recruit high calibre individuals to MEO or retain high calibre staff the Board will grant LTI Securities (which may be in the form of share options and/or performance rights) under the Company's Long Term Incentive Plan (LTI Plan).

### **Overview of the LTI Plan**

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

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

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

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

In accordance with the terms of the Plan, prior to the allocation of shares to a participant upon vesting of performance rights or exercise of options (as the case may be), the Board may make any adjustments it considers appropriate to the terms of a performance right and/or option granted to a participant in order to minimise or eliminate any material advantage or disadvantage to a participant resulting from a corporate

action or capital reconstruction. Without limiting the foregoing, if:

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

then the Board may, in its discretion, adjust:

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

### **Grants made during FY2016**

During the financial year, after receiving shareholder approval, the company granted 5,333,333 Exercisable Performance Rights to the Managing Director and Chief Executive Officer, Mr Peter Stickland under the Company's Long Term incentive Plan. The vesting date for the Exercisable Performance Rights is 30 November 2016 and expiry date on 29 November 2018. The Exercisable Performance Rights vest and become exercisable after 12 months continuous service ending 29 November 2016. There is no price payable on exercising the Exercisable Performance Rights.

On 4 February 2016, the company implemented revised remuneration arrangements with its senior staff as part of the Company's ongoing cost reduction initiatives. Senior staff voluntarily agreed to a 20% reduction in the cash component of their annual remuneration packages in exchange for Exercisable Performance Rights. 20,940,032 Exercisable Performance Rights were granted including 10,550,131 to key management personnel. The vesting date for the Exercisable Performance Rights is 31 January 2017 and expiry date on 31 January 2019. The Exercisable Performance Rights vest and become exercisable after 12 months continuous service ending 31 January 2017. There is no price payable on exercising the Exercisable Performance Rights.

### Consultants

The Managing Director and Chief Executive Officer approves the terms and conditions of consultant's contracts including fees, taking into account market conditions for the services that are provided. Consultant contracts do not include any guaranteed fee increases.

### Hedging of equity awards

The Company prohibits executives from entering into arrangements to protect the value of invested share options. The prohibition includes entering into contracts to hedge their exposure to options awarded as part of their remuneration package.

### Executive contractual arrangements

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

#### *Managing Director and Chief Executive Officer Remuneration*

On 1 December 2015, the Company entered into an executive agreement with Mr Peter Stickland. Mr Stickland had previously signed a one-year fixed term contract on 19th December 2014. The new executive agreement contains the following major key terms:

- **Remuneration:** Total Fixed Remuneration is set at \$400,000 (including compulsory superannuation) which is reviewed on an annual basis. As approved by shareholders at the 2015 Annual General Meeting, 20% of the Total Fixed Remuneration (i.e. \$80,000) was granted as Exercisable Performance Rights, thus reducing the cash component of annual remuneration from \$400,000 to \$320,000 per annum for the period 1 December 2015 to 30 November 2016.
- **Term:** From 1 December 2015 until either the Company or Mr Stickland terminates the Agreement
- **Notice:** The Company and Mr Stickland may terminate the Agreement at any time by giving 3 Months' notice in writing.
- **Payments on Termination:** If the Executive's employment is terminated by reason of Fundamental Change or by the Company for other reasons, the Company must pay the Executive a lump sum amount (Separation Amount) up to the Total Fixed Remuneration for the 6 months immediately preceding the Termination Date.

#### *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.

## 5. Remuneration outcomes for FY2016

### Remuneration of key management personnel of the Company

Details of the remuneration of KMP (including the non-executive directors) for FY2016 and comparative information for FY2015 are set out in Tables 1 and 2 below.

**Table 1: Remuneration for the year ended 30 June 2016**

|  | Directors fees<br>\$ | Short term<br>Salary &<br>consultant<br>fees<br>\$ | Post<br>employment<br>Super-<br>annuation<br>benefits<br>\$ | Share-based<br>payments<br>*Performance<br>Rights<br>\$ | Long term<br>Long<br>service<br>leave<br>\$ | Total<br>\$      | Performance<br>related<br>% |
|--|----------------------|--|---|---|---|------------------|-----------------------------|
| <b>Non-executive directors</b>                   |                      |  |   |   |   |                  |                             |
| A G Purcell <sup>(i)</sup>                       | 41,941               | -  | -   | -   | -   | 41,941           | -                           |
| M J Sandy <sup>(i)</sup>                         | 33,582               | -  | -   | -   | -   | 33,582           | -                           |
| S W Hopley <sup>(ii)</sup>                       | 18,392               | -  | 1,747   | -   | -   | 20,139           | -                           |
| G A Short <sup>(ii)</sup>                        | 29,807               | -  | 2,832   | -   | -   | 32,639           | -                           |
| <b>Sub-total<br/>non-executive<br/>directors</b> | <b>123,722</b>       | <b>-</b>   | <b>4,579</b>  | <b>-</b>  | <b>-</b>                                    | <b>128,301</b>   | <b>-</b>                    |
| <b>Executive director</b>                        |                      |  |   |   |   |                  |                             |
| P J Stickland                                    | -                    | 328,114  | 30,000  | 46,667  | 12,306                                      | 417,087          | 11.2                        |
| <b>Other key management personnel</b>            |                      |  |   |   |   |                  |                             |
| C H Naylor                                       | -                    | 198,973  | 35,000  | 19,038  | 11,704                                      | 264,715          | 7.2                         |
| R Zammit   | -                    | 204,273  | 35,000  | 24,526  | 13,832                                      | 277,631          | 8.8                         |
| <b>Sub-total<br/>executives</b>                  | <b>-</b>             | <b>731,360</b>                                     | <b>100,000</b>  | <b>90,231</b>   | <b>37,842</b>                               | <b>959,433</b>   | <b>9.4</b>                  |
| <b>TOTAL</b>                                     | <b>123,722</b>       | <b>731,360</b>                                     | <b>104,579</b>  | <b>90,231</b>   | <b>37,842</b>                               | <b>1,087,734</b> | <b>8.3</b>                  |

\* Refer note 19 to the consolidated financial statements for fair value calculation of performance rights.

(i) A G Purcell and M J Sandy were appointed directors on 30 July 2015.

(ii) G A Short resigned as Chairman and non-executive director on 25 November 2015 and S W Hopley retired as non-executive director on 25 November 2015.

### Commentary

Key Management Personnel remuneration decreased from \$2,381,449 in FY2015 to \$1,087,734 in FY2016. Excluding the impact of termination payments in FY2015 of \$643,390, KMP remuneration decreased by 37% or \$650,325 to \$1,087,734 compared to remuneration in FY2015.



## 5. Remuneration outcomes for FY2016 (Cont)

**Table 2: Remuneration for the year ended 30 June 2015**

|  | Directors fees<br>\$ | Salary and consultant fees<br>\$ | Short term<br>Non-monetary benefits<br>\$ | Post employment<br>Super-annuation benefits<br>\$ | Share-based payments<br>*Options<br>\$ | Long term<br>Long service leave<br>\$ | Termination Payments<br>\$ | Total<br>\$      | Performance related<br>% |
|--|----------------------|----------------------------------|---|---|--|---------------------------------------|----------------------------|------------------|--------------------------|
| <b>Non-executive directors</b>                                 |                      |                                  |   |   |  |                                       |                            |                  |                          |
| S W Hopley   | 22,482               | -                                | -   | 35,000  | 2,667                                  | -                                     | -                          | 60,149           | 4.4                      |
| G A Short  | 52,022               | -                                | -   | 15,892  | 2,667                                  | -                                     | -                          | 70,581           | 3.8                      |
| M J F Sweeney <sup>(i)</sup>                                   | 30,400               | -                                | -   | 2,888   | 2,666                                  | -                                     | -                          | 35,954           | 7.4                      |
| <b>Sub-total non-executive directors</b>                       | <b>104,904</b>       | <b>-</b>                         | <b>-</b>                                  | <b>53,780</b>                                     | <b>8,000</b>                           | <b>-</b>                              | <b>-</b>                   | <b>166,684</b>   | <b>4.8</b>               |
| <b>Executive director</b>                                      |                      |                                  |   |   |  |                                       |                            |                  |                          |
| P J Stickland <sup>(ii)</sup>                                  | -                    | 203,804                          | -   | 10,004  | -                                      | -                                     | -                          | 213,808          | -                        |
| J Hendrich <sup>(iii)(vi)</sup>                                | -                    | 317,869                          | -   | 35,000  | -                                      | -                                     | 510,000                    | 862,869          | -                        |
| <b>Other key management personnel</b>                          |                      |                                  |   |   |  |                                       |                            |                  |                          |
| C H Naylor   | -                    | 244,520                          | -   | 32,150  | -                                      | 7,303                                 | -                          | 283,973          | -                        |
| R J D Gard <sup>(iii)(v)(vi)</sup>                             | -                    | 234,020                          | -   | 15,653  | -                                      | -                                     | 133,390                    | 383,063          | -                        |
| R Zammit   | -                    | 245,033                          | 19,449                                    | 35,000  | -                                      | -                                     | -                          | 299,482          | -                        |
| <b>Sub-total executives</b>                                    | <b>-</b>             | <b>1,245,246</b>                 | <b>19,449</b>                             | <b>127,807</b>                                    | <b>-</b>                               | <b>7,303</b>                          | <b>643,390</b>             | <b>2,043,195</b> | <b>-</b>                 |
| <b>Consultants holding key management positions</b>            |                      |                                  |   |   |  |                                       |                            |                  |                          |
| K Hendrick <sup>(iv)</sup>                                     | -                    | 129,500                          | -   | -   | -                                      | -                                     | -                          | 129,500          | -                        |
| P J Stickland <sup>(iv)</sup>                                  | -                    | 169,159                          | -   | -   | -                                      | -                                     | -                          | 169,159          | -                        |
| <b>Sub-total consultants</b>                                   | <b>-</b>             | <b>298,659</b>                   | <b>-</b>                                  | <b>-</b>  | <b>-</b>                               | <b>-</b>                              | <b>-</b>                   | <b>298,659</b>   | <b>-</b>                 |
| <b>Reversal of long service leave provision<sup>(vi)</sup></b> | <b>-</b>             | <b>-</b>                         | <b>-</b>                                  | <b>-</b>  | <b>-</b>                               | <b>(127,089)</b>                      | <b>-</b>                   | <b>(127,089)</b> | <b>-</b>                 |
| <b>TOTAL</b>   | <b>104,904</b>       | <b>1,543,905</b>                 | <b>19,449</b>                             | <b>181,587</b>                                    | <b>8,000</b>                           | <b>(119,786)</b>                      | <b>643,390</b>             | <b>2,381,449</b> | <b>0.3</b>               |

\* Refer note 19 to the consolidated financial statements for fair value calculation of options.

(i) M J F Sweeney resigned 5 January 2015

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

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

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

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

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

## 5. Remuneration outcomes for FY2016 (Cont)

### Equity instruments

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

#### Options

| 30 June 2016                   | 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 |
|--------------------------------|-------------|-------------------------------------|---|--------------|------------------------|------------------------|-------------|
| <b>Non-executive directors</b> |             |                                     |   |              |                        |                        |             |
| G A Short*                     | 27 Oct 2011 | -                                   | -   | -            | -                      | 900,000                | 27 Oct 2015 |
| S W Hopley*                    | 27 Oct 2011 | -                                   | -   | -            | -                      | 900,000                | 27 Oct 2015 |
| M J F Sweeney*                 | 27 Oct 2011 | -                                   | -   | -            | -                      | 900,000                | 27 Oct 2015 |

\* G A Short resigned as Chairman and non-executive director on 25 November 2015, S W Hopley retired as non-executive director on 25 November 2015 and M J F Sweeney resigned 5 January 2015.

#### Share Performance Rights

| 30 June 2016      | Award date  | Share performance rights awarded during the year No. | Fair value per share performance right at award date (cents) | Vesting date | No. vested during year | No. lapsed during year | Expiry Date |
|-------------------|-------------|--|--|--------------|------------------------|------------------------|-------------|
| <b>Executives</b> |             |  |  |              |                        |                        |             |
| P J Stickland     | 25 Nov 2015 | 5,333,333  | 1.500  | 30 Nov 2016  | -                      | -                      | 29 Nov 2018 |
| C H Naylor        | 4 Feb 2016  | 4,610,519  | 0.991  | 31 Jan 2017  | -                      | -                      | 31 Jan 2019 |
| R Zammit          | 4 Feb 2016  | 5,939,612  | 0.991  | 31 Jan 2017  | -                      | -                      | 31 Jan 2019 |

**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 \$ |
|----------------|---|---|--|
| *G A Short     | -   | -   | 63,060                                     |
| *S W Hopley    | -   | -   | 63,060                                     |
| *M J F Sweeney | -   | -   | 63,060                                     |

\* G A Short resigned as Chairman and non-executive director on 25 November 2015, S W Hopley retired as non-executive director on 25 November 2015 and M J F Sweeney resigned 5 January 2015.

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

|               | Value of rights granted during the year \$ | Value of rights exercised during the year \$ | Value of rights lapsed during the year \$ |
|---------------|--|--|---|
| P J Stickland | 80,000                                     | -  | -   |
| C H Naylor    | 45,690                                     | -  | -   |
| R Zammit      | 58,862                                     | -  | -   |

For details on the valuation of the options and share performance rights, including models used and assumptions used please refer to note 19 to the consolidated financial statements.

**Table 6: Share issued on exercise of options and share performance rights**

There was no exercise of options during the reporting period (2015: nil).

## 6. Additional disclosures relating to shares and options

### Shareholdings of key management personnel

The movement during the reporting period in the number of ordinary shares in MEO Australia Limited held directly, indirectly or beneficially, by key management personnel, including their related parties, is as follows:

| 30 June 2016   | Held at<br>1 July 2015 | Purchases | Received on<br>Exercise<br>of Options | Sales | Held at<br>30 June 2016 |
|--|------------------------|-----------|---------------------------------------|-------|-------------------------|
| <b>Shares held in MEO Australia Limited (number)</b> |                        |           |                                       |       |                         |
| <b>Non-executive directors</b>                       |                        |           |                                       |       |                         |
| A G Purcell  | -                      | 1,971,531 | -                                     | -     | 1,971,531               |
| M J Sandy  | -                      | 800,000   | -                                     | -     | 800,000                 |
| G A Short  | 1,392,444*             | -         | -                                     | -     | -                       |
| S W Hopley   | 950,000*               | -         | -                                     | -     | -                       |
| <b>Executives</b>                                    |                        |           |                                       |       |                         |
| P J Stickland<br>(Executive Director)                | 4,453,700              | 1,000,000 | -                                     | -     | 5,453,700               |
| C H Naylor   | 565,000                | -         | -                                     | -     | 565,000                 |
| R Zammit   | 1,710,000              | -         | -                                     | -     | 1,710,000               |

\* 1,392,444 shares held at resignation date

\* 950,000 shares held at retirement date

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

### Option holdings of key management personnel

The movement during the reporting period in the number of options over ordinary shares in MEO Australia Limited held, directly, indirectly and beneficially by key management personnel, including their related parties is as follows:

|  | Held at<br>1 July 2015 | Granted as<br>Remuneration | Options<br>Exercised | Options<br>Lapsed | Held at 30<br>June 2016 | Vested<br>in 2016 | Vested and<br>exercisable at<br>30 June 2016 |
|--|------------------------|----------------------------|----------------------|-------------------|-------------------------|-------------------|--|
| <b>Options (number)</b>                        |                        |                            |                      |                   |                         |                   |  |
| <b>Non-executive directors</b>                 |                        |                            |                      |                   |                         |                   |  |
| G A Short*                                     | 900,000                | -                          | -                    | 900,000           | -                       | -                 | -  |
| S W Hopley*                                    | 900,000                | -                          | -                    | 900,000           | -                       | -                 | -  |
| M J F Sweeney*                                 | 900,000                | -                          | -                    | 900,000           | -                       | -                 | -  |
| <b>Executive Director and other Executives</b> |                        |                            |                      |                   |                         |                   |  |
| P J Stickland                                  | 500,000                | -                          | -                    | -                 | 500,000                 | -                 | 500,000                                      |
| C H Naylor                                     | 1,000,000              | -                          | -                    | -                 | 1,000,000               | -                 | 1,000,000                                    |
| R Zammit                                       | 1,000,000              | -                          | -                    | -                 | 1,000,000               | -                 | 1,000,000                                    |

\* G A Short resigned as Chairman and non-executive director on 25 November 2015, S W Hopley retired as non-executive director on 25 November 2015 and M J F Sweeney resigned 5 January 2015.

## 6. Additional disclosures relating to shares and options (Cont)

### Share performance rights holdings of key management personnel

The movement during the reporting period in the number of share performance rights 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<br>1 July 2015 | Granted as<br>Remuneration | Rights<br>Exercised | Rights<br>Lapsed | Held at<br>30 June<br>2016 | Vested<br>in 2016 | Vested and<br>exercisable at<br>30 June 2016 |
|--|------------------------|----------------------------|---------------------|------------------|----------------------------|-------------------|--|
| <b>Share performance rights (number)</b>       |                        |                            |                     |                  |                            |                   |  |
| <b>Executive Director and other Executives</b> |                        |                            |                     |                  |                            |                   |  |
| P J Stickland                                  | -                      | 5,333,333                  | -                   | -                | 5,333,333                  | -                 | -  |
| C H Naylor                                     | -                      | 4,610,519                  | -                   | -                | 4,610,519                  | -                 | -  |
| R Zammit                                       | -                      | 5,939,612                  | -                   | -                | 5,939,612                  | -                 | -  |

## 7. Company performance

The remuneration of MEO executives and contractors is not formally linked to financial performance measures of the Company. However, as explained on page 19, 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   | 2016     | 2015     | 2014      | 2013     | 2012    |
|---|----------|----------|-----------|----------|---------|
| Net (loss)/profit - \$000                         | (10,406) | (10,042) | (135,910) | (67,210) | (5,698) |
| Basic (loss)/earnings per share - cents per share | (1.31)   | (1.34)   | (21.12)   | (11.26)  | (1.06)  |
| Share price at the beginning of year - \$         | 0.015    | 0.03     | 0.06      | 0.25     | 0.18    |
| Share price at end of year - \$                   | 0.015    | 0.015    | 0.03      | 0.06     | 0.25    |
| Dividends per share - cents                       | Nil      | Nil      | Nil       | Nil      | Nil     |

## CORPORATE GOVERNANCE STATEMENT

The Company's Corporate Governance Statement for the year ended 30 June 2016, ASX Appendix 4G (Key to Disclosure of Corporate Governance Principles and Recommendations) and other ancillary corporate governance related documents may be accessed from the Company's website at [http://www.meoaustralia.com.au/page/About\\_MEO/Governance/](http://www.meoaustralia.com.au/page/About_MEO/Governance/).

Signed in accordance with a resolution of the directors



**P J STICKLAND**  
Managing Director and Chief Executive Officer

Melbourne, 8 September 2016

# Financial Report

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 30 June 2016

|   | Note | 2016<br>\$          | 2015<br>\$          |
|---|------|---------------------|---------------------|
| Sales revenue   |      | -                   | 330,689             |
| Interest income   |      | 96,562              | 206,668             |
| <b>Total income</b>   |      | <b>96,562</b>       | <b>537,357</b>      |
| Production costs  |      | -                   | (382,480)           |
| Net administration costs  | 4    | (1,980,008)         | (5,368,934)         |
| Exploration expenditure written-off/down  |      | (10,774,401)        | (5,141,972)         |
| Loss on available for sale financial asset  |      | -                   | (42,509)            |
| Merger & takeover related costs   |      | -                   | (970,090)           |
| Merger break fee  |      | -                   | 400,000             |
| Exchange gains on revaluation of foreign currency bank accounts   |      | 30,105              | 965,529             |
| Foreign currency gain on closure of foreign operation   |      | 2,264,862           | -                   |
| <b>Loss before income tax</b>   |      | <b>(10,362,880)</b> | <b>(10,003,099)</b> |
| Income tax expense  | 5    | (43,225)            | (39,124)            |
| <b>Net loss for the period</b>  |      | <b>(10,406,105)</b> | <b>(10,042,223)</b> |
| Other comprehensive income/(loss)<br><i>Items that may be reclassified subsequently to profit or loss</i> |      |                     |                     |
| Exchange differences on translation of foreign operations   |      | 10,126              | (18,124)            |
| Transfer of foreign currency gain on closure of foreign operation   |      | (2,264,862)         | -                   |
| <b>Other comprehensive income/(loss) for the period, net of tax</b>                                       |      | <b>(2,254,736)</b>  | <b>(18,124)</b>     |
| <b>Total comprehensive loss for the period</b>  |      | <b>(12,660,841)</b> | <b>(10,060,347)</b> |
| Basic loss per share (cents per share)  | 6    | (1.31)              | (1.34)              |
| Diluted loss per share (cents per share)  | 6    | (1.29)              | (1.34)              |

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For The Year Ended 30 June 2016

|                                      | Note | 2016<br>\$       | 2015<br>\$        |
|--------------------------------------|------|------------------|-------------------|
| <b>CURRENT ASSETS</b>                |      |                  |                   |
| Cash and cash equivalents            | 7    | 4,135,989        | 5,785,454         |
| Other receivables                    | 8    | 183,652          | 311,056           |
| <b>TOTAL CURRENT ASSETS</b>          |      | <b>4,319,641</b> | <b>6,096,510</b>  |
| <b>NON-CURRENT ASSETS</b>            |      |                  |                   |
| Property, plant and equipment        | 9    | 106,312          | 150,094           |
| Intangible assets                    | 10   | -                | 40,854            |
| Exploration and evaluation costs     | 11   | 1,764,514        | 10,856,110        |
| <b>TOTAL NON-CURRENT ASSETS</b>      |      | <b>1,870,826</b> | <b>11,047,058</b> |
| <b>TOTAL ASSETS</b>                  |      | <b>6,190,467</b> | <b>17,143,568</b> |
| <b>CURRENT LIABILITIES</b>           |      |                  |                   |
| Trade and other payables             | 12   | 219,622          | 213,286           |
| Provisions                           | 13   | 205,085          | 194,575           |
| <b>TOTAL CURRENT LIABILITIES</b>     |      | <b>424,707</b>   | <b>407,861</b>    |
| <b>NON-CURRENT LIABILITIES</b>       |      |                  |                   |
| Provisions                           | 13   | 162,019          | 20,473            |
| <b>TOTAL NON-CURRENT LIABILITIES</b> |      | <b>162,019</b>   | <b>20,473</b>     |
| <b>TOTAL LIABILITIES</b>             |      | <b>586,726</b>   | <b>428,334</b>    |
| <b>NET ASSETS</b>                    |      | <b>5,603,741</b> | <b>16,715,234</b> |
| <b>EQUITY</b>                        |      |                  |                   |
| Contributed equity                   | 14   | 263,822,525      | 262,406,308       |
| Reserves                             | 14   | 464,603          | 3,520,221         |
| Accumulated losses                   | 14   | (258,683,387)    | (249,211,295)     |
| <b>TOTAL EQUITY</b>                  |      | <b>5,603,741</b> | <b>16,715,234</b> |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 30 June 2016

|  | Issued<br>Capital<br>\$ | Share Based<br>Payments<br>Reserve<br>\$ | Foreign<br>Currency<br>Translation<br>Reserve<br>\$ | Accumulated<br>Losses<br>\$ | Total<br>Equity<br>\$ |
|--|-------------------------|--|---|-----------------------------|-----------------------|
| <b>Balance at 1 July 2015</b>                                    | <b>262,406,308</b>      | <b>1,248,623</b>                         | <b>2,271,598</b>                                    | <b>(249,211,295)</b>        | <b>16,715,234</b>     |
| Net loss for the period  | -                       | -  | -   | (10,406,105)                | (10,406,105)          |
| Other comprehensive income/(loss)                                | -                       | -  | (2,254,736)   | -                           | (2,254,736)           |
| <b>Total comprehensive income/(loss)<br/>for the year</b>        | -                       | -  | <b>(2,254,736)</b>                                  | <b>(10,406,105)</b>         | <b>(12,660,841)</b>   |
| <b>Transactions with owners in their<br/>capacity as owners:</b> |                         |  |   |                             |                       |
| Cost of share based payments                                     | -                       | 133,131                                  | -   | -                           | 133,131               |
| Share placement  | 1,407,166               | -  | -   | -                           | 1,407,166             |
| Costs of issues (net of tax)                                     | 9,051                   | -  | -   | -                           | 9,051                 |
| Transfer of equity instruments expired<br>unvested               | -                       | (934,013)                                | -   | 934,013                     | -                     |
| <b>At 30 June 2016</b>   | <b>263,822,525</b>      | <b>447,741</b>                           | <b>16,862</b>                                       | <b>(258,683,387)</b>        | <b>5,603,741</b>      |
|  |                         |  |   |                             |                       |
|  | Issued<br>Capital<br>\$ | Share Based<br>Payments<br>Reserve<br>\$ | Foreign<br>Currency<br>Translation<br>Reserve<br>\$ | Accumulated<br>Losses<br>\$ | Total<br>Equity<br>\$ |
| <b>Balance at 1 July 2014</b>                                    | <b>262,367,184</b>      | <b>1,690,073</b>                         | <b>2,289,722</b>                                    | <b>(239,618,522)</b>        | <b>26,728,457</b>     |
| Net loss for the period  | -                       | -  | -   | (10,042,223)                | (10,042,223)          |
| Other comprehensive income/(loss)                                | -                       | -  | (18,124)  | -                           | (18,124)              |
| <b>Total comprehensive income/(loss)<br/>for the year</b>        | -                       | -  | <b>(18,124)</b>                                     | <b>(10,042,223)</b>         | <b>(10,060,347)</b>   |
| <b>Transactions with owners in their<br/>capacity as owners:</b> |                         |  |   |                             |                       |
| Cost of share based payments                                     | -                       | 8,000                                    | -   | -                           | 8,000                 |
| Costs of issues (net of tax)                                     | -                       | 39,124                                   | -   | -                           | 39,124                |
| Transfer of equity instruments expired<br>unvested               | -                       | (449,450)                                | -   | 449,450                     | -                     |
| <b>At 30 June 2015</b>   | <b>262,406,308</b>      | <b>1,248,623</b>                         | <b>2,271,598</b>                                    | <b>(249,211,295)</b>        | <b>16,715,234</b>     |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 30 June 2016

|  | Note | 2016<br>\$         | 2015<br>\$          |
|--|------|--------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                  |      |                    |                     |
| Sales proceeds   |      | -                  | 330,689             |
| Production costs   |      | -                  | (382,480)           |
| Payments to suppliers and employees                          |      | (1,641,391)        | (5,130,954)         |
| Cost recovery from joint venture partners                    |      | 65,531             | 98,610              |
| Merger and takeover costs                                    |      | (16,585)           | (970,090)           |
| Merger break fee   |      | -                  | 400,000             |
| Interest received  |      | 117,877            | 210,457             |
| <b>Net cash (used in) operating activities</b>               | 15   | <b>(1,474,568)</b> | <b>(5,443,768)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                  |      |                    |                     |
| Expenditure on plant and equipment                           |      | -                  | (16,899)            |
| Expenditure on exploration tenements                         |      | (1,577,994)        | (5,802,441)         |
| Expenditure on available for sale financial asset            |      | -                  | (410,509)           |
| Proceeds from sale of available for sale financial asset     |      | -                  | 368,000             |
| Proceeds from sale of plant and equipment and motor vehicles |      | -                  | 135,670             |
| <b>Net cash (used in) investing activities</b>               |      | <b>(1,577,994)</b> | <b>(5,726,179)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                  |      |                    |                     |
| Proceeds from share issues                                   |      | 1,407,166          | -                   |
| Transaction costs on issue of shares                         |      | (34,174)           | -                   |
| <b>Net cash from financing activities</b>                    |      | <b>1,372,992</b>   | <b>-</b>            |
| <b>Net decrease in cash and cash equivalents</b>             |      | <b>(1,679,570)</b> | <b>(11,169,947)</b> |
| Cash and cash equivalents at beginning of period             |      | 5,785,454          | 15,989,872          |
| Net foreign exchange differences                             |      | 30,105             | 965,529             |
| <b>Cash and cash equivalents at end of period</b>            | 7    | <b>4,135,989</b>   | <b>5,785,454</b>    |

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 2016

### NOTE 1: CORPORATE INFORMATION

The financial report of MEO Australia Limited ("MEO Australia", or the "Company") for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 8 September 2016.

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

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

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Preparation

The financial report is a general-purpose financial report of a "for-profit" entity, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, and is presented in Australian dollars.

#### (i) Compliance with IFRS

The financial report complies with Australian Accounting Standards issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2015:

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

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

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

#### (iv) Historical cost convention

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

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

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2016. 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 FY2017.

| Reference          | Title  | Summary  | Application date of standard | Application date for Group |
|--------------------|--|--|------------------------------|----------------------------|
| <b>AASB 2014-3</b> | Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations<br>[AASB 1 & AASB 11] | AASB 2014-3 amends AASB 11 <i>Joint Arrangements</i> to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:<br><br>(a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 <i>Business Combinations</i> , to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and<br><br>(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.<br><br>This Standard also makes an editorial correction to AASB 11   | 1 January 2016               | 1 July 2016                |
| <b>AASB 15</b>     | Revenue from Contracts with Customers  | AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations. AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).   | 1 January 2018               | 1 July 2018                |
| <b>AASB 2015-1</b> | Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle             | The subjects of the principal amendments to the Standards are set out below:<br><br><i>AASB 5 Non-current Assets Held for Sale and Discontinued Operations:</i><br><br>• Changes in methods of disposal - where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or vice-versa), an entity shall not follow the guidance in paragraphs 27-29 to account for this change.<br><br><i>AASB 119 Employee Benefits:</i><br><br>• Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.<br><br><i>AASB 134 Interim Financial Reporting:</i><br><br>• Disclosure of information 'elsewhere in the interim financial report' - amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information. | 1 January 2016               | 1 July 2016                |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

#### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

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

#### (d) Significant accounting judgements, estimates and assumptions

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

##### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share options is determined using a binomial option pricing model, and using the assumptions detailed in note 19.

##### *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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

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 2016 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 2016 the Group had cash reserves of \$4,135,989. The cash reserves are expected to meet the Group's planned exploration activities for the 12 months from the date of this report. To meet its funding requirements the Group will rely on taking appropriate steps, including:

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

The financial report has been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. No adjustments have been made relating to the recoverability and reclassification of recorded asset amounts and classification of liabilities that might be necessary should the Group not continue as a going

concern, particularly the write-down of capitalised exploration expenditure should the exploration permits be ultimately surrendered or cancelled.

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

#### **(e) Segment reporting**

Operating segments are reported in a manner which is materially consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

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

- (i) **Functional and presentation currency**  
The Group's consolidated financial statements are presented in Australian dollars, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.
- (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

#### (g) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at bank and in hand and short-term deposits that are readily convertible to a known amount of cash and used for meeting short term cash needs.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### (h) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Certain derivatives do not qualify for hedge accounting and changes in the fair value are recognised immediately in profit or loss in other revenues and expenses. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives, except those that qualify as cash flow hedges are taken directly to profit or loss for the year.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

#### (i) Investment and other financial assets

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

#### Available-for-sale (AFS) financial investments

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

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

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

#### (i) Impairment of financial assets

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

#### (j) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets which range from 3 to 15 years.

#### *Impairment*

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is written down to its recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the period the item is derecognised.

#### (k) 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.

#### (l) Exploration and evaluation costs

Exploration and evaluation expenditure is carried at cost. If indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Exploration and evaluation costs are accumulated separately for each current area of interest and carried forward provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development or sale; or
- exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

#### *Impairment of exploration and evaluation costs*

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits/(losses) and net assets will be varied in the period in which this determination is made.

#### *Farm-outs*

The Group will account for farm-out arrangements as follows:

- The Group will not record any expenditure made by the farminee on its behalf;
- The Group will not recognise a gain or loss on the farm-out arrangement but rather will redesignate any costs previously capitalised in relation to the whole interest as relating to the partial interest retained; and
- Any cash consideration to be received will be credited against costs previously capitalised in relation to the whole interest with any excess to be accounted for by the Group as gain on disposal.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

#### (m) 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.

#### (n) 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.

#### (o) Interests in joint arrangements

##### *Joint operations*

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

The Group accounts for its share of the joint operation assets, and liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint operation's output, together with its share of the expenses incurred by the joint operation, and any expenses it incurs in relation to its interest in the joint operation.

#### (p) 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 dependent 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.

#### (q) Trade and other payables

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of the goods and services.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

#### (r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

#### Employee leave benefits

##### Short term benefits

Liabilities for wage and salaries, including non-monetary benefits and certain annual leave entitlements expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' service up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

##### Long term benefits

The liability for long service leave and certain annual benefits are recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date in high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

#### (s) Share-based payment transactions

The Group provides benefits to employees (including directors) of, and consultants to, the Group in the form of share-based payment transactions, whereby services are rendered in exchange for shares or rights over shares ('equity-settled transactions'). The Board adopted the Long Term Incentive Plan on 13 September 2011.

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value of options and performance rights with market based performance criteria is determined using a binomial option pricing model. The fair value of performance plan rights with non-market performance criteria is determined by reference to the Company's share price at date of grant.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the recipient becomes fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors, based on the best available information at balance date, will ultimately vest. No adjustment is made for the likelihood of market conditions being met as the effect of these conditions is included in determination of fair value at grant date. The charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of the period.

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

#### (t) 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.

#### (u) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

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

#### (v) 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.

#### **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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

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.

#### (w) 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.

#### (x) 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.

#### (y) Parent entity financial information

The financial information for the parent entity, MEO Australia Limited, disclosed in note 22 has been prepared on the same basis as the consolidated financial statements, except as set out below.

##### (i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less accumulated impairment losses in the financial statements of MEO Australia Limited.

### NOTE 3: SEGMENT INFORMATION

In light of the Group's focus on exploration, the Board of Directors does not receive segmented financial information in respect of methanol and LNG development. The Group operates in the petroleum exploration industry within Australia, New Zealand and Cuba.

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

The Board does not currently receive segmented Statement of Financial Position and Statement of Comprehensive Income information. The Board manages exploration activities of each permit area through review and approval of budgets, joint venture cash calls and other operational information. Information regarding exploration expenditure capitalised for each area is contained in note 11.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 4: NET ADMINISTRATION EXPENSES

|   | Consolidated     |                  |
|---|------------------|------------------|
|   | 2016<br>\$       | 2015<br>\$       |
| Consultants fees and expenses   | 219,208          | 517,214          |
| Non-executive directors remuneration (excluding share based payments)   | 147,051          | 158,684          |
| Salaries and on-costs   | 1,684,993        | 2,639,287        |
| Termination payments and on-costs (per minimum contractual commitments) | -                | 748,671          |
| Share based payments  | 133,131          | 8,000            |
| Administration and other expenses                                       | 229,451          | 483,846          |
| Audit costs   | 70,000           | 74,000           |
| Securities exchange, share registry and reporting costs                 | 110,990          | 137,237          |
| Operating lease expenses  | 276,354          | 366,393          |
| Investor relations and corporate promotion costs                        | 75,484           | 51,532           |
| Travel costs  | 53,528           | 161,848          |
| Depreciation and amortisation expense                                   | 84,636           | 417,481          |
| Loss on sale of motor vehicles  | -                | 6,870            |
| *Office relocation costs  | -                | 658,269          |
| Gross administration costs  | 3,084,826        | 6,429,332        |
| Less allocation to exploration activities                               | (1,104,818)      | (1,060,398)      |
| <b>Net administration costs</b>   | <b>1,980,008</b> | <b>5,368,934</b> |

\* In FY 2015, office relocation costs include costs associated with leasehold asset write-offs (\$318,236), leasehold break costs (\$275,000), office equipment write-offs (\$24,094) and physical relocation costs (\$40,939).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 5: INCOME TAX

#### Statement of Comprehensive Income

|  | Consolidated |             |
|--|--------------|-------------|
|  | 2016<br>\$   | 2015<br>\$  |
| <b>Current income tax</b>  |              |             |
| Current income tax (expense)/credit                                  | (232,265)    | 1,714,341   |
| Tax losses recognised/(not recognised)                               | 189,040      | (1,662,577) |
|  | (43,225)     | 51,764      |
| <b>Deferred income tax</b>   |              |             |
| Relating to origination and reversal of temporary differences        | 2,770,490    | (90,888)    |
| Tax losses derecognised  | (2,770,490)  | -           |
|  | -            | (90,888)    |
| Income tax expense reported in the Statement of Comprehensive Income | (43,225)     | (39,124)    |

#### Statement of Changes in Equity

|   | Consolidated |            |
|---|--------------|------------|
|   | 2016<br>\$   | 2015<br>\$ |
| <b>Deferred income tax related to items charged or credited directly to equity</b>    |              |            |
| Share issue costs   | 10,252       | -          |
| Share issue costs not recognised as not probable                                      | (6,151)      | -          |
| Amount recognised in respect of prior years share issue costs now considered probable | 39,124       | 39,124     |
| Income tax benefit reported in equity   | 43,225       | 39,124     |

#### Tax Reconciliation

|   | Consolidated |              |
|---|--------------|--------------|
|   | 2016<br>\$   | 2015<br>\$   |
| A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows: |              |              |
| Accounting loss before tax  | (10,406,105) | (10,003,099) |
| At the Group's statutory 30% tax rate (2015: 30%)   | 3,121,831    | 3,000,930    |
| Share based payment expense   | (39,939)     | (2,400)      |
| Non-deductible expenses   | (67,248)     | (1,533)      |
| Difference in overseas tax rates  | (422,144)    | (1,373,543)  |
| Tax losses not brought to account   | (2,635,725)  | (1,662,578)  |
| Income tax expense reported in the Statement of Comprehensive Income  | (43,225)     | (39,124)     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 5: INCOME TAX (Cont)

#### Deferred Income Tax

|   | Statement of Financial Position |             | Income Statement |            |
|---|---------------------------------|-------------|------------------|------------|
|   | 2016<br>\$                      | 2015<br>\$  | 2016<br>\$       | 2015<br>\$ |
| Deferred income tax at 30 June relates to the following:                                    |                                 |             |                  |            |
| CONSOLIDATED  |                                 |             |                  |            |
| <b>Deferred tax liabilities</b>   |                                 |             |                  |            |
| Interest receivable   | (2,167)                         | (8,561)     | 6,394            | 1,974      |
| Exploration and evaluation costs  | (529,354)                       | (3,256,833) | 2,727,479        | 131,549    |
| Gross deferred income tax liabilities   | (531,521)                       | (3,265,394) |                  |            |
| <b>Deferred tax assets</b>  |                                 |             |                  |            |
| Accruals  | -                               | 42,289      | (42,289)         | (123,643)  |
| Provisions  | 110,131                         | 64,514      | 45,617           | (100,768)  |
| Share issue costs   | 49,376                          | 39,124      | -                | -          |
| Temporary differences not recognised as not probable  | (6,151)                         | -           |                  |            |
| Tax losses (not brought to account)/brought to account to offset net deferred tax liability | 378,165                         | 3,119,467   | (2,780,426)      | 51,764     |
| Gross deferred income tax assets  | 531,521                         | 3,265,394   |                  |            |
| Net deferred tax asset  | -                               | -           |                  |            |
| Deferred tax expense  |                                 |             | (43,225)         | (39,124)   |

#### Tax losses

At balance date, the Group has estimated unused gross tax losses of \$158.4 million (2015: \$159.2 million) that are available to offset against future taxable profits subject to continuing to meet relevant statutory tests. To the extent that it does not offset a net deferred tax liability, a deferred tax asset has not been recognised in the accounts for these unused losses because it is not probable that future taxable profit will be available to use against such losses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### 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.

The following data was used in the calculations of basic and diluted loss per share:

|  | Consolidated       |                    |
|--|--------------------|--------------------|
|  | 2016<br>\$         | 2015<br>\$         |
| Net loss   | (10,406,105)       | (10,042,223)       |
|  | Shares             | Shares             |
| Weighted average number of ordinary shares used in calculation of basic loss per share | 796,624,968        | 750,488,387        |
| Effect of dilution:  |                    |                    |
| Exercisable Performance Rights   | 11,743,018         | -                  |
| <b>Weighted average number of ordinary shares adjusted for the effect of dilution</b>  | <b>808,367,986</b> | <b>750,488,387</b> |

Other than the placement of 46.9 million shares in August 2016, 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     |                  |
|---|------------------|------------------|
|   | 2016<br>\$       | 2015<br>\$       |
| Cash at bank and in hand                    | 728,107          | 613,689          |
| Short term deposits                         | 2,876,926        | 5,171,765        |
| Cash backed bank guarantee for Block 9 Cuba | 530,956          | -                |
|   | <u>4,135,989</u> | <u>5,785,454</u> |

Cash at bank earns interest at floating rates based on daily bank rates. Short term deposits are made for varying maturities depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.

### NOTE 8: TRADE AND OTHER RECEIVABLES

|                               | Consolidated   |                |
|-------------------------------|----------------|----------------|
|                               | 2016<br>\$     | 2015<br>\$     |
| Goods and services tax refund | 12,094         | 8,476          |
| Interest receivable           | 7,223          | 28,538         |
| Other receivables             | 164,335        | 274,042        |
|                               | <u>183,652</u> | <u>311,056</u> |

At balance date, there are no trade receivables that are past due but not impaired. Due to the short term nature of these receivables, their carrying value approximates fair value. Trade receivables are non-interest bearing and are generally on 30-90 day terms. Details regarding the credit risk of current receivables are disclosed in note 16.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 9: PROPERTY, PLANT AND EQUIPMENT

|  | Consolidated          |                       |
|--|-----------------------|-----------------------|
|  | 2016<br>\$            | 2015<br>\$            |
| <b>Plant and Equipment</b>                   |                       |                       |
| At cost                                      | 661,660               | 694,481               |
| Accumulated depreciation                     | (555,348)             | (544,387)             |
|  | <u>106,312</u>        | <u>150,094</u>        |
| <b>Motor Vehicles</b>                        |                       |                       |
| At cost                                      | -                     | -                     |
| Accumulated depreciation                     | -                     | -                     |
|  | <u>-</u>              | <u>-</u>              |
| <b>Leasehold Improvements</b>                |                       |                       |
| At cost                                      | -                     | -                     |
| Accumulated depreciation                     | -                     | -                     |
|  | <u>-</u>              | <u>-</u>              |
| <b>Total Property, Plant and Equipment</b>   | <b><u>106,312</u></b> | <b><u>150,094</u></b> |
| <b>Movement in Plant and Equipment</b>       |                       |                       |
| Net carrying amount at beginning of year     | 150,094               | 195,021               |
| Additions                                    | -                     | 16,899                |
| Reclassification from Leasehold Improvements | -                     | 76,375                |
| Disposals                                    | -                     | (7,596)               |
| Depreciation                                 | (43,782)              | (130,605)             |
|  | <u>106,312</u>        | <u>150,094</u>        |
| <b>Movement in Motor Vehicles</b>            |                       |                       |
| Net carrying amount at beginning of year     | -                     | 165,384               |
| Disposals                                    | -                     | (141,391)             |
| Depreciation                                 | -                     | (23,993)              |
|  | <u>-</u>              | <u>-</u>              |
| <b>Leasehold Improvements</b>                |                       |                       |
| Net carrying amount at beginning of year     | -                     | 442,274               |
| Reclassification to Plant & Equipment        | -                     | (76,375)              |
| Write-off on relocation                      | -                     | (318,236)             |
| Depreciation                                 | -                     | (47,663)              |
|  | <u>-</u>              | <u>-</u>              |
| <b>Net carrying amount at end of year</b>    | <b><u>106,312</u></b> | <b><u>150,094</u></b> |

The useful life of the plant and equipment is estimated for 2016 and 2015 is 3 to 15 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 10: INTANGIBLE ASSETS

|   | Consolidated |             |
|---|--------------|-------------|
|   | 2016<br>\$   | 2015<br>\$  |
| Software licences at cost                 | 372,963      | 1,197,612   |
| Accumulated amortisation                  | (372,963)    | (1,156,758) |
|   | -            | 40,854      |
| <b>Movement in Intangibles</b>            |              |             |
| Net carrying amounts at beginning of year | 40,854       | 274,234     |
| Disposals                                 | -            | (18,160)    |
| Amortisation                              | (40,854)     | (215,220)   |
| Net carrying amount at end of year        | -            | 40,854      |

The useful life of the intangibles was 4 years.

### NOTE 11: EXPLORATION AND EVALUATION COSTS

|  | Consolidated |             |
|--|--------------|-------------|
|  | 2016<br>\$   | 2015<br>\$  |
| Balance at beginning of year                 | 10,856,110   | 11,330,618  |
| Expenditure for the year                     | 1,682,805    | 4,667,463   |
| Expenditure written-off/down during the year | (10,774,401) | (5,141,971) |
|  | 1,764,514    | 10,856,110  |

Significant judgement is required in determining whether it is likely that future economic benefits will be derived from capitalised exploration and evaluation expenditure. In the judgement of the Directors, at 30 June 2016 exploration activities in each area of interest, where costs are carried forward, have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. Active and significant operations in relation to each area of interest are continuing and nothing has come to the attention of the Directors to indicate future economic benefits will not be achieved. The Directors are continually monitoring the areas of interest and are exploring alternatives for funding the development of areas of interest when economically recoverable reserves are confirmed.

The exploration write-off for the financial year is \$3,151,435, which is mainly due to the write-off of \$2,236,280 relating to WA-454-P and the write-off of \$679,381 relating to WA-488-P.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 11: EXPLORATION AND EVALUATION COSTS (Cont)

In addition, a write-down of \$7,622,966 relating to AC/P50 and AC/P51 was recognised during the financial year. The write-down is as a result of the execution of the agreement with Rouge Rock which grants Rouge Rock an option to acquire a 45% interest in each permit in exchange for funding the remaining primary statutory work program for each permit.

Capitalised exploration and evaluation costs at 30 June 2016 are \$1,764,514 (June 2015: \$10,856,110) which relate to the following:

| Area of Interest | 30 June 2016       | 30 June 2015        |
|------------------|--------------------|---------------------|
| AC/P50 & AC/P51  | \$632,500          | \$8,186,955         |
| WA-454-P         | -                  | \$2,062,305         |
| WA-488-P         | -                  | \$606,850           |
| Block 9 Cuba     | \$1,132,014        | -                   |
| <b>TOTAL</b>     | <b>\$1,764,514</b> | <b>\$10,856,110</b> |

### NOTE 12: TRADE AND OTHER PAYABLES

|                          | Consolidated |            |
|--------------------------|--------------|------------|
|                          | 2016<br>\$   | 2015<br>\$ |
| Trade and other payables | 219,622      | 213,286    |

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

### NOTE 13: PROVISIONS

|                                | Consolidated   |                |
|--------------------------------|----------------|----------------|
|                                | 2016<br>\$     | 2015<br>\$     |
| <b>CURRENT</b>                 |                |                |
| Employee benefits              |                |                |
| Annual leave entitlement       | 133,416        | 134,610        |
| Long service leave entitlement | 71,669         | 59,965         |
|                                | <u>205,085</u> | <u>194,575</u> |
| <b>NON-CURRENT</b>             |                |                |
| Employee benefits              |                |                |
| Long service leave entitlement | 162,019        | 20,473         |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 14: CONTRIBUTED EQUITY AND RESERVES

#### Issued And Paid Up Capital

|                                     | Consolidated       |                    |                    |                    |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                     | 2016<br>Shares     | 2016<br>\$         | 2015<br>Shares     | 2015<br>\$         |
| Ordinary shares                     | 891,204,960        | 263,822,525        | 750,488,387        | 262,406,308        |
|                                     |                    |                    |                    |                    |
|                                     | 2016<br>Shares     | 2016<br>\$         | 2015<br>Shares     | 2015<br>\$         |
| Movements in Ordinary Shares        |                    |                    |                    |                    |
| Balance at beginning of year        | 750,488,387        | 262,406,308        | 750,488,387        | 262,367,184        |
| <b>Share Issues:</b>                |                    |                    |                    |                    |
| Share Placement at \$0.01 per share | 140,716,573        | 1,407,166          | -                  | -                  |
| Transaction costs (net of tax)      | -                  | (9,051)            | -                  | 39,124             |
| <b>Balance at end of year</b>       | <b>891,204,960</b> | <b>263,822,525</b> | <b>750,488,387</b> | <b>262,406,308</b> |

#### (a) Terms and Condition of Ordinary Shares

Ordinary shares entitle their holder to receive dividends as declared. In the event of winding up the Company, ordinary shares entitle their holder to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up or which should have been paid up on shares held. Each ordinary share entitles the holder to one vote, either in person or by proxy, at a meeting of the Company. Ordinary shares issued during the year and since the end of the year, from date of issue rank equally with the ordinary shares on issue.

#### (b) Share Options and Performance Rights

At 30 June 2016, 4,200,000 share options and 26,273,365 share performance rights granted to directors, executives and consultants were outstanding. The options and share performance rights are granted pursuant to the Senior Executives and Officers Option Plan, details of which are set out in note 19.

#### (c) Capital Management

Capital is defined as equity. When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits of other stakeholders. All methods of returning funds to shareholders outside of dividend payments or raising funds are considered within the context of the Company's objectives.

The Group will seek to raise further capital, if required, as and when necessary to meet its projected operations. The decision of how the Group will raise future capital will depend on market conditions existing at that time. It is the Group's plan that this capital will be raised by any one or a combination of the following: placement of shares, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares to the public. Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the Company's intention to meet its obligations by either partial sale of the Company's interests or farmout, the latter course of action being part of the Company's overall strategy.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended 30 June 2016

### NOTE 14: CONTRIBUTED EQUITY AND RESERVES (Cont)

#### Accumulated losses

|  | Consolidated         |                      |
|--|----------------------|----------------------|
|  | 2016<br>\$           | 2015<br>\$           |
| Balance at beginning of year   | (249,211,295)        | (239,618,522)        |
| Net loss for the year  | (10,406,105)         | (10,042,223)         |
| Transfer from share based payments reserve -<br>cost of equity instruments expired unexercised | 934,013              | 449,450              |
| <b>Balance at end of year</b>  | <b>(258,683,387)</b> | <b>(249,211,295)</b> |

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

#### Other Reserves

##### *Share based payments reserve*

The share based payment reserve is used to record the value of share based payments provided to employees and contractors, including KMP's as part of their remuneration. Refer to note 19 for further details of the plan.

##### *Foreign currency translation reserve*

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

The surrender of the Seruway and South Madura Production Sharing Contracts were formalised during the year. Exchange differences of \$2,264,862 previously recognised in other comprehensive income and accumulated in the foreign currency translation reserve were reclassified from the reserve to profit or loss on cessation of the foreign operation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 15: CASH FLOW STATEMENT RECONCILIATION

Reconciliation of net loss after tax to net cash flows used in operating activities

|  | Consolidated       |                    |
|--|--------------------|--------------------|
|  | 2016<br>\$         | 2015<br>\$         |
| Net (loss)/profit  | (10,406,105)       | (10,042,223)       |
| <b>Adjustments for:</b>  |                    |                    |
| Loss on available for sale financial asset                                 | -                  | 42,509             |
| Asset write-offs   | -                  | 342,330            |
| Exploration expenditure written-off/down                                   | 10,774,401         | 5,141,971          |
| Depreciation and amortisation  | 84,636             | 417,481            |
| Share based payments   | 133,131            | 8,000              |
| Exchange rate adjustments on revaluation of foreign currency bank accounts | (30,105)           | (965,529)          |
| Foreign currency gain on closure of foreign operation                      | (2,264,862)        | -                  |
| Deferred income tax expense  | 43,225             | 39,124             |
| <b>Changes in assets and liabilities</b>                                   |                    |                    |
| (Increase)/decrease in trade and other receivables                         | 69,123             | (9,944)            |
| (Decrease)/increase in trade and other payables                            | (30,068)           | (81,594)           |
| (Decrease)/increase in provisions  | 152,056            | (335,893)          |
| <b>Net cash flows (used in) operating activities</b>                       | <b>(1,474,568)</b> | <b>(5,443,768)</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 16: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits, the main purpose of which is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables 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 2016 (2015: \$nil).

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the consolidated financial statements.

#### Credit risk

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the results being that the Group's exposure to bad debts is not significant.

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. No collateral is held as security. Exposure at balance date is the carrying value as disclosed in each applicable note.

#### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and cash equivalents with a floating interest rate. Short term deposits are made for varying periods depending on the immediate cash requirements of the group, and earn interest at the respective short term deposit rates.

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

#### Foreign currency risk

The Group's exposure to exchange rate risk relates primarily to trade payables and cash denominated in US dollars. Where a payable is significant, US dollars are purchased on incurring the liability or commitment. The Group also manages its currency risk through the active management of its exposures which may include entering into various forward currency contracts throughout the year.

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

|                                    | Consolidated   |                |
|------------------------------------|----------------|----------------|
|                                    | 2016<br>\$     | 2015<br>\$     |
| <b>USD</b>                         |                |                |
| Cash                               | 985,817        | 902,168        |
| <b>Total Financial Assets</b>      | <b>985,817</b> | <b>902,168</b> |
|                                    |                |                |
|                                    | 2016<br>\$     | 2015<br>\$     |
| Trade Creditors                    | 12,707         | -              |
| <b>Total Financial Liabilities</b> | <b>12,707</b>  | <b>-</b>       |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 16: 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 |            |
|--|-------------------------|------------|
|  | 2016<br>\$              | 2015<br>\$ |
| 10% strengthening in AUD/USD rate (for 2016 from 0.7522 to 0.8274 and for 2015 from 0.7680 to 0.8448) with all other variables held constant | (117,608)               | (106,791)  |
| 10% weakening in AUD/USD rate (for 2016 from 0.7522 to 0.6770 and 2015 from 0.7680 to 0.6912) with all other variables held constant         | 143,743                 | 130,522    |

A sensitivity of 10% has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on a 5 year historical basis and market expectations for potential future movement.

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

#### Liquidity Risk

The Group's exposure to financial obligations relating to corporate administration and exploration expenditure, are subject to budgeting and reporting controls, to ensure that such obligations do not exceed cash held and known cash inflows for a period of at least 1 year.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built in an appropriate liquidity risk framework for the management of the Group's short, medium and longer term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate equity funding through the monitoring of future cash flow forecasts of its operations, which reflect management's expectations of the settlement of financial assets and liabilities.

The Group has limited financial resources and will need to raise additional capital from time to time and such fund raisings may be subject to factors beyond the control of the Company and its directors. When MEO requires further funding for its programs, then it is the Company's intention that the additional funds will be raised by any one or a combination of the following: placement of shares, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares to the public. Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the Company's intention to meet its obligations by either partial sale of the Company's interests or farmout, the latter course of action being part of the Company's overall strategy.

At balance date, the group holds \$219,622 (2015: \$213,286) of financial liabilities consisting of trade and other payables. All financial liabilities have a contractual maturity of 30 days. The fair values of the financial assets and liabilities approximate the carrying values in the statement of financial position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 17 COMMITMENTS AND CONTINGENCIES

#### Commitments

|   | Consolidate    |                |
|---|----------------|----------------|
|   | 2016<br>\$     | 2015<br>\$     |
| <b>Operating Lease</b>  |                |                |
| Future minimum rentals payable under operating lease for office premises at balance date: |                |                |
| Payable not later than one year   | 123,863        | 349,186        |
| Payable later than one year but not later than five years                                 | -              | 122,045        |
|   | <b>123,863</b> | <b>471,231</b> |

#### Guarantee

The Group has provided guarantees of \$70,752 (2015: \$70,752) at 30 June 2016 for lease of premises.

#### Exploration Commitments

In order to maintain rights of tenure to petroleum exploration tenements, the Group has discretionary exploration requirements up until the expiry of the primary term of the tenements. These requirements, which are subject to renegotiation, are not provided for in the financial statements. If the economic entity decides to relinquish certain tenements and/or does not meet these obligations, assets recognised in the Statement of Financial Position may require review in order to determine the appropriateness of carrying values. The commitments for exploration expenditure of \$20,014,286 include the minimum expenditure requirements that the Consolidated Entity is required to meet in order to retain its present permit interests. These obligations may be subject to renegotiation, may be farmed out or may be relinquished.

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

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

AC/P50 was renewed for a further 5 year term commencing 19 May 2015 and the minimum work program requirement during the 3 year Primary Term consists of:-

Year 1 (ending 18 May 2016) - geological and geophysical studies; Status - Work program completed

Year 2 (ending 18 May 2017) - seismic data reprocessing and Year 3 (ending 18 May 2018) - geological and geophysical studies.

As announced on 5 July 2016, MEO will be "free-carried" through the Year 2 and Year 3 work programs following an agreement with Rouge Rock Pty Ltd which grants Rouge Rock an option to acquire a 45% interest in the Permit in exchange for undertaking and funding the remaining work program.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 17 COMMITMENTS AND CONTINGENCIES (Cont)

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

AC/P51 was renewed for a further 5 year term commencing 19 May 2015 and the minimum work program requirement during the 3 year Primary Term consists of:

Year 1 (ending 18 May 2016) - geological and geophysical studies - Work program completed.

Year 2 (ending 18 May 2017) - seismic data reprocessing and Year 3 (ending 18 May 2018) - geological and geophysical studies.

As announced on 5 July 2016, MEO will be "free-carried" through the Year 2 and Year 3 work programs following an agreement with Rouge Rock Pty Ltd which grants Rouge Rock an option to acquire a 45% interest in the Permit in exchange for undertaking and funding the remaining work program.

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

In 2013, MEO was awarded WA-488-P for a six year period with a minimum commitment being the three year primary term ending 21 May 2016. The Permit Year 1 work program (ending 21 May 2014) was 400km 2D seismic; and has been satisfied. During the financial year the Regulator approved a suspension of the Permit Year 2 work program conditions by twelve months to 21 November 2016 with the work program varied to include 150km 2D broadband reprocessing and 2D seismic inversion. As a result, Permit Year 3, which has a work program of one exploration well now commences 22 November 2016.

#### PEP51153 (MEO 30% interest)

In June 2016, MEO advised that TAG Oil Ltd had acquired the 70% interest in, and became Operator for, onshore exploration permit PEP51153, which was previously held by Kea Oil and Gas Limited. The minimum work program for PEP51153 has also been revised and approved by the New Zealand regulator as follows:

| Period                         | Work Commitment  |
|--------------------------------|--|
| No later than 23 March 2017    | Acquire, process and interpret a minimum of 28.5km of gravity data across the permit                                     |
| No later than 23 February 2018 | Drill one well to a location and depth agreed between the permit holder and the Chief Executive; OR Surrender the permit |

PEP51153 expires on 23 September 2018.

#### Cuba Block 9 (MEO 100% interest)

In September 2015, MEO executed the Cuba Block 9 Production Sharing Contract (PSC) with the national oil company Cuba Petr leo Union (CUPET).

The exploration period of the Block 9 PSC is split into four sub-periods with withdrawal options at the end of each sub-period. The first sub-period, which is currently scheduled to conclude in March 2017, involves evaluating the existing exploration data in the block and reprocessing selected 2D seismic data before determining whether to proceed with a subsequent 24-month exploration sub-period that includes acquisition of new 2D seismic data. MEO is well advanced on meeting its obligations for the first sub-period.

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

#### Summary

Should MEO proceed with its share of exploration commitments, they are currently estimated to be \$20,014,286 of which \$14,286 is estimated within one year and \$20,000,000 is estimated after one year but not more than five years.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 18: 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 |        |
|---------------------------------------|--------------------------|-----------------|--------|
|                                       |                          | 2016 %          | 2015 % |
| North West Shelf Exploration Pty Ltd  | Australia                | 100             | 100    |
| Methanol Australia Pty Ltd            | Australia                | 100             | 100    |
| LNG Australia Pty Ltd                 | Australia                | 100             | 100    |
| TSP Arafura Petroleum Pty Ltd         | Australia                | 100             | 100    |
| Oz-Exoil Pty Ltd                      | Australia                | 100             | 100    |
| Innovative Energy Pty Ltd             | Australia                | 100             | 100    |
| Offshore Methanol Pty Ltd             | Australia                | 100             | 100    |
| Gastech Systems Pty Ltd               | Australia                | 100             | 100    |
| Vulcan Exploration Pty Ltd            | Australia                | 100             | 100    |
| MEO International Pty Ltd*            | Australia                | 100             | 100    |
| Drysdale Offshore Exploration Pty Ltd | Australia                | 100             | 100    |
| Finniss Offshore Exploration Pty Ltd  | Australia                | 100             | 100    |
| Seruway Offshore Exploration Limited  | British Virgin Islands   | 100             | 100    |
| Rayong Offshore Exploration Limited   | British Virgin Islands   | 100             | 100    |
| MEO Malaysia Pty Ltd                  | Australia                | 100             | 100    |
| MEO New Zealand Pty Limited           | New Zealand              | 100             | 100    |

\*MEO International Pty Ltd holds:-

- 100% interest in Seruway Offshore Exploration Limited.
- 100% interest in MEO Malaysia Pty Ltd.
- 100% interest in MEO New Zealand Pty Limited
- 100% interest in Rayong Offshore Exploration Limited

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

|                                       | Consolidated     |                  |
|---------------------------------------|------------------|------------------|
|                                       | 2016 \$          | 2015 \$          |
| Short term employee benefits and fees | 855,082          | 1,668,258        |
| Post-employment benefits              | 104,579          | 181,587          |
| Share-based payments                  | 90,231           | 8,000            |
| Long service leave expense            | 37,842           | 7,303            |
| Long service leave reversal           | -                | (127,089)        |
| Termination payments                  | -                | 643,390          |
|                                       | <u>1,087,734</u> | <u>2,381,449</u> |

During the year there were no payments for consulting services to non-executive directors, other than director fees, which were paid to entities controlled by directors (2015: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 19: SHARE BASED PAYMENT PLANS

#### MEO Long Term Incentive Plan

##### Share Options

There were no share options granted to senior executives and non-executive directors during the financial year (2015: Nil). Each share option is an option to acquire one ordinary share in the Company. Any new shares which are issued in satisfaction of options will be issued at the prevailing market price at the time of issue.

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

|  | 2016<br>Options | 2015<br>Options |
|--|-----------------|-----------------|
| Outstanding at the beginning of the year | 11,080,000      | 16,530,000      |
| Granted during the year                  | -               | -               |
| Forfeited during the year                | 6,880,000       | 5,450,000       |
| Exercised during the year                | -               | -               |
| Outstanding at the end of the year       | 4,200,000       | 11,080,000      |

- 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 vested 50% on 1 July 2012 and 50% on 1 July 2013.

The fair value of the options at date of grant was estimated to be 7.12 cents for the options vesting on 1 July 2012 and 8.10 cents for options vesting on 1 July 2013. The fair value was determined using a Binomial pricing model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

|   |      |                          |    |
|---|------|--------------------------|----|
| Expected volatility   | 94%  | Contractual life (years) | 5  |
| Risk-free interest rate   | 4.8% | Dividend yield           | 0% |
| Early exercise multiple/estimated life for options expiring 1 July 2012 - 3.0 years |      |                          |    |
| Early exercise multiple/estimated life for options expiring 1 July 2013 - 3.5 years |      |                          |    |

There was no expense in the year relating to these share options (2015: nil).

- In October 2010, 1,500,000 share options were granted to an executive exercisable at a price of 50 cents per option on or before 4 October 2015. During the year these options lapsed.
- In October 2011, 2,075,000 share options were granted to executives exercisable at a price of 50 cents per option on or before 3 October 2016 of which 875,000 options lapsed in FY2014. These options vested 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 |      |                          |    |

There was no expense in the year relating to these share options (2015: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 19: SHARE BASED PAYMENT PLANS (Cont)

- 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. During FY2016 2,700,000 options lapsed (FY2015, 600,000 options lapsed and FY2014, 300,000 options lapsed).

There was no expense in the year relating to these share options (2015: \$8,000).

- In December 2011, 4,580,000 share options were granted to executives and staff exercisable at a price of 50 cents per option on or before 1 December 2016. These options vested 50% on 1 December 2012 and 50% on 1 December 2013. During FY2016 1,180,000 Options lapsed (FY2015 650,000 options lapsed and in FY 2014 250,000 options lapsed).

There was no expense in the year relating to these share options (2015: nil).

- 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. During the year these options lapsed.

There was no expense in the year relating to these share options (2015: nil).

### Share Performance Rights

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

|  | 2016<br>Rights    | 2015<br>Rights |
|--|-------------------|----------------|
| Outstanding at the beginning of the year | -                 | 350,000        |
| Granted during the year                  | 26,273,365        | -              |
| Forfeited during the year                | -                 | (350,000)      |
| Outstanding at the end of the year       | <u>26,273,365</u> | <u>-</u>       |

In November 2015, 5,333,333 Exercisable Performance Rights were granted to the Managing Director and Chief Executive Officer, Mr Peter Stickland under the Company's Long Term incentive Plan. The vesting date for the Exercisable Performance Rights is 30 November 2016 and expiry date on 29 November 2018. The Exercisable Performance Rights vest and become exercisable after 12 months continuous service ending 29 November 2016. There is no price payable on exercising the Exercisable Performance Rights. The Exercisable Performance Rights are valued at \$80,000 of which \$46,667 was expensed in the year.

In February 2016, the company implemented revised remuneration arrangements with its senior staff as part of the Company's ongoing cost reduction initiatives. Senior staff voluntarily agreed to a 20% reduction in the cash component of their annual remuneration packages in exchange for Exercisable Performance Rights. 20,940,032 Exercisable Performance Rights were granted. The vesting date for the Exercisable Performance Rights is 31 January 2017 and expiry date on 31 January 2019. The Exercisable Performance Rights vest and become exercisable after 12 months continuous service ending 31 January 2017. There is no price payable on exercising the Exercisable Performance Rights. The Exercisable Performance Rights are valued at \$207,515 of which \$86,464 was expensed in the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

For The Year Ended 30 June 2016

### NOTE 20: AUDITORS' REMUNERATION

|   | Consolidated  |                |
|---|---------------|----------------|
|   | 2016<br>\$    | 2015<br>\$     |
| Amounts received or due and receivable by Ernst & Young (Australia) for:            |               |                |
| Audit and review of the financial reports   | 70,000        | 74,000         |
| Tax services in relation to the entity and other entities in the consolidated group | 4,471         | 24,966         |
| Investigating Accountant Report for the Scheme of Arrangement                       | -             | 52,000         |
|   | <u>74,471</u> | <u>150,966</u> |

### NOTE 21: INTERESTS IN JOINT OPERATIONS

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

#### Commitments related to joint operation assets

Commitments relating to the joint operation assets are set out in note 17 to the accounts.

#### Contingent liabilities

As at 30 June 2016, there are no contingent liabilities relating to PEP51153.

### NOTE 22: PARENT ENTITY INFORMATION

| Information relating to MEO Australia Limited  | 2016<br>\$       | 2015<br>\$        |
|--|------------------|-------------------|
| Current assets   | 4,117,462        | 5,700,357         |
| <b>Total assets</b>  | <b>6,089,044</b> | <b>16,829,737</b> |
| Current liabilities  | 383,450          | 342,682           |
| <b>Total liabilities</b>   | <b>545,469</b>   | <b>363,155</b>    |
| Issued capital   | 260,753,544      | 259,380,552       |
| Share based payments reserve   | 447,741          | 1,248,623         |
| Accumulated losses   | (255,657,710)    | (244,162,593)     |
| <b>Total shareholders' equity</b>  | <b>5,543,575</b> | <b>16,466,582</b> |
| Loss of the parent entity  | (12,429,130)     | (5,131,279)       |
| Total comprehensive loss of the parent entity  | (12,429,130)     | (5,131,279)       |
| 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               |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont)

*For The Year Ended 30 June 2016*

### NOTE 23: EVENTS SUBSEQUENT TO BALANCE DATE

On 18 August 2016 MEO announced it had raised approximately \$1.69 million through a placement of approximately 46.9 million shares at \$0.036 per share to qualified institutional and sophisticated investors ("Placement"). The company also provided the opportunity for eligible shareholders to acquire new shares at the same discounted share price as under the Placement of \$0.036 per share via a non-underwritten share purchase plan ("SPP"). The SPP closes on 16 September 2016. Funds from the share placement and SPP will be used to accelerate MEO's onshore exploration activities on Block 9 in Cuba, including the preparation of a drilling program for up to two wells in Block 9 and for additional working capital purposes.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or state of affairs of the Group, in future financial years.

# 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 2016 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 2016 and of its performance for the year ended on that date; and
    - (ii) Complying with Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations* 2001.
  - (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2 (a)(i).
  - (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the Directors from the Managing Director and Chief Executive Officer and Chief Financial Officer & Company Secretary in accordance with Section 295A of the *Corporations Act* 2001 for the financial year ended 30 June 2016.

On behalf of the Board



**P J STICKLAND**  
**Managing Director & Chief Executive Officer**

Melbourne, 8 September 2016

# Independent Auditor's Report



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

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## 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 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report



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## 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 2016, 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.

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# Shareholder and Other Information

Compiled as at 9 September 2016

## (A) DISTRIBUTION OF EQUITY SECURITIES

### (i) Ordinary Share Capital

938,104,960 fully paid ordinary shares are held by 7,235 individual shareholders.

All issued ordinary shares carry one vote per share and carry rights to dividends. On a show of hands, every member at a meeting of shareholders shall have one vote and upon a poll each share shall have one vote.

### (ii) Unquoted Options on Issue

3,700,000 options are held by 4 individual option holders.

There are no voting rights attached to these options.

### (iii) Unquoted Share Performance Rights on Issue

26,273,365 options are held by 5 individual option holders.

There are no voting rights attached to these options.

The number of shareholders, by size of holding and the total number of shares on issue:

| Ordinary Shares       | No. of Holders | No. of Shares      |
|-----------------------|----------------|--------------------|
| 1 - 1,000             | 452            | 140,499            |
| 1,001 - 5,000         | 1,287          | 4,508,401          |
| 5,001 - 10,000        | 1,304          | 10,578,578         |
| 10,001 - 100,000      | 3,055          | 116,841,874        |
| 100,001 and over      | 1,137          | 806,035,608        |
| <b>TOTAL ON ISSUE</b> | <b>7,235</b>   | <b>938,104,960</b> |

3,615 holders holding 22,695,822 shares held less than a marketable parcel of ordinary shares. There is no current on-market buy-back.

## (B) SUBSTANTIAL SHAREHOLDER

The Company has one Substantial Shareholder as at 9 September 2016 - Leni Gas Cuba Limited with a holding of 140,716,573 shares representing 15.0% of total ordinary issued shares.

**(C) 20 LARGEST HOLDERS OF ORDINARY SHARES**

| <b>Holder</b>  | <b>Ordinary Shares</b> | <b>% of total on issue</b> |
|--|------------------------|----------------------------|
| HSBC Custody Nominees (Australia) Limited  | 145,406,604            | 15.50%                     |
| Mrs Cathy Ann Bender   | 20,022,531             | 2.14%                      |
| HSBC Custody Nominees (Australia) Limited-GSCO ECA                               | 19,504,769             | 2.08%                      |
| Mr John Oldani   | 15,000,001             | 1.60%                      |
| ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>                        | 14,515,998             | 1.55%                      |
| Mrs Danielle Gordon  | 14,000,000             | 1.49%                      |
| Mr Edward Van Heemst & Mrs Marilyn Elaine Van Heemst<br><Lynward Super Fund A/C> | 12,000,000             | 1.28%                      |
| Mr Mark Jeffrey Hanrahan   | 10,325,000             | 1.10%                      |
| Citicorp Nominees Pty Limited  | 10,296,128             | 1.10%                      |
| Pedomml Pty Ltd <Pedomml Super Fund A/C>   | 9,000,000              | 0.96%                      |
| J P Morgan Nominees Australia Limited  | 7,442,399              | 0.79%                      |
| Mr Paul Kenneth Fry  | 6,829,620              | 0.73%                      |
| PSI Consulting PL <Coghill Family A/C>   | 6,671,180              | 0.71%                      |
| Mrs Susan Jane Stickland   | 5,453,700              | 0.58%                      |
| Maxwell Thomas Quirk   | 5,000,000              | 0.53%                      |
| Mr Kenneth William Purvis  | 4,500,000              | 0.48%                      |
| Alrene Pty Ltd <Firman Super Fund A/C>   | 4,241,538              | 0.44%                      |
| Mr Jason Meinhardt   | 4,140,888              | 0.44%                      |
| Mr Craig Garraway  | 4,100,000              | 0.44%                      |
| Mr Jun Shan Wu   | 4,011,753              | 0.43%                      |

The 20 largest shareholders hold 322,462,109 shares representing 34.37% of the shares on issue.

# Corporate Directory

MEO Australia Limited  
ABN 43 066 447 952

## Directors

Andrew G Purcell  
*(Chairman)*

Peter J Stickland  
*(Managing Director and Chief Executive Officer)*

Michael J Sandy

## Company Secretary

Colin H Naylor

## Registered office and Principal place of business

Level 15, 500 Collins Street  
Melbourne, Victoria 3000 Australia  
Telephone +61 (3) 8625 6000  
Facsimile +61 (3) 9614 0660  
Email: [admin@meoaustralia.com.au](mailto:admin@meoaustralia.com.au)

## Share registrar

Link Market Services Limited  
Tower 4, 727 Collins Street  
Docklands, Victoria 3008 Australia  
Telephone: +61 (3) 9615 9800  
Facsimile: +61 (3) 9615 9921

## Auditor

Ernst & Young  
8 Exhibition Street  
Melbourne, Victoria 3000 Australia

## Stock exchange listing

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

ASX Code: MEO  
Website [www.meoaustralia.com.au](http://www.meoaustralia.com.au)

Incorporated 14 September 1994  
Victoria, Australia



**MEOAustralia**  
energy for the future



## Annual Report 2016

**MEO AUSTRALIA**

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Website [www.meoaustralia.com.au](http://www.meoaustralia.com.au)