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## **ASX AND MEDIA RELEASE**

### **HERON-2 WELL UPDATE**

#### **Key Points:**

- **Epenarra Darwin production test brought forward to later this week**
- **Drilled 6 inch hole into Elang shale unit at 3967m and encountered formation instability**
- **Unstable shale unit leads to prudent decision not to continue re-drilling the Plover formation in Heron-2**

MELBOURNE, AUSTRALIA (January 15, 2008) -- MEO Australia Limited (ASX: MEO) advises the market that the joint venture partners have decided to cease the current re-drilling of the Plover formation and bring forward the production testing of the Epenarra Darwin formation in the Heron-2 well to later this week. Importantly, this is due to technical issues encountered with the sidetracking of the well and not because of a changed view of the potential of the Heron North Plover sands, which would be revisited with a separate well.

#### **Epenarra Production Test:**

Pre-drill, the primary objective and most significant hydrocarbon resource potential to be tested by Heron-2 was the Darwin formation. The production test to confirm this potential is now imminent.

The results of Heron-2 drilling, electric log and core sample interpretation of the Darwin formation confirm strong indications of a significant gas accumulation. A summary of the results through the Darwin formation to date are:

- gas saturation recorded over entire 50 metres (3109m – 3159m) of facies C;
- no carbon dioxide (CO<sub>2</sub>) recorded by mud gas detection systems while drilling;
- initial mud log indications while drilling suggest gas wet with associated liquid hydrocarbons;
- positive primary porosity in facies C ranging between 5% and 12%;
- data interpreted from the Sonic Scanner shows four major open fracture sets were encountered which are the primary mechanism for gas to flow;
- multiple open secondary fractures were noted in the side-wall core samples, and
- in the absence of a full diameter core, fracture permeability in facies C is inferred in the multi-darcy range, which would ordinarily indicate that any gas present should flow at a satisfactory rate.

The well is currently being plugged back to just below the Darwin formation at 3200m. A production packer will be set in the 9<sup>5</sup>/<sub>8</sub> inch casing at 3080m, the production test string will be run and the well is scheduled to be perforated and flowed later this week.

MEO and Petrofac look forward to the results of the production test of the Epenarra Darwin formation.

**Plover formation to be re-drilled:**

With regard to the Plover formation, in accordance with the Heron-2 update of Friday, January 11, a sidetrack was undertaken and drilling of the 6 inch hole had commenced. However, on Sunday January 14, after drilling into the Elang shale unit, approximately 3 metres horizontally away from the previous borehole at 3967m, the drilling bit became stuck when the now unconsolidated shale unit collapsed around the drill string.

It is apparent that the rapid reduction in pressure (drawdown and other operations) during the open-hole production testing of the Elang/Plover formation caused a collapse of the Elang shale unit into the well. This prevented the deeper Plover sands contributing to the flow and appears to have disturbed the shale formation in the vicinity of the original wellbore.

Contrary to the joint venture's pre-drill expectation that the Plover sands of Heron North would most likely contain low quality, high CO<sub>2</sub> gas, Heron-2 has provided sufficient log data to indicate that in fact a higher quality and more valuable hydrocarbon resource may be present warranting further production testing. However, the joint venture believes it would be neither prudent nor economic to attempt to continue re-drilling and testing of the Plover formation in Heron-2 in such close proximity to the original wellbore. Therefore, in order to properly appraise the Heron North Plover sands, a new well will be required.

It should be noted that the Heron-2 well design attempted to appraise cost effectively both the Darwin and Elang/Plover formations. Ideally, these two formations would have been appraised in separate wells. Heron-2 has provided excellent modern data and confirmed pore pressures for both the Flamingo and Plover formations, which will enhance well and casing design preparations for the anticipated re-drilling of the Heron North Plover formation. Accordingly, before commencing detailed planning of future drilling, a number of geoscientific studies based on the Heron-2 findings are planned, including:

- biostratigraphy to accurately age the Elang and Plover sands;
- fluid inclusion analysis to establish charge history;
- gas analysis to confirm quality and condensate gas ratios;
- well bore stability studies to explain the Elang shale instability, and
- source rock analysis to assist in modelling the hydrocarbon charge to explain the apparently vastly better gas quality of the Plover sands compared to the Elang sands.

It is expected that the studies will take a few months to complete. The following table provides a summary of the Elang/Plover formation findings to date:

<b>Interpreted Sections</b>	<b>Drilled depth(m)</b>	<b>Thickness (m)</b>	<b>Mud log observations</b>	<b>Porosity &amp; permeability</b>	<b>Production testing</b>
Elang sand	3946 - 3961	15	Dry gas, high CO <sub>2</sub>	Poor	~6 MMscf/day: dry gas, CO <sub>2</sub>
Elang shale	3961 - 3980	19	N/A	N/A	N/A
Upper Plover sand	3980 - 4081	101	Wet gas, nil CO <sub>2</sub>	Good	No contribution to test (blockage)
Plover siltstone	4081 - 4119	38	N/A	N/A	N/A
Lower Plover sand	4119 - 4182 (current TD)	63	Wet gas, nil CO <sub>2</sub>	Good	No contribution to test (blockage)

Heron-2 is being drilled by Seadrill's West Atlas jack-up rig contracted to MEO for two firm wells. The Heron-2 well is designed as a vertical well to penetrate and production test the Epenarra Darwin Formation and the deeper Elang/Plover Formation of the Heron North structure.

The Heron-1 well drilled by ARCO in 1972 intersected a 52m gas bearing column in the Darwin Formation (a fractured carbonate reservoir) within the 1,200 square km mapped closure of the large Epenarra structure. Heron-1 also reached a gas charged zone in the deeper underlying Elang/Plover horizon, which is a secondary objective for the Heron-2 well.

The participants in the well and permit are:

TSP Arafura Petroleum Pty Ltd (MEO subsidiary)	45%
Oz-Exoil Pty Ltd (MEO subsidiary)	45%
Petrofac Energy Developments Oceania Ltd (Petrofac Limited subsidiary)	10%



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