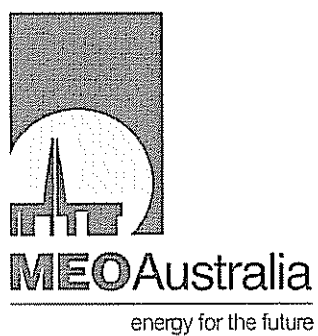


# **MEO AUSTRALIA LIMITED**

**ABN 43 066 447 952**



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

**31 DECEMBER 2008**

## **DIRECTORS' REPORT**

The Directors of MEO Australia Limited (variously the "Company" and "MEO Australia") submit their report for the half-year ended 31 December 2008.

### **DIRECTORS**

The Directors of the Company during the half-year ended 31 December 2008 and until the date of this report (in office for the entire period unless otherwise stated) are;

*Chairman:* Nicholas M Heath B.Eng (Chem) (Hons) (Appointed 12 May 2008)

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

*Non Executive Director:* Stephen Hopley PhC(Vic), DipFP(Deakin), GMQ (AGSM) (Appointed 1 October 2008)

*Non Executive Director:* Michael J F Sweeney LLB, FAIMA, FCI Arb, Chartered Arbitrator (Appointed 1 October 2008)

*Chief Executive Officer & Managing Director:* Jürgen Hendrich B.Sc. (Geology) (Hons), PDM (Appointed 25 July 2008)

*Warwick Bisley (retired 13 November 2008)*

*Christopher R Hart (retired 30 September 2008)*

*Andrew J Rigg (retired 31 October 2008)*

*James M D Willis (retired 11 July 2008)*

### **REVIEW AND RESULTS OF OPERATIONS**

The net profit of the Company for the half-year, after provision for income tax, was \$1,345,382.

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

On October 25, 2007, the Company, via its wholly owned subsidiary North West Shelf Exploration Pty Ltd, farmed into three Northwest Shelf offshore permits (WA-359-P, WA-360-P & WA-361-P). MEO secured a 60% participating interest in these highly prospective exploration permits by meeting the year three seismic acquisition obligations. 258 km<sup>2</sup> of new 3D data was acquired during December 2007 in WA-360-P and WA-361-P and approximately 250 line km of new 2D data was acquired in early 2008 in WA-359-P, thereby completing the permit year 3 work obligations.

Under the terms of the farm-in agreement, MEO had until 1st January 2009 to commit to funding the drilling of a well in each of the three permits or relinquish its interests. In early July 2008, MEO secured Resource Development International Limited (RDI) as a farm-in partner for WA-361-P. RDI agreed to fund 80% of the costs of the planned Zeus-1 well to a cap of US\$31.25m to earn a 35% interest in the permit. RDI also agreed to fund MEO's share of two additional wells in WA-361-P in the event Zeus-1 discovered hydrocarbons.

The farm-in by RDI into WA-361-P allowed MEO to commit to drilling Zeus-1 and to execute a drilling contract to engage the Songa Venus semi-submersible drilling rig to drill Zeus-1. The Songa Venus was anticipated to arrive at Zeus-1 in October 2008, however was delayed until mid January 2009. MEO's two co-venturers elected to forego funding 5% of Zeus-1 and their combined 10% equity was transferred to MEO together with the obligation to fund an additional 10% of the well costs, taking MEO's interest to 35%. Zeus-1 completed drilling in mid-February. While the well encountered excellent quality sands in the target horizon, largely at the prognosed depth and encountered encouraging gas shows while drilling, subsequent logging and formation pressure sampling indicated the absence of hydrocarbons at this location.

RDI was also granted options to farm-in to WA-359-P and WA-360-P by 1st December 2008. These options lapsed when the planned public listing of RDI was deferred in response to the Global Financial Crisis.

## **DIRECTORS' REPORT (continued)**

### **REVIEW AND RESULTS OF OPERATIONS (continued)**

Following the lapsing of RDI's options over WA-359-P and WA-360-P and the delay to the commencement of drilling at Zeus-1, MEO was not in a position to commit to drilling a well in the adjoining permits (WA-359-P and WA-360-P) and consequently extended the drill/drop options over these permits for 12 months to 31st December 2009. In consideration, MEO agreed to acquire a minimum of an additional 175 km<sup>2</sup> 3D seismic data in WA-360-P and in the event Zeus-1 discovered hydrocarbons, to reprocess sufficient existing 3D data in WA-359-P to mature the Hephaestus Lead to drillable prospect status.

Concurrently, MEO applied to the Designated Authority to vary the work programs for WA-359-P and WA-360-P which required an exploration well to be drilled during permit year 5 commencing 1st February 2009. These applications were approved subsequent to year end effectively moving the well obligation into the permit year commencing 1st February 2010.

#### **Timor Sea Exploration Permit NT/P68**

NT/P68 is a 12,000 km<sup>2</sup> petroleum exploration permit located in the Australian waters of the Timor Sea immediately to the west of Tassie Shoal (25 km) and approximately 200 km northwest of Darwin. Petrofac Resources Limited farmed into the permit by agreeing to fund 25% of two wells to earn a 10% interest. The first of these wells drilled was Heron-2, commencing late 2007 and completed in early 2008. The well had dual objectives – the shallow Darwin Formation – a fracture Carbonate play and a deeper, traditional Plover sandstone play that hosts the majority of discovered resources in the Bonaparte Basin. Operational difficulties, weather related downtime (cyclones) together with drilling and completion practices combined to cause a production test of the lower gas charged Plover sandstones to fail when the borehole collapsed. The shallower Darwin Formation also failed to flow on test due to a combination of factors.

MEO then sole-risked the Blackwood-1 exploration well, that resulted in the discovery of gas in the Plover sandstone. A 3D seismic survey was recorded to help resolve the mapping challenges posed by shallow carbonates and channelling creating difficulties imaging the top of reservoir. Extensive pre-stack depth migration (PSDM) processing continued during the second half of 2008 with the final product delivered mid-February 2009.

#### **Tassie Shoal Methanol Project**

The Company and Air Products and Chemicals, Inc. (APCI) continue to develop the Tassie Shoal Methanol Project (TSMP) under the terms of the joint development agreement (JDA). The TSMP has secured Commonwealth Government environmental approvals until 2052. As part of the NT/P68 farm-in agreement, Petrofac has the right to earn a 10% participating interest in the TSMP from APCI.

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

During the half year, the Company continued to review the capital cost and operating cost assumptions for the proposed facility and continued the casting basin site selection process throughout Southeast Asia to identify and secure sites for the potential construction of the sub-structural elements of either the TSMP or TSLNGP.

#### **Timor Sea LNG Project**

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

## **DIRECTORS' REPORT (continued)**

### **REVIEW AND RESULTS OF OPERATIONS (continued)**

MEO continued to work with the project's engineering consultants to optimize design of the facilities and review capital and operating cost assumptions. A 3rd party study was commissioned during 3Q'08 that concluded approximately 30% capital cost savings for the TSLNGP compared with a comparable sized plant based on shore. The substantial savings accrue largely to the elimination of a long distance pipeline to shore (~60% of savings) together with a simpler, more compact plant due to the use of indirect sea-water cooling resulting in a dramatically smaller plant footprint (~40% of savings). The ability to pre-fabricate and pre-commission the plant entirely at an efficient South East Asian construction site underpins the capital expenditure savings.

#### **3rd Party Gas**

Both GTL projects require confirmation of a suitable gas resource to trigger front end engineering and design (FEED), the precursor to a final investment decision (FID). In addition to our technical work to progress appraisal of the Blackwood and Heron discoveries, discussions were initiated with the major custodians of gas resources hosted in Australian waters, while these discussions are at an early stage, MEO management is optimistic that the integrated GTL projects on Tassie Shoal represents the most attractive development option for ALL of the currently undeveloped gas resources in this region.

The Global Financial Crisis is creating an environment where all projects are stress tested at modest commodity prices. Construction capacity and costs are expected to follow the commodity price cycle to create the circumstances where sensible projects (such as the Tassie Shoal GTL projects) will prevail.

### **OTHER MATTERS**

#### **Share Issues**

During the half-year the Company raised a total of \$6,265,050 (before transaction costs - \$588,253) from the issue of 11 391 million shares at \$0.55 per share to Mineralogy Pty Ltd.

#### **Trustee share sales**

In July 2008 the Trustee sold 10,000,000 shares at \$0.55 per share.

At the date of this report there are 10,122,918 shares subject to the plan.

#### **Share Options**

##### *30 November 2009 Options*

At a General Meeting of Shareholders on 21 August 2008 shareholders approved the granting of 1,000,000 options exercisable at a price of 50 cents per option on or before 30 November 2009 to each of Messrs N M Heath, J Hendrich and G A Short. These options vest on 15 May 2009, 16 June 2009 and 14 July 2009 respectively.

1,000,000 options exercisable at a price of 50 cents per option granted to former director Mr W Dewé have lapsed unexercised in August 2008 and 1,000,000 options exercisable at a price of 50 cents per option granted to former director Mr J M D Willis have lapsed unexercised in January 2009. 1,000,000 options exercisable at a price of 50 cents per option granted to each of the former directors Mr W Bisley, Mr A J Rigg and Mr C R Hart have expiry dates of 13 May 2009, 30 April 2009 and 31 March 2009 respectively.

##### *30 September 2011 Options*

At the Annual General Meeting of Shareholders on 13 November 2008 shareholders approved the granting of 1,000,000 options exercisable at a price of 50 cents per option on or before 30 September 2011 to each of Messrs M J F Sweeney and S W Hopley. These options vest on 30 September 2009.

**DIRECTORS' REPORT (continued)**

**OTHER MATTERS (continued)**

**Share Performance Rights**

At 30 June 2008, 2,000,000 share performance rights granted to Mr C R Hart were outstanding. Mr Hart retired from the position of Managing Director in July 2008 and all performance rights lapsed at that date.

**Auditor's Independence Declaration**

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

Signed in accordance with a resolution of the Directors.



**Jürgen Hendrich**  
Managing Director & Chief Executive Officer  
Melbourne, 25 February 2009

## **DIRECTORS' DECLARATION**

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

In the opinion of the Directors:

- (a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001, including:*
  - (i) Giving a true and fair view of the financial position as at 31 December 2008 and the performance for the half-year ended on that date of the consolidated entity; and
  - (ii) Complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board.



**Jürgen Hendrich**  
Managing Director & Chief Executive Officer  
Melbourne, 25 February 2009

**INCOME STATEMENT  
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

		<b>Consolidated</b>	
	<b>Note</b>	<b>31/12/08</b>	<b>31/12/07</b>
		<b>\$</b>	<b>\$</b>
Interest income		731,644	1,835,682
Other income		5,200	10,100
		<hr/>	<hr/>
<b>Income</b>		<b>736,844</b>	<b>1,845,782</b>
		<hr/>	<hr/>
Depreciation and amortisation expense		(51,994)	(34,151)
Employees and consultants	4	(1,589,059)	(583,939)
Project expenditure		(235,432)	(155,666)
Other expenses	4	(857,506)	(266,259)
Foreign exchange gains/(losses)		3,598,506	(1,045,455)
		<hr/>	<hr/>
<b>Profit/(loss) before income tax</b>		<b>1,601,359</b>	<b>(239,688)</b>
		<hr/>	<hr/>
Income tax (expense)		(255,977)	(408,871)
		<hr/>	<hr/>
<b>Net profit/(loss) for the period</b>		<b>1,345,382</b>	<b>(648,559)</b>
		<hr/> <hr/>	<hr/> <hr/>
Basic earnings (loss) per share (cents per share)		0.32	(0.19)
Diluted earnings (loss) per share (cents per share)		0.32	(0.19)

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2008**

		<b>Consolidated</b>	
	Note	31/12/08	30/06/08
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	29,564,601	24,343,540
Other receivables		3,491,434	1,532,819
<b>TOTAL CURRENT ASSETS</b>		<b>33,056,035</b>	<b>25,876,359</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment		101,728	214,695
Leasehold improvements		94,923	68,368
Intangible assets		49,944	94,093
Exploration and evaluation costs	6	140,991,624	139,162,761
<b>TOTAL NON-CURRENT ASSETS</b>		<b>141,238,219</b>	<b>139,539,917</b>
<b>TOTAL ASSETS</b>		<b>174,294,254</b>	<b>165,416,276</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		7,090,039	11,455,372
Provisions		48,316	53,805
<b>TOTAL CURRENT LIABILITIES</b>		<b>7,138,355</b>	<b>11,509,177</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions		55,300	44,376
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>55,300</b>	<b>44,376</b>
<b>TOTAL LIABILITIES</b>		<b>7,193,655</b>	<b>11,553,553</b>
<b>NET ASSETS</b>		<b>167,100,599</b>	<b>153,862,723</b>
<b>EQUITY</b>			
Contributed equity	7	179,271,513	167,726,255
Share based payments reserve		1,247,890	1,047,954
Accumulated losses		(13,418,804)	(14,911,486)
<b>TOTAL EQUITY</b>		<b>167,100,599</b>	<b>153,862,723</b>



**CASH FLOW STATEMENT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	Consolidated	
	31/12/08	31/12/07
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees	(2,780,492)	(1,671,412)
Receipts from services rendered	282,370	254,008
Interest received	309,721	1,716,612
Net cash (used in)/from operating activities	<u>(2,188,401)</u>	<u>299,208</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditure on plant and equipment	(28,412)	(20,155)
Expenditure on leasehold improvements	-	(5,310)
Expenditure on intangibles	(87,122)	-
Expenditure on exploration tenements	(7,282,505)	(46,795,408)
Proceed from sale of assets	90,327	-
Net cash used in investing activities	<u>(7,307,712)</u>	<u>(46,820,873)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from share issues	6,265,050	63,200,000
Transaction costs on issue of shares	(588,253)	(2,671,875)
Proceeds from share purchase plan	-	10,388,000
Purchase of shares on market in settlement of vested performance rights	(58,129)	-
Proceeds from sale of trustee shares	5,500,000	-
Net cash from financing activities	<u>11,118,668</u>	<u>70,916,125</u>
Net increase in cash and cash equivalents	<b>1,622,555</b>	<b>24,394,460</b>
Cash and cash equivalents at beginning of period	<b>24,343,540</b>	<b>70,929,204</b>
Net foreign exchange differences	<b>3,598,506</b>	<b>(936,856)</b>
Cash and cash equivalents at end of period	<u><b>29,564,601</b></u>	<u><b>94,386,808</b></u>

**STATEMENT OF CHANGES IN EQUITY  
 FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	<b>Consolidated</b>			
	<b>Issued Capital</b>	<b>Share Based Payments Reserve</b>	<b>Accumulated Losses</b>	<b>Total Equity</b>
	\$	\$	\$	\$
At 1 July 2008	167,726,255	1,047,954	(14,911,486)	153,862,723
Profit for the period	-	-	1,345,382	1,345,382
Cost of share based payments	-	517,849	-	517,849
Transfer of cost of unvested expired equity instruments		(147,300)	147,300	-
Transfer of cost of exercised equity instruments	170,613	(170,613)	-	-
Purchase of shares on market in settlement of vested performance rights	(58,129)		-	(58,129)
Share issue	6,265,050	-	-	6,265,050
Sale of Trustee Shares	5,500,000	-	-	5,500,000
Costs of issue (net of tax)	(332,276)	-	-	(332,276)
At 31 December 2008	<u>179,271,513</u>	<u>1,247,890</u>	<u>(13,418,804)</u>	<u>167,100,599</u>

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

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

**NOTE 1 CORPORATE INFORMATION**

The financial report of MEO Australia Limited for the half-year ended 31 December 2008 was authorised for issue in accordance with a resolution of the directors on 25 February 2009.

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

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

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation**

This general purpose condensed financial report for the half-year ended 31 December 2008 has been prepared in accordance with AASB 134 "Interim Financial Reporting" and the Corporations Act 2001.

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

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2008 and considered together with any public announcements made by MEO Australia Limited and its controlled entities during the half-year ended 31 December 2008 in accordance with the continuous disclosure obligations of the ASX listing rules.

The half year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2008.

**Significant accounting estimates and assumptions**

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

*Share-based payment transactions*

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

**NOTE 3 SEGMENT INFORMATION**

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

The following tables represent revenue, profit information regarding operating segments for the half-years ended 31 December 2008 and 31 December 2007.

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008 (continued)**

**NOTE 3 SEGMENT INFORMATION (continued)**

OPERATING SEGMENTS	METHANOL & LNG DEVELOPMENT		PETROLEUM EXPLORATION		CONSOLIDATED	
	31/12/2008	31/12/2007	31/12/2008	31/12/2007	31/12/2008	31/12/2007
	\$	\$	\$	\$	\$	\$
<b>Revenue:</b>						
Segment revenue	-	-	-	-	-	-
Non-segment revenue					736,844	1,845,782
Total consolidated revenue					<u>736,844</u>	<u>1,845,782</u>
<b>Result:</b>						
Segment (loss)	(235,432)	(155,666)	(13,795)	-	(249,227)	(155,666)
Non-segment profit/(loss)					1,850,586	(84,022)
Profit/ (loss) before income tax expense					<u>1,601,359</u>	<u>(239,688)</u>
Income tax expense					(255,977)	(408,871)
Net profit/(loss) for the period					<u><u>1,345,382</u></u>	<u><u>(648,559)</u></u>

The segment assets at 31 December 2008 for Petroleum Exploration total \$140,991,624 (30 June 2008: \$139,162,761) and there are no segment assets for Methanol and LNG Development at 31 December 2008 and 30 June 2008.

Consolidated	
31/12/08	31/12/07
\$	\$

**NOTE 4 EXPENSES**

**Employees and Consultants**

Consultants fees and expenses	195,274	69,470
Directors remuneration	88,171	89,914
Salaries	787,765	128,821
Share based payments	517,849	295,734
	<u>1,589,059</u>	<u>583,939</u>

**Other Expenses**

Administration and other expenses	422,125	6,428
Audit review costs	37,695	37,100
Stock exchange, share registry and reporting costs	174,868	123,343
Travel and corporate promotion costs	222,818	99,388
	<u>857,506</u>	<u>266,259</u>

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS  
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2008 (continued)**

	31/12/2008	Consolidated 30/6/2008
	\$	\$
<b>NOTE 5 CASH AND CASH EQUIVALENTS</b>		
For the purpose of the half-year cash flow statement cash and cash equivalents comprise:		
Cash at bank	11,230,263	11,287,138
Short term bank deposits	18,334,338	13,056,402
Total cash and cash equivalents	<u>29,564,601</u>	<u>24,343,540</u>

**NOTE 6 CAPITALISED EXPLORATION AND EVALUATION COSTS**

Exploration and evaluation expenditure capitalised in the half year to 31 December 2008 amounted to \$1,828,863 (2008 half year \$56,924,986). Expenditure in the half year mainly related to long lead items and well planning for Zeus-1 in WA-361-P, seismic processing and interpretation costs for the Northwest Shelf Exploration Permits (WA-359-P, WA-360-P and WA-361-P), final costs for the Heron-2/Blackwood-1 drilling program and Blackwood 3D seismic processing and interpretation costs in the NT/P68 area of interest.

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

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

Significant judgement is required in determining whether it is likely that future economic benefits will be derived from the capitalised exploration and evaluation expenditure. In the judgement of the Directors, at 31 December 2008 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.

Capitalised exploration and evaluation costs at 31 December 2008 are \$140,991,624 (June 2008: \$139,162,761).

**NOTE 7 CONTRIBUTED EQUITY**

	31/12/2008 Shares	30/6/2008 Shares	31/12/2008 \$	30/6/2008 \$
<b>Issued and Paid Up Capital</b>				
Ordinary shares fully paid	407,199,652	385,808,652	179,271,513	167,726,255
Ordinary shares issued pursuant to Trustee Stock Scheme	10,122,918	20,122,918	-	-
	<u>417,322,570</u>	<u>405,931,570</u>	<u>179,271,513</u>	<u>167,726,255</u>

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS  
 FOR THE HALF-YEAR ENDED 31 DECEMBER 2008 (continued)**

**NOTE 7 CONTRIBUTED EQUITY (continued)**

	31/12/2008 Shares	31/12/2008 \$
<b>Movements in Ordinary Shares Fully Paid</b>		
Balance at beginning of period	385,808,652	167,726,255
Shares issued:		
By placement of 11,391,000 at \$0.55 per share to Mineralogy Pty Ltd	11,391,000	6,265,050
Shares sold by Trustee of Trustee Stock Scheme	10,000,000	5,500,000
Transaction costs		(332,276)
Transfer of costs of exercised equity instruments		170,613
Purchase of shares on market in settlement of vested performance rights		(58,129)
	<u>407,199,652</u>	<u>179,271,513</u>
	<b>31/12/2008 Shares</b>	<b>31/12/2008 \$</b>
<b>Movements in Ordinary Shares Issued Pursuant to the Trustee Stock Scheme</b>		
Balance at beginning of period	20,122,918	
Shares sold by trustee during the period	(10,000,000)	5,500,000
	<u>10,122,918</u>	

**Dividends**

No dividends were declared or paid during the half year (2007: Nil).

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008 (continued)**

**NOTE 8 SHARE BASED PAYMENT PLANS**

Senior Executives and Officers Option Plan

On 21 August 2008, 1,000,000 share options were granted to a director, exercisable between 15 May 2009 and 30 November 2009 at an exercise price of 50 cents. The market value of the Company's shares at date of grant was 38.4 cents. The share options vest on 15 May 2009.

The fair value of the options at date of grant is estimated to be 12.1 cents using a binomial model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	95%	Contractual life (years)	1.15
Risk-free interest rate	5.9%	Dividend yield	0%
Early exercise multiple/estimated life	0.6		

The total amount expensed in the half financial year relating to these share options was \$72,600.

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on historical exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future.

On 21 August 2008, 1,000,000 share options were granted to a director, exercisable between 16 June 2009 and 30 November 2009 at an exercise price of 50 cents. The market value of the Company's shares at date of grant was 38.4 cents. The share options vest on 16 June 2009.

The fair value of the options at date of grant is estimated to be 12.5 cents using a binomial model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	95%	Contractual life (years)	1.15
Risk-free interest rate	5.9%	Dividend yield	0%
Early exercise multiple/estimated life	0.69		

The total amount expensed in the half financial year relating to these share options was \$62,500.

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on historical exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future.

On 21 August 2008, 1,000,000 share options were granted to a director, exercisable between 14 July 2009 and 30 November 2009 at an exercise price of 50 cents. The market value of the Company's shares at date of grant was 38.4 cents. The share options vest on 14 July 2009.

The fair value of the options at date of grant is estimated to be 12.8 cents using a binomial model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	95%	Contractual life (years)	1.15
Risk-free interest rate	5.9%	Dividend yield	0%
Early exercise multiple/estimated life	0.78		

The total amount expensed in the half financial year relating to these share options was \$58,667.

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on historical exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future.

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008 (continued)**

**NOTE 8 SHARE BASED PAYMENT PLANS (continued)**

On 13 November 2008, 1,000,000 share options each were granted to two directors, exercisable between 30 September 2009 and 30 September 2011 at an exercise price of 50 cents. The market value of the Company's shares at date of grant was 16.0 cents. The share options vest on 30 September 2009.

The fair value of the options at date of grant is estimated to be 3.82 cents using a binomial model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	95%	Contractual life (years)	2.88
Risk-free interest rate	3.76%	Dividend yield	0%
Early exercise multiple/estimated life	0.88		

The total amount expensed in the half financial year relating to these share options was \$19,100.

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on historical exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future.

1,000,000 options exercisable at a price of 50 cents per option granted to former director Mr W Dewé lapsed unexercised in August 2008.

Share Performance Rights

At 30 June 2008, 2,000,000 share performance rights granted to Mr C R Hart were outstanding. Mr Hart retired from the position of Managing Director in July 2008 and all performance rights lapsed on that date.

**NOTE 9 COMMITMENTS**

At Balance Date, the Songa Venus rig is contracted to MEO, as Operator on behalf of the WA-361-P Zeus-1 Joint Venture. The drilling of the Zeus-1 well will meet this commitment.

**NOTE 10 EVENTS AFTER BALANCE DATE**

Zeus-1 Drilled in WA-361-P

The Zeus-1 exploration well in WA-361-P was spudded on 17 January 2009 and reached a total depth of 3,642 metres. No hydrocarbons were encountered and the well was plugged and abandoned and the drill rig released on 18 February 2009.

WA-359-P and WA-360-P Work Program Variations

On 2<sup>nd</sup> February 2009, MEO received approval from the Designated Authority to vary the work programs for WA-359-P and WA-360-P. The revised work program for WA-359-P has transferred the exploration well from permit year 5 into permit year 6 which commences 1<sup>st</sup> February 2010. The revised work program for WA-360-P has suspended the permit year 4 at 31 January 2009 and extended the permit year 4 by 12 months to 31 January 2010 to allow time to acquire process and interpret additional 3D seismic to further define the Artemis prospect. In addition, the exploration well has been transferred from permit year 5 into permit year 6 which commences 1<sup>st</sup> February 2011.

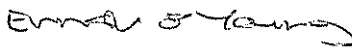
Senior Executives and Officers Option Plan

1,000,000 options exercisable at a price of 50 cents per option granted to former director Mr J M D Willis have lapsed unexercised in January 2009.



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

In relation to our review of the financial report of MEO Australia Limited for the half-year ended 31 December 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Brett Croft  
Partner  
Melbourne  
25 February 2009

To the members of MEO Australia Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of MEO Australia Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

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

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of MEO Australia Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

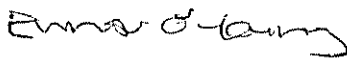
### Independence

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

## Conclusion

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

- i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Brett Croft  
Partner  
Melbourne  
25 February 2009