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Quarterly activities report for Quarter ending 31 December 2008

Key Points

- **Completed board restructuring and increased management depth**
- **RDI options in relation to farming into WA-359-P, WA-360-P and NT/P68 lapse**
- **Continued preparations for drilling Zeus-1**
- **Increased Zeus-1 pre-drill gas-in-place estimates to >15 Tcf in primary target**
- **Identified significant additional prospectivity in WA-360-P**
- **Extended drill/drop options in relation to WA-359-P & WA-360-P by 12 months**
- **Consolidated cash balance at year end approximately A\$29m**

MELBOURNE, AUSTRALIA (January 15th, 2008) -- MEO Australia Limited (ASX: MEO) is pleased to provide the following status report in relation to its quarterly activities for the period ended 31st December 2008.

Board and executive management changes

Renewal of the board of directors was completed during the quarter. **Mr Andy Rigg** retired at the end of October following 11 years of service. Chairman **Mr Warwick Bisley** retired following the AGM in November. **Mr Nick Heath** was elected to succeed Mr Bisley as Chairman. **Mr Stephen Hopley** and **Mr Michael Sweeney** were appointed as non-executive directors effective 1st October and completed the planned restructuring of the board.

Mr Robert Gard joined MEO as Commercial Manager on 10th November. Robert is an Honours graduate in Mechanical and Electrical Engineering, with over 22 years experience at ExxonMobil and will be responsible for managing Joint Venture relationships, commercial agreements, together with evaluating existing and new business opportunities.

Resource Development International (RDI) options over MEO projects

On July 4th, MEO announced a strategic alliance with Resource Development International (RDI), an entity associated with Prof. Clive Palmer who has extensive and long standing business connections in China. As part of the alliance Prof. Palmer's private company Mineralogy subscribed for 21.391m shares in MEO at \$0.55, contributing \$11.765m in working capital before costs.

MEO granted RDI options to farm-in to WA-359-P, WA-360-P and NT/P68 contingent upon RDI achieving a successful IPO by 31-December-2008. Unprecedented market conditions effectively debunked the IPO. Consequently, RDI's options in relation to the North West Shelf and Timor Sea permits lapsed on 1st December and 31st December 2008 respectively.

Notwithstanding the deferral of the IPO, RDI is funding 80% of the Zeus-1 well in WA-361-P to a cap of US\$31.25m to earn a 35% interest in that permit. If Zeus-1 discovers hydrocarbons, RDI will pay for MEO's share of two additional wells in this permit.

While equity market conditions precluded the relationship with RDI from evolving to the higher levels originally envisaged, this relationship remains important to MEO. New partners will be sought for these project areas likely in 2Q'09.

Carnarvon Basin: WA-359-P (60%), WA-360-P (60%) and WA-361-P (35%)

MEO continued its technical work in the three North West Shelf permits in support of drilling Zeus-1 and to advance the various leads in the adjoining permits to drillable prospects.

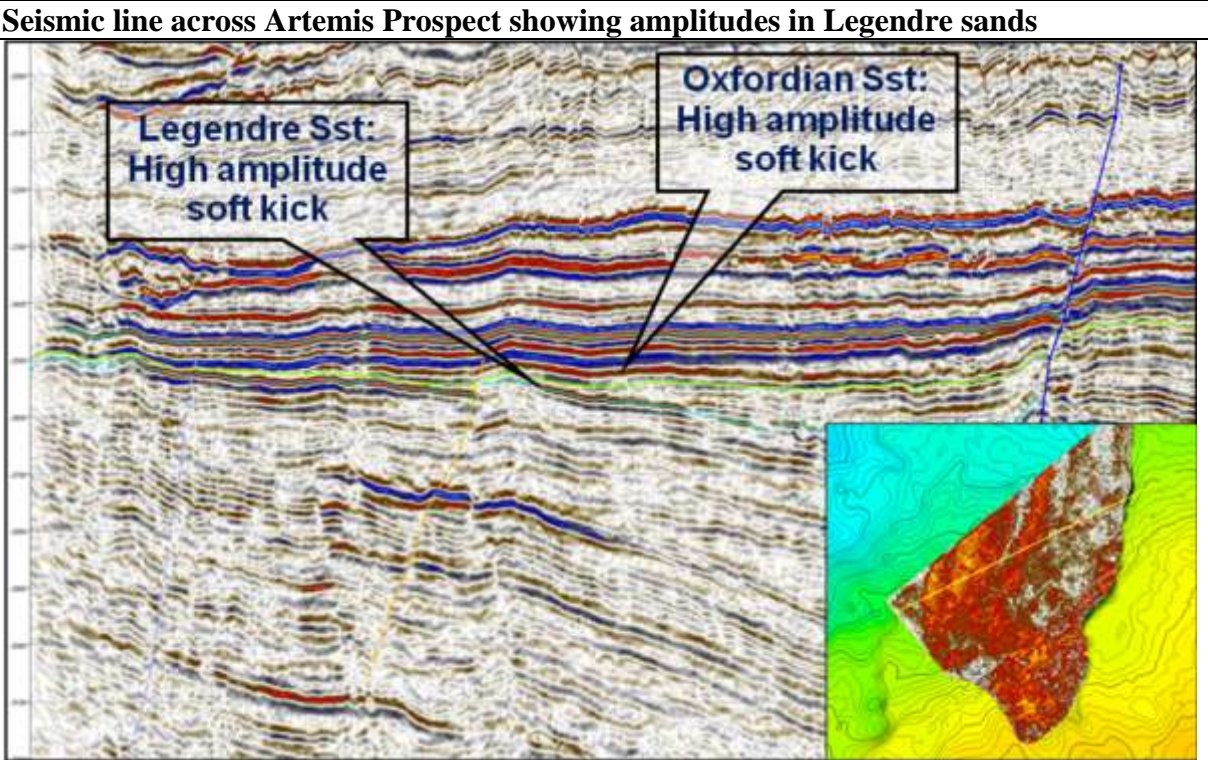
WA-361-P (MEO 35%, Operator)

Preparations continued for the drilling of Zeus-1. MEO took possession of the Songa Venus drilling rig on January 8th and expects the rig to arrive at the Zeus-1 location on or about 16th January, in preparation for commencement of drilling on/about the 19th January.

Zeus-1 pre-drill volumetric gas-in-place estimates were upgraded to 15 Tcf for the primary Legendre sandstone target and 3.7 Tcf for the shallower Forrestier sandstone secondary target.

WA-359-P & WA-360-P (MEO 60-70%, Operator)

MEO's technical team continued to identify significant additional prospectivity during the quarter, particularly in WA-360-P. The most advanced is the Artemis prospect identified on the MEO 3D seismic acquired in late 2007. The presence of bright amplitudes which are conformable with structure in the Oxfordian and Legendre Sandstones, together with an AVO signature normally associated with hydrocarbons in both horizons is viewed as very encouraging for a potential gas accumulation. Initial volumetric estimates indicates upwards of 5 Tcf gas-in-place potential in these horizons.



Additional 3D seismic is required to mature this prospect for drilling. To this end, MEO agreed the terms for extending the drill/drop option for WA-359-P and WA-360-P in consideration for:

- a) Reprocessing existing 3D seismic over the Hephaestus lead in WA-359-P. This obligation is contingent upon the successful outcome of Zeus-1 drilling; and
- b) Acquiring a minimum additional 175 km² 3D seismic in WA-360-P.

MEO is progressing discussions with independent Operators in relation to acquiring 3D seismic in WA-360-P during 1H'09. The cost of this survey including standard processing is expected to be up to US\$4.4m depending on the size of the survey.

Concurrently, MEO has applied to the Designated Authority for a work program variation for both WA-359-P and WA-360-P seeking to defer the Year 5 (program year commences Feb'09) commitment well into 2010.

NT/P68 (MEO 90-100%)

The final Blackwood 3D seismic survey is now expected before the end of January following extensive processing to adjust for velocity anomalies. This data is critical to refining the resource estimate for this discovery and planning the appraisal drilling program.

Approved GTL Projects (MEO 50-90%)

MEO continued to market the Tassie Shoal infrastructure hub concept based on its:

- Compelling economics, integrated CO₂ solution and
- Economic enabling characteristics for stranded CO₂ challenged gas

The post-GFC (Global Financial Crisis) economic reality of diminished commodity prices is causing a wholesale re-think of project economics. This harsh economic reality is expected to position MEO's approved GTL projects very favourably. Discussions are underway with a number of custodians of stranded CO₂ challenged gas seeking a robust commercial outcome.

New venture opportunities

MEO screened a number of unsolicited new venture opportunities during the quarter.

Cash balance at end of quarter

A\$29.6m.

Priorities for the quarter ended 31-March-2009

- Drilling & evaluation of Zeus-1
- Prepare for farm-out of WA-360-P &/or WA-359-P
- Interpretation of Blackwood 3D seismic survey
- Prepare for farm-out of NT/P68
- Continue discussions with potential 3rd party gas suppliers
- Evaluate New Venture opportunities



Jürgen Hendrich

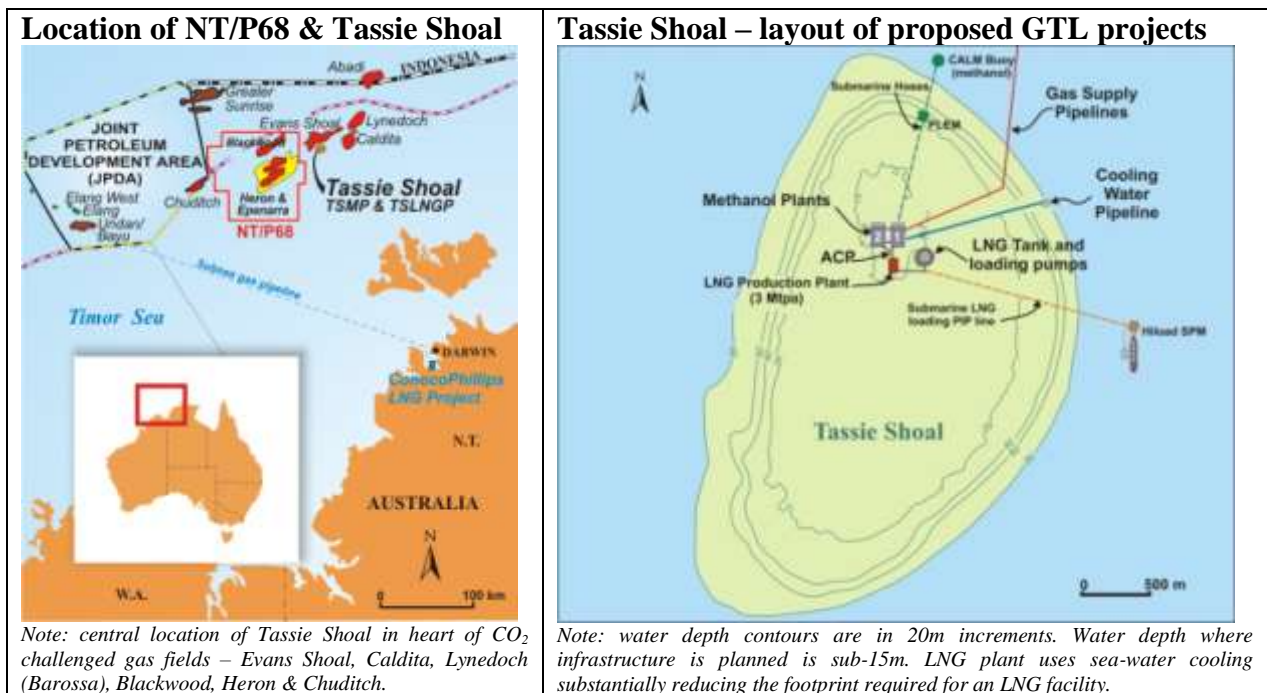
Managing Director & Chief Executive Officer

January 15th, 2009

Background

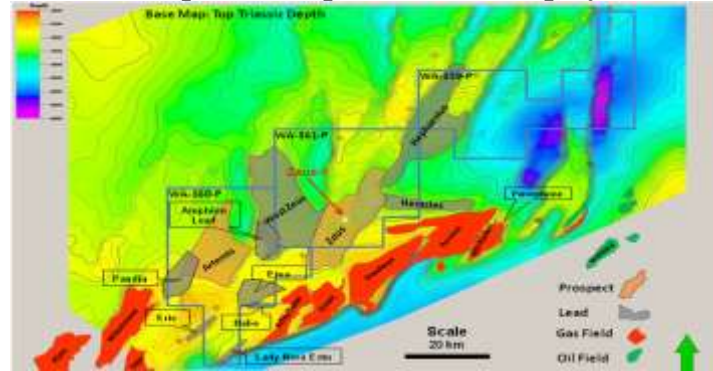
MEO has developed strategic acreage holdings in the two offshore Australian hydrocarbon provinces that currently have operating LNG and gas-to-liquids (GTL) projects:

1. The Bonaparte Basin hosts the Bayu-Undan gas field (3.4 Tcf, 3% CO₂, 229 million bbls condensate, plus substantial LPG) which supplies the Darwin LNG project.
 - a. MEO has title (90-100%) to the 12,072 km² exploration permit – NT/P68. The company declared two gas discoveries at Blackwood and Heron following the two well exploration drilling campaign that concluded in March 2008.
 - b. Commonwealth environmental approvals have been secured until 2052 for MEO's proposed Tassie Shoal Methanol Project (TSMP) and Timor Sea LNG Project (TSLNGP) to be hosted on **Tassie Shoal**, an area of shallow water some 275 km north west of Darwin. Tassie Shoal is ideally located with respect to all the undeveloped gas fields in the region and offers carbon sequestration solutions in the form of conversion of CO₂ to methanol. Both GTL projects have operating costs projected to be in the lowest cost quartile and therefore maintain their relative competitive advantage.



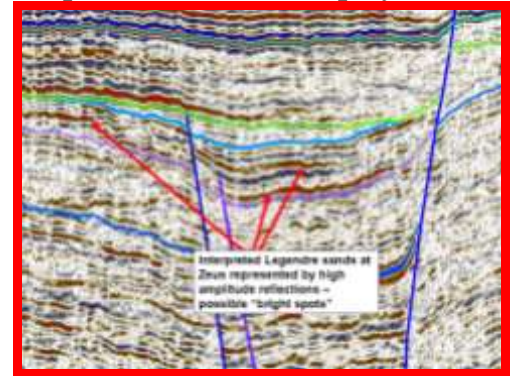
2. The Carnarvon Basin hosts Australia's first LNG project the North West Shelf Gas Project (~33 Tcf, 3% CO₂, >600 million bbls condensate) together with the Pluto LNG project (~5.0 Tcf, 3% CO₂, minor condensate) currently under development. Several additional projects in this area are under consideration.
 - a. MEO has secured an interest in three permits – WA-359-P, WA-360-P and WA-361-P – immediately adjacent to the producing gas fields.
 - b. The company is testing the large Zeus stratigraphic play in its WA-361-P permit (35% interest) with the Zeus-1 exploration well in November 2008. The proximity to established and proposed LNG infrastructure together with potential to apply floating LNG (FLNG) technology provides multiple commercialisation options for any discovered gas resources.

Location map of NWS permits & Zeus play



Note proximity to NWS Gas Project fields (Goodwyn, Perseus, North Rankin, Echo-Yodel), Pluto development and Wheatstone (proposed).

Amplitudes* over Zeus play



*Anomalies exhibit Class-3 AVO responses

Bonaparte Basin: NT/P68 (MEO 90%-100%), Tassie Shoal GTL Projects

NT/P68 is a 12,070 km² 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. The Company believes that the permit offers considerable scope for the confirmation of commercial gas accumulations that may support the future gas demands of the proposed Tassie Shoal methanol and LNG projects.

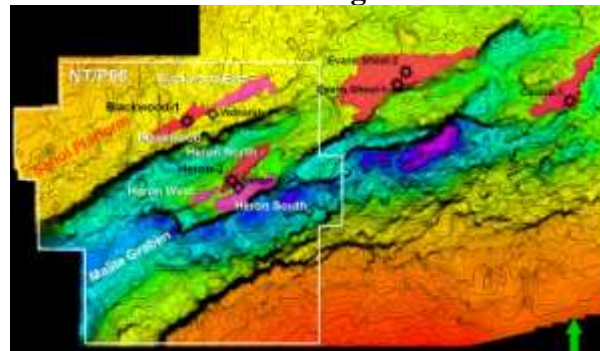
The Heron-1 well drilled by ARCO in 1972 intersected a 52m gas bearing interval in the Darwin Formation (a fractured carbonate reservoir) within the ~1,200 km² mapped closure of the Epenarra structure and a gas charged zone in the deeper underlying Elang/Plover horizon.

Heron gas discovery

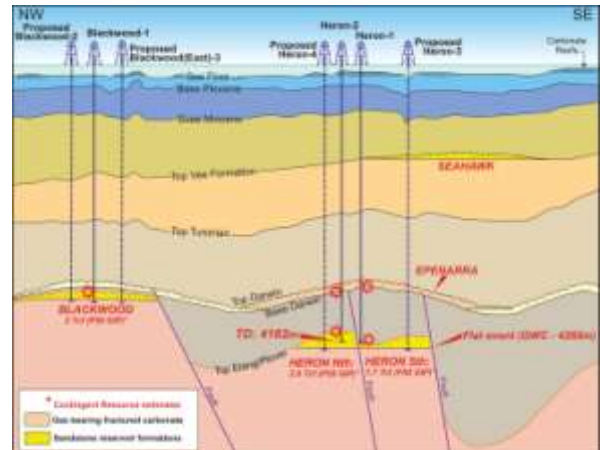
In late 2007, MEO commenced drilling the Heron-2 well targeting the Epenarra structure (Darwin Formation) and the deeper Heron North structure (Plover Formation). Production testing operations in the Heron North structure were compromised by a number of factors including, borehole collapse, interruptions due to cyclone Helen and drilling practices including significant mud losses and pumping of Lost Circulation Material (LCM). Notwithstanding these challenges, the well flowed 6 mmcf/d of dry gas, high in CO₂ and was interpreted to have come from an isolated sand at the top of the Elang/Plover sequence.

The shallower Darwin Formation failed to flow gas at commercial rates on testing. Future tests of this interval will likely require a dedicated test with a horizontal well. Substantial technical work will be required to ascertain the likely sweet-spots for this interval.

NT/P68 discoveries on regional trend



Cross section Blackwood-Heron Nth/Sth



Blackwood gas discovery (MEO 100%)

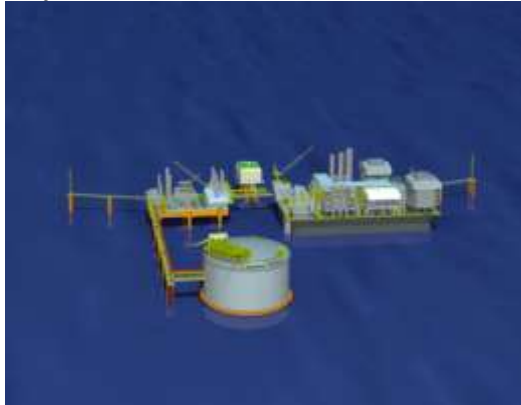
In early 2008, MEO sole risked (ie drilled at 100% interest) the Blackwood-1 well targeting a conventional Plover Sandstone structural closure with potential to host between 1.4 and 2.5 Tcf raw gas in place. The well intersected a 49m gas column and recovered several samples of gas to surface via an MDT sampling tool. This recovery combined with wireline logging data and MDT pressures supporting a 49m gas column resulted in the declaration of a discovery.

Tassie Shoal Methanol Project (MEO 50%)

The Tassie Shoal Methanol Project (TSMP) involves the construction of two large natural gas reforming and methanol production plants on concrete gravity structures in South East Asia, towed to and grounded in the shallow waters of Tassie Shoal for operation.

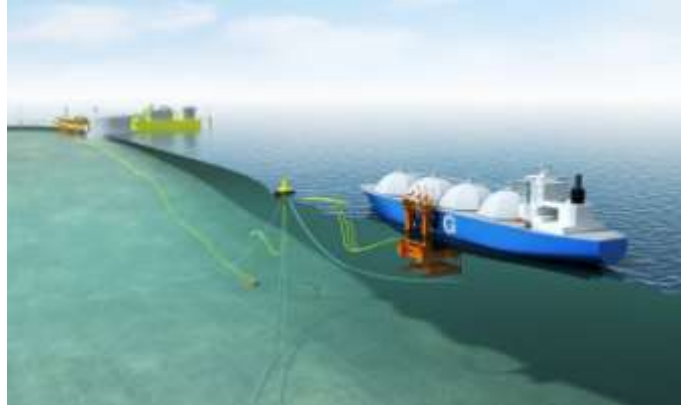
The Company and Air Products and Chemicals, Inc. (APCI) continue to develop the TSMP under the terms of the joint development agreement (JDA). As part of its farm-in agreement, Petrofac has the right to earn a 10% participating interest from APCI in the TSMP.

Layout of TSMP & TSLNGP



Note: Only one methanol plant is illustrated (RHS). The absence of jetty due to the Hi-Load LNG load-out system.

Torp Hi-Load LNG loading system



Note: Remotely operated loading system replaces a jetty and the need for tug boats (3). No modification is required to standard LNG tankers.

Timor Sea LNG Project (MEO 90%)

The proposed Timor Sea LNG Project (TSLNGP) has 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 LNG and methanol projects will be able to share infrastructure, logistic support systems and benefit from significant production process advantages.

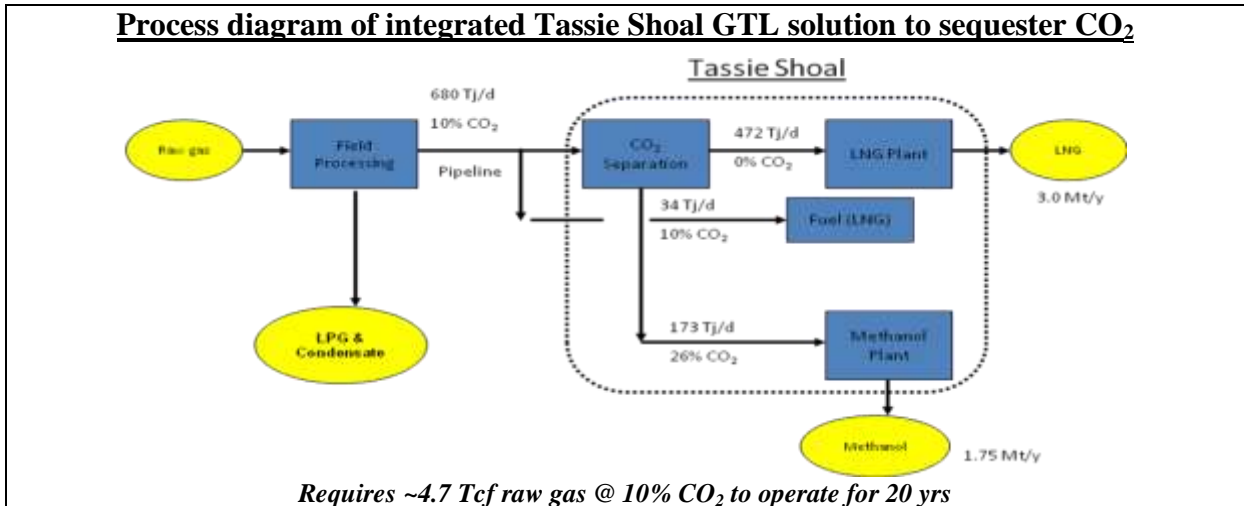
As part of the NT/P68 farm-in agreement, Petrofac has the right to earn a 10% participating interest in the TSLNGP, reducing the MEO interest to 90%.

Open to 3rd party gas supplies

MEO's approved, integrated GTL projects offer an attractive economic solution to undeveloped CO₂ challenged gas resources in the Bonaparte Basin.

While, the optimal raw gas composition required to manufacture Methanol using the Steam Methane Reforming (SMR) process is **26% CO₂**, both approved GTL projects can be fuelled using approximately 4.7 Tcf raw gas with **10% CO₂** content over 20 years to achieve an output of **1.75 Mtpa Methanol** and **3 Mtpa LNG** (refer diagram below).

Process diagram of integrated Tassie Shoal GTL solution to sequester CO₂



MEO’s proposed LNG plant is a compact design using indirect sea-water cooling resulting in a dramatically reduced footprint (with commensurately lower construction costs) compared with a conventional air-cooled, land based LNG plant. Liquefaction costs per tonne of annual capacity are considered very competitive relative to a land based, air-cooled plant and relative to the Floating LNG options currently under consideration for the Greater Sunrise and Abadi fields in the Timor Sea. Capital cost reviews for the TSLNGP will be completed this quarter.

Australia’s established LNG projects (NWS Gas Project & Darwin LNG) utilize feedstock gas with very low (<3%) CO₂ content. The gas feedstock for these projects is also rich in natural gas liquids, substantially enhancing project economics. Unfortunately, this gas quality is not typical of most gas resources. Most proposed LNG projects are proposing to use gas with **at least 8-9% CO₂** (increasing the costs associated with treating and disposing of CO₂) and modest natural gas liquids (reducing the potential revenue stream relative to better quality feedstock). These factors (increased costs & lower revenues) compound to diminish project economics. Dysfunctional JV’s, distant locations, deep water and/or disputed territories further compromise marginal economics to the point where most projects have stalled.

This is the context for the relative attractiveness of the Tassie Shoal concept that effectively deals with the gas quality issues (via CO₂ sequestration into methanol derivative products – turning CO₂ from a cost into a revenue stream) and the remoteness factor by virtue of the Shoal being located within 150km of every undeveloped gas field in the Bonaparte Basin. The remoteness of the Shoal allows complete pre-fabrication and pre-commissioning of the facilities in low-cost South East Asian construction facilities.