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MD on Petrobras Agreement & Strategy

Open Briefing with Managing Director & CEO Jürgen Hendrich

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In this Open Briefing®, MEO Australia MD & CEO Jürgen Hendrich discusses

- the new farm-in agreement on WA-360-P with Brazilian oil company Petrobras
- the proposed drilling plan and targets
- the outlook for the company

Open Briefing interview:

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MEO Australia (ASX code: MEO) has signed a farm-in agreement with Brazil's National Oil Company, Petrobras for the future development of the Artemis Prospect (Exploration Permit WA-360-P) in the Carnarvon Basin, offshore Western Australia. Petrobras will earn a 50% interest in the permit, with the option to assume operatorship after completion of the first well. Why is this a significant milestone for the company? Why did the agreement take so long to complete?

MD & CEO Jürgen Hendrich
This is a significant milestone for MEO for a number of reasons.

Petrobras is one of the world's largest, publicly listed oil and gas companies with proven reserves of around 15 billion barrels, production of around 2.5 million bbls per day and operations in 29 countries around the world. Petrobras is a recognised technology leader, particularly when operating in deep and ultra-deep water environments. This combination of technical excellence and financial strength coupled with its plans to become a significant importer of LNG into Brazil made Petrobras a natural partner of choice.

This transaction is transformational for MEO. Whereas the Company's existing cash reserves of A$39.3M were sufficient to drill Artemis-1 in the absence of a successful farm-in, these cash reserves have now been freed up for other ventures. MEO will now be financially carried through the drilling of Artemis-1 and receive a cash consideration of approximately US$39M comprising a cash bonus (US$31.5M) and reimbursement of past costs (US$7.5M).

In the event of success at Artemis, MEO will receive an additional cash bonus of US$31.5M and be carried through two additional wells.

The agreement took much longer than expected, largely because this represented a new country entry for Petrobras. As such, the legal and commercial due diligence was extensive. Additional agreements were required to be negotiated between the Joint Venture parties to establish the principles for commercial development in the event of exploration success.

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What is the scope and size of any planned drilling program for the permit and Artemis in particular? What are the key areas of prospectivity the campaign will be targeting?

MD & CEO Jürgen Hendrich
The permit work programme obligation includes the drilling of one commitment well in the current Permit Year expiring on 31st January 2011. Thereafter, the permit has one further year to run prior to its renewal. We are have secured an option over a drilling rig and are planning to drill the Artemis-1 well later this year.

Artemis-1 will target two Jurassic aged reservoirs with combined mean prospective resources of approximately 12 Tcf. In the event Artemis-1 discovers a resource of this size, a stand-alone LNG development could be justified.

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The first well is 100%-funded to a cap of US$41M. Subsequent wells are capped at US$62M per well. Why is there such a marked difference in cost estimations? What happens if the funding cap is exceeded?

MD & CEO Jürgen Hendrich
Funding caps are typical in farm-in agreements. The first well is designed not to be production tested. Subsequent wells will likely be appraisal wells and include full production tests, hence the higher caps.

For funding contributions in excess of the caps, these are on a pro-rata basis. In the case of the first well, since our pre-existing JV partners are free carried, MEO will contribute 50% of the costs above the cap. In the case of the follow-up wells, MEO will contribute 20% of any cost over-runs above the US$62M caps.

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Following the farm-in MEO's interest in WA-360-P is 20%. What will be MEO's ongoing obligations toward the development of the permit and any future exploration program(s)?

MD & CEO Jürgen Hendrich
WA-360-P is in currently in Permit Year 5 which requires an exploration well to be drilled. Artemis-1 is the proposed commitment well. Permit Year 6 involves studies. At the conclusion of Permit Year 6, a renewal application will be made that involves a mandatory 50% relinquishment and a new five year work program that will depend on the assessed prospectivity of the Permit. In the event of success at Artemis, an appraisal drilling program is likely, however is subject to Joint Venture approval.

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Despite having no previous Australian experience, Petrobras was selected as your "preferred farminee". What was important to MEO in choosing a partner to develop the permit? What attracted Petrobras to the project? What experience do they bring to the potential future offshore development of WA-360-P and Artemis?

MD & CEO Jürgen Hendrich

The Artemis prospect is of sufficient size to underpin a stand-alone LNG development in the event of success. MEO sought to attract a partner with the financial capability to undertake a stand-alone LNG project. In particular, MEO sought a partner with independence from existing and planned LNG projects to ensure the best commercial outcome for the Joint Venture in the event of exploration success.

Petrobras is a recognised global leader in deep and ultra-deep water developments. Although water depth at Artemis is not challenging, Petrobras brings these same technical skills to the WA-360-P Joint Venture that underpin this global leadership.

Offshore Australian exploration acreage, particularly for LNG size exploration prospects is very tightly held. MEO knew that to in order to attract a high calibre partner, it had to offer significant equity (i.e. 50%) in a high quality, material gas prospect (i.e. ~12 Tcf) in strategically located acreage (WA-360-P) relative to existing (NWS Gas Project) and proposed (Pluto and Wheatstone) LNG infrastructure on attractive terms.

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The completed farm-in agreement on WA-360-P significantly de-risks the Artemis project for MEO, both technically and financially. What are your plans for growing shareholder value? What are the immediate priorities?

MD & CEO Jürgen Hendrich

MEO's immediate priorities are to engage our new partner in the process of planning for and drilling the Artemis-1 well. We need to secure the necessary regulatory approvals (including Foreign Investment Review Boar – FIRB) for the farm-in. Thereafter we need to commit to a drilling rig (we have secured an option) and finalise the Artemis-1 well location.

Elsewhere in our portfolio, we are in the process of renewing our 100% owned Timor Sea exploration permit – NT/P68 for a further 5 years. We have some further technical work to undertake prior to undertaking a farm-out to secure a funding partner to appraise our two gas discoveries on the Heron and Blackwood structures. These discoveries have the potential to underpin one or more of our proposed gas processing projects – the Timor Sea LNG project and Tassie Shoal Methanol project – both of which have received their Commonwealth Environmental Approvals.

Separately we continue to discuss our plans for a regional gas development hub on Tassie Shoal with the gas resource custodians and Government representatives with an interest in resource development.

Late in 2009, we commenced a more active New Venture screening programme and identified a number of attractive opportunities to add to our portfolio. Execution of one or more of these opportunities required us to complete the farm-in first.

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Thank you Jürgen.

For more information about MEO Australia, visit meoaustralia.com.au or call Jürgen Hendrich on +61 3 8625 6000.

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