

**ASX ANNOUNCEMENT: 21 October 2010****MD on Launch of Farm-out Process for Heron**

Open Briefing with Managing Director &amp; CEO Jürgen Hendrich

MEO Australia Limited  
Level 17, 500 Collins Street  
Melbourne Victoria 3000**In this Open Briefing®, Jürgen discusses:**

- MEO offering up to 50% equity in the Greater Heron Structure
- Two appraisal wells planned
- Potential for farm-out to progress commercialisation of Tassie Shoal Projects

**Open Briefing interview:****[openbriefing.com](http://openbriefing.com)**

MEO Australia (ASX code: MEO) has announced the launch of a farm-out process for the Greater Heron structure which is part of the NT/P68 permit (100% MEO) in the Bonaparte Basin located in the Timor Sea. What factors are important in your selection of a joint venture partner to develop the Heron gas discovery and when do you expect to finalise an agreement?

**MD & CEO Jürgen Hendrich**

Our aim is to attract a joint venture partner with whom we can work cooperatively to appraise the Heron gas discovery and who is motivated to proceed rapidly to development.

The planned wells will appraise an existing discovery. Given the geological risk is substantially lower than for wildcat drilling of a purely exploration prospect, we expect a farm-out arrangement to appeal to a wider potential audience.

The timing of concluding this farm-out depends on many factors. It is more important for us to attract the right partner than meet a particular timetable.

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As part of the farm-out terms, MEO is proposing two appraisal wells located on Heron South and Heron North. What is the anticipated cost of the proposed Heron appraisal wells and what level of equity interest are you seeking to retain in the venture?

### **MD & CEO Jürgen Hendrich**

Our objectives for the appraisal work include understanding long-term reservoir performance, individual well productivity, and gas quality (i.e. composition). These technical issues are common to all discoveries in the region.

MEO has developed a methodology to identify the reservoir sweet spots. The planned appraisal wells are designed to “ground-truth” this methodology, which we believe can be applied to all the undeveloped gas discoveries in the region.

We estimate that the two wells will cost in the order of US\$60 million each. The actual cost will be a function of the final well design and nature of the production testing program agreed with the successful farminee. We will be offering an equity interest of up to 50% in the Heron discovery to the successful farminee in return for an agreement on the funding of the appraisal drilling program.

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What factors are important in determining the potential of the Greater Heron Structure to host an LNG scale gas resource?

### **MD & CEO Jürgen Hendrich**

There are three fundamental factors: the first is the size of the resource. Our estimated range of Prospective Resource (3.7 to 6.6 Tcf with a Best Estimate of 5.0 Tcf) is certainly sufficient for an LNG development which requires a minimum of 3 Tcf.

The second factor is the quality of the gas resource. Ideally, an LNG grade gas discovery has high levels of condensate and LPG, and low levels of inert components such as CO<sub>2</sub>. The gas signature observed while drilling the deeper section of the Heron-2 well suggested the presence of liquids-rich, low CO<sub>2</sub> gas at Heron. If confirmed by appraisal drilling, we believe this is a result of late charge from a younger source rock.

The third factor is the reservoir performance of the Elang/Plover reservoir located in the Bonaparte Basin. This can only be ascertained by production testing.

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Why have you decided to retain a 100% interest in the Blackwood gas discovery contained within the NT/68 permit, and what are your plans for developing this gas discovery?

### **MD & CEO Jürgen Hendrich**

The focus of most major oil and gas companies is clearly LNG. For the reasons I mentioned earlier, we believe the Greater Heron Structure has the potential to host an LNG scale gas resource.

Blackwood contains gas that is higher in CO<sub>2</sub> than that found at Heron and is therefore more suited to conversion to methanol. While Blackwood has an important role to play in the development of the Tassie Shoal processing hub, we appreciate that LNG rather than methanol is the main game for most international majors who are therefore unlikely to assign a material value to Blackwood. As such we consider it is in our shareholders’ best interests to retain a 100% interest in Blackwood.

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You are actively seeking to secure gas supplies to progress the Tassie Shoal Methanol Project (TSMP) and the Timor Sea LNG Project (TSLNGP). Are there plans to potentially incorporate the Heron gas discovery into either of these projects?

**MD & CEO Jürgen Hendrich**

The proposed Tassie Shoal and Timor Sea projects represent a highly attractive commercialisation option given their proximity to the Greater Heron Structure. The true value of these projects lies in their versatility: together they provide flexible options for a wide range of resource sizes and different gas qualities.

MEO has a dual strategy to facilitate the commercial realisation of these projects. One strategy is to secure third party gas. The other is to confirm our own gas via exploration and appraisal drilling, such as that progressing at Heron.

Should appraisal drilling at Heron confirm a sufficient gas resource size, low in CO<sub>2</sub>, this gas could be developed via the Tassie Shoal LNG Project. This would present a considerable cost saving to either a floating LNG or conventional onshore development.

In the event that Heron has gas with intermediate CO<sub>2</sub>, the discovery could be developed via the Tassie Shoal LNG Project along with one or more companion methanol plants to sequester the CO<sub>2</sub> into a marketable commodity. In the event that Heron gas is high in CO<sub>2</sub>, then it would be suitable to underpin one or more methanol plants.

We will invite the successful farminee to enter into discussions to participate in these projects as a possible path to early commercialisation of Heron gas.

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MEO held A\$36.4 million in cash at 30 September 2010 and has since received payment of US\$39 million from Petrobras in relation to the WA-360-P farm-in agreement. What is the value to shareholders in using these funds to pursue new venture opportunities?

**MD & CEO Jürgen Hendrich**

MEO is committed to crystallising the value of the Tassie Shoal projects for shareholders. To achieve this, we have the option of investing in exploration and appraisal drilling and/or securing existing discovered resources for these projects. We are pursuing both options.

We currently hold 100% of NT/P68 containing the Blackwood and Heron gas discoveries. The MEO board and management team consider it imprudent to invest shareholder funds at this level of equity.

We have the luxury of being able to offer a material participating interest to a prospective farminee in return for the funding of appraisal drilling, while still retaining a material interest in the Heron discovery for shareholders. This frees up our cash resources to pursue new opportunities.

The lifeblood of any exploration and production company is the quality of its acreage and we have not added any new acreage to our portfolio since October 2007. Over the last two years we have attracted some key personnel and tremendously boosted the technical and commercial skills and experience of our people, providing us with a key competitive advantage. We aim to leverage this advantage to build an acreage portfolio in Australia and overseas capable of adding material shareholder value long after the value in the existing acreage has been harvested.

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Thank you Jürgen.

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