

MEO AUSTRALIA LIMITED

ABN 43 066 447 952



FINANCIAL REPORT

2010

MEO Australia Limited

ABN 43 066 447 952

Corporate Directory

Directors

Nicholas M Heath (Chairman)
Jürgen Hendrich (Managing Director and Chief Executive Officer)
Gregory A Short
Michael J F Sweeney
Stephen W Hopley

Company Secretary

Colin H Naylor

Registered Office and Principal Operations Office

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Melbourne, Victoria 3000 Australia
Telephone +61 (3) 8625 6000
Facsimile +61 (3) 9614 0660
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Share Registrar

Link Market Services Limited
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Melbourne, Victoria 3000 Australia
Telephone +61 (3) 9615 9800
Facsimile +61 (3) 9615 9921

Auditor

Ernst & Young
8 Exhibition Street
Melbourne, Victoria 3000 Australia

Stock Exchange Listing

ASX Limited
Level 45, South Tower, Rialto
525 Collins Street
Melbourne, Victoria 3000 Australia

ASX Code: MEO

OTC Code: MEOAY

Website www.meoaustralia.com.au

Incorporated 14 September 1994

Victoria, Australia

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FORWARD LOOKING STATEMENTS

This Financial Report includes certain forward-looking statements that have been based on current expectations about future acts, events and circumstances. These forward-looking statements are, however, subject to risks, uncertainties and assumptions that could cause those acts, events and circumstances to differ materially from the expectations described in such forward-looking statements.

These factors include, among other things, commercial and other risks associated with the meeting of objectives and other investment considerations, as well as other matters not yet known to the Company or not currently considered material by the Company.

MEO Australia Limited

ABN 43 066 447 952

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010

The directors of MEO Australia Limited (variously the "Company", "MEO" and "MEO Australia") submit their report for the financial year ended 30 June 2010. MEO Australia is a company limited by shares, incorporated and domiciled in Australia.

1. DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. The directors were in office during the entire period unless otherwise stated.

Nicholas M Heath B.Eng (Chem) (Hons)

Chairman (Appointed independent non-executive director 12 May 2008, appointed Chairman 13 November 2008)

Mr Heath is a chemical engineer with over 36 years industry experience in Australian and international energy markets gained through senior management positions with ExxonMobil in Australia and overseas. He was a Director of ExxonMobil Australia Pty Ltd, the holding company for all of ExxonMobil's Australian assets and had specific responsibility for the marketing of natural gas and natural gas liquids throughout Australia. Mr Heath served as Chairman of the Australian Petroleum Production and Exploration Association (APPEA) from 1997-99. His depth of industry experience brings valuable expertise to the Board of MEO Australia Limited. Mr Heath also serves as Chairman on the Board of ASX listed coal seam gas company – Metgasco Limited (ASX: MEL).

Mr Heath is Chairman of the Remuneration and Nomination Committee.

Jürgen Hendrich B.Sc. (Geology) (Hons), PDM

Chief Executive Officer (Appointed 16 June 2008) and Managing Director (Appointed 25 July 2008)

Mr Hendrich brings over 25 years experience as a petroleum geologist and investment banker to MEO Australia. He began his career with Esso Australia as a petroleum geologist and progressed from technical roles to commercial roles including strategic planning, Joint Venture relations and business evaluation. His investment banking career began with JB Were (now Goldman Sachs & Partners Australia) where he became a top rated Energy Analyst prior to moving into funds management and eventually his own consulting practice specialising in providing strategic advice to emerging companies. He was a Director, Corporate Finance with Tolhurst for two years prior to joining MEO.

Gregory A Short B.Sc (Geology) (Hons)

Independent Non-Executive Director (Appointed 14 July 2008)

Mr Short retired from ExxonMobil in 2006 after a 33 year career as a geologist. He has extensive international experience in predominantly managerial roles in Malaysia, Africa and North America and spent the last 15 years of his career in management assignments that included Exploration Manager for USA, Chad and Nigeria as well as serving seven years in Angola as Geoscience Director. Mr Short brings valuable experience in taking several start-up ventures from exploration through to development and production start-up to MEO Australia.

In January 2010, Mr Short became a non-executive director of Pryme Oil and Gas Limited (ASX: PYM) and in July 2010 Mr Short joined the Board as a non-executive director of Po Valley Energy Limited (ASX: PVE).

Mr Short is a member of the Audit Committee.

Stephen W Hopley, PhC (Vic), DipFP(Deakin), GMQ (AGSM)

Independent Non-Executive Director (Appointed 1 October 2008)

Mr Hopley enjoyed a 14 year career with Macquarie Bank from 1989 until his retirement in 2003. For the last 4 years of his career, Mr Hopley acted as Division Director of the Financial Services Group with responsibility for Advisor Relationships and Distribution. Mr Hopley successfully developed and implanted a range of new products for distribution and led a number of sales teams that achieved outstanding sales results and was responsible for the two largest retail cash products in the industry.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2010

1. DIRECTORS (cont)

Mr Hopley has served on a number of Boards, foundations, committees and not for profit organisations. He is a past Board member of the Education Foundation of Australia, the Lord Mayor's Charitable Fund and is a past Securities Industry Education Chair of Task Forces in relation to final subjects in the Graduate Diploma in Financial Planning. He devotes part of his time as a business coach and mentor to a number of early stage enterprises.

Mr Hopley is Chairman of the Audit Committee.

Michael J F Sweeney LLB, FIAMA, FCIArb, Chartered Arbitrator *Independent Non-Executive Director (Appointed 1 October 2008)*

Mr Sweeney practices as a Barrister at the Victorian Bar, Melbourne, specialising in the fields of energy and resources law, competition law/third party access regimes, joint ventures and generally in commercial and contract law. He also specialises in alternative disputes resolution, particularly arbitration both as qualified arbitrator and as counsel in arbitrations.

Mr Sweeney was the senior managing executive (prior to this, general counsel and company secretary) of the Mitsubishi and Mitsui interests (MIMI) in the Australian North West Shelf (NWS) Gas Joint Venture from 1986 to 1996. He served as a member of the NWS Joint Venture Project Committee and was deputised to the Board of the North West Shelf LNG Shipping Company. He was a member of the Tokyo based Operating Committee responsible for overseeing MIMI's investments in Australia.

Mr Sweeney is a member of the Remuneration and Nomination Committee.

Interests in the shares and options of the company

As at the date of this report, the relevant beneficial and non-beneficial interests of each of the directors in the shares and share options in the Company were:

	Ordinary Shares	30 September 2011 Options	Managing Director Options
N M Heath	1,035,088	-	-
S W Hopley	70,000	1,000,000	-
J Hendrich	1,700,000	-	4,200,000
G A Short	112,444	-	-
M J F Sweeney	139,984	1,000,000	-

The terms of the options are set out in Note 21 to the consolidated financial statements. Details, including fair value at date of grant of the options granted to directors, are set out in the Remuneration Report.

2. COMPANY SECRETARY

Mr Colin Naylor was appointed MEO Australia Limited Chief Financial Officer on 5 February 2007 and Company Secretary on 23 February 2007. Mr Naylor has previously worked in senior financial roles in major resource companies and is a Fellow of CPA Australia.

3. DIVIDENDS

No dividend has been paid, provided or recommended during the financial year and to the date of this report (2009: nil).

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2010

4. PRINCIPAL ACTIVITIES

The principal activities during the year of the entities within the consolidated entity were the development of the Tassie Shoal Methanol Project, the Timor Sea LNG Project and oil and gas exploration in NT/P68 and North West Shelf permits.

The Company had 10 employees at 30 June 2010 including directors (2009:10). The Company also engages a number of full and part time consultants to assist in the development and management of its various activities.

5. REVIEW OF OPERATIONS

Environment, Health and Safety

The Group believes that workplace injuries are avoidable. It has implemented policies and procedures to ensure employees and contractors conduct their activities in a safe manner. Directors specifically addressed Health, Safety and Environment issues at each Board meeting. MEO has adopted an environmental, health and safety policy and conducts its operations in accordance with the Plastics and Chemicals Industries Association (PACIA) and Australian Petroleum Production & Exploration Association (APPEA) Codes of Practice. During the year there were no reported environmental incidents or Lost Time Injuries.

The upstream activities by the Group of seismic surveys, well site surveys and drilling operations all require Commonwealth and/or State/Territory approvals of environment plans and safety cases and the preparation of Environment Plans to manage the conduct of the activities and the contractors engaged by the Group to undertake the work.

The Group's development activities on Tassie Shoal are subject to environment conditions specified in the Offshore Petroleum and Greenhouse Gas Storage Act (2006), associated Regulations and Directions, as well as the Environment Protection and Biodiversity Conservation (EPBC) Act (1999). During the year there were no known contraventions of any relevant environmental regulations.

North West Shelf Exploration Permits, Carnarvon Basin, Western Australia

MEO acquired a 60% interest in three contiguous exploration permits in October 2007 by agreeing to meet the outstanding seismic commitments in each permit. Each permit also had a single well commitment. MEO had fully earned its interest in WA-361-P by committing to the Zeus-1 well in July 2008 and extended the drill/drop decision in relation to WA-360-P and WA-359-P by one year to 31st December 2009. The Company raised sufficient equity capital in November 2009 to allow it to exercise its option in relation to WA-360-P in December 2009, however chose to let the option in relation to WA-359-P lapse without being exercised.

- **WA-360-P (MEO 25%)**

Following an extensive farmout process MEO selected Petrobras as its preferred farminee and executed a binding farm-in agreement with Petrobras in April 2010. To earn a 50% interest in the permit, Petrobras agreed to reimburse MEO's historical costs of approximately US\$7.5million, pay a cash consideration of US\$31.5million and fund 100% of the Artemis-1 well to a capped cost of US\$41million. In the event of success, MEO will receive an additional US\$31.5million cash and be free carried for its share (20%) of two follow-up wells the timing of which is subject to Joint Venture approval.

The transaction is conditional only on the receipt of Australian regulatory approvals including the Foreign Investment Review Board (FIRB). MEO was advised in late June that the FIRB had no objections to the transaction and in September received the remaining regulatory approvals from the Designated Authority. This paves the way for MEO to receive the approximately US\$39million cash consideration from Petrobras, although an asset has not been recognised in the accounts in respect of the US\$39million, as all farm-in conditions precedent were not completed by 30 June 2010.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2010

5. REVIEW OF OPERATIONS (cont)

In June 2010, MEO announced that it had agreed to purchase an additional 5% interest in the permit from one of its Joint Venture partners for US\$7million cash to take its interest in the permit to 25%. MEO has paid a deposit of US\$1.5 million with the balance of US\$5.5 million payable on the later of the date on which MEO receives the cash consideration payable from Petrobras in respect of the farm-in to WA-360-P, or, regulatory approvals for the 5% equity transfer are obtained. No liability has been recognised in respect of the US\$5.5 million as conditions precedent relating to the acquisition were not completed at 30 June 2010. The 5% acquisition will be "free carried" through the drilling of the Artemis-1 well and thereafter will be required to pay for 5% of all joint venture commitments.

In July 2010, MEO advised that it had executed a rig assignment agreement to secure the Songa Venus semi-submersible drilling rig currently on contract to Shell to drill the ~12 Tcf Artemis prospect. MEO expects to receive the rig from Shell in November with results expected to be known before year end.

- **WA-361-P (MEO 50%)**

MEO drilled the Zeus-1 well in early 2009. Although the well did not encounter hydrocarbons, it did intersect excellent quality Jurassic aged reservoir rocks that are the objective reservoirs in the Artemis prospect in the adjoining WA-360-P permit.

In July 2010, MEO announced it had acquired an additional 15% participating interest from Gascorp Pty Ltd to take its participating interest to 50%. The transfer of equity remains subject to receipt of regulatory approvals.

All obligations have been met and the permit expires on 31st January 2011. MEO will submit an application seeking a 5 year renewal term later this year.

- **WA-359-P (MEO 0%)**

MEO elected not to exercise its option to remain in this permit beyond 31st December 2009.

Bonaparte Basin

In October 2009, MEO announced it had acquired Petrofac's 10% interest in NT/P68 and now holds a 100% interest in the Permit. Petrofac had rights to earn a 10% interest in the Tassie Shoal gas processing projects, these rights have been terminated. MEO has granted Petrofac an option, expiring on 30 June 2011, to acquire a 5% interest in NT/P68 and an equivalent right in the Tassie Shoal Projects. To trigger the option Petrofac would be required to make a payment representing a multiple of back costs relating to the Blackwood-1 well.

- **NT/P68 (MEO 100%)**

This exploration permit was renewed in February 2010, for a further 5 year term following the mandatory relinquishment of 50% of the area. The remaining 6,000 km² permit contains the Heron and Blackwood gas discoveries.

MEO commissioned Schlumberger to undertake a reservoir study using seismic inversion to determine whether reservoir properties could be modelled using 3D seismic data. The results of this work determined that the reservoirs in this area typically display a dual porosity system – a primary or matrix porosity system and a secondary porosity or fracture porosity system. The fracture porosity system is responsible for the high flow rates observed on production testing, while the matrix porosity system is expected to contribute to production due to the connected fracture network.

At Heron, MEO identified that the apparent reservoir sweet spots identified on 3D seismic, showed a strong correlation with the original structuring. This suggested that porosity was preserved due to early hydrocarbon emplacement. These findings together with the Schlumberger inversion work were used to calculate a resource assessment.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2010

5. REVIEW OF OPERATIONS (cont)

MEO plans to attract a farm-in partner to assist with appraising the Heron gas discovery to determine whether it has the necessary resource size and quality to underpin a commercial development. The Blackwood gas discovery maybe quarantined from the farm-in deal as the gas quality and resource size makes it suitable only for conversion to methanol, while Heron is considered to have the potential to underpin an LNG project.

Tassie Shoal Development Projects

MEO has secured Commonwealth environmental approvals to construct, install and operate an LNG plant know as the Timor Sea LNG Project (TSLNGP) and two methanol plants collectively referred to as the Tassie Shoal Methanol Project (TSMP) on Tassie Shoal, an area of shallow water in the Australian waters of the Timor Sea approximately 275 km north-west of Darwin, Northern Territory. Tassie Shoal is strategically located within 150km of all the undeveloped gas fields in the region. The Tassie Shoal projects can cater for a range of gas qualities and are designed to share infrastructure, logistic support systems and benefit from a number of production process synergies. The environmental approvals are valid until May 2052.

Monetising stranded gas in the Timor Sea must include an economically viable solution for dealing with CO₂ and distance challenged gas. While geo-sequestration is currently the preferred industry solution for CO₂ and remains an option for the Timor Sea, MEO considers that sequestration of CO₂ into a saleable commodity i.e. methanol to be an economically superior alternative for the Timor Sea fields. The ideal gas composition for conversion to methanol is 22-25% CO₂, making a compelling case for development of stranded, high CO₂ gas via a Tassie Shoal gas processing hub. During the year the Group continued to revise capital cost estimates for both projects, studied casing basin opportunities and also examined potential gas to liquids opportunities.

Tassie Shoal Methanol Project (TSMP, MEO 50%)

MEO proposes the staged construction of two large natural gas reforming and methanol production plants, each with an annual production capacity of 1.75 million tonnes on its own concrete gravity structure (CGS). Each completed plant will be towed to Tassie Shoal and grounded for operation using sea water as ballast. Each plant requires approximately 1.3 Tcf of natural gas, ideally containing up to 25% CO₂.

Timor Sea LNG Project (TSLNGP, MEO 100%)

The TSLNGP requires approximately 3 Tcf of clean, low CO₂ (<4%) gas to operate for 20 years. Gas supply for the LNG plant could come from MEO's own Heron gas discovery subject to successful appraisal drilling or alternatively one or more of the neighbouring undeveloped gas fields facing economic challenges imposed by long distances from land and expensive construction costs.

Corporate

In November 2009, MEO raised \$25.8 million (net of transaction costs) from issuing 59,898,385 shares at a price of \$0.45 per share. The funds raised were initially used to underpin the financial commitment involved in exercising the drill/drop option for WA-360-P. The Petrobras farm-in announced in April 2010 will now enable these funds to be used to advance MEO's existing projects and to secure attractive growth opportunities.

Subsequent to the end of the financial year, the Company raised \$3.4 million from the sale of 10,122,918 MEO shares held under the Trustee Stock Scheme.

Results for the year

The net loss of the Group for the financial year, after provision for income tax, was \$4,825,821 (2009: loss after tax of \$28,184,784).

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2010

5. REVIEW OF OPERATIONS (cont)

The successful drilling and commercialisation of any commercial oil and gas discoveries in NT/P68 and the North West Shelf Permits WA-360-P and WA-361-P and/or the development of the Group's methanol and LNG Projects could ultimately lead to the establishment of a profitable business. While the Group is in the exploration/appraisal stage of drilling for hydrocarbons in NT/P68 and the North West Shelf Permits and in the project development phase, funding will be provided by equity capital raised from the issue of new shares and/or farm out or joint development arrangements with other companies.

Review of Financial Condition

At balance date the Group held cash and cash equivalents of \$35,989,225. During the year the Group increased the cash balance by \$18,856,179 (before foreign exchange fluctuations) following net capital raisings of \$25,782,776 and interest received of \$967,505 which were used to meet exploration and capital cash outflows of \$3,217,023 and net corporate costs of \$4,677,079.

Share Issues

During the year the Company raised a total of \$26,964,273 (before transaction costs of \$1,171,497) from the issue of 59,898,385 shares at \$0.45 per share.

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the current financial year.

7. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Additional Equity in WA-361-P

In July 2010, MEO acquired an additional 15% equity in WA-361-P from Gascorp Australia Pty Ltd for US\$1.0 million. MEO's interest in the Permit increases from 35% to 50%.

Trustee Share Sales

In August 2010 the Trustee of the MEO Trustee Share Plan, Doravale Enterprises Pty Ltd, sold 10,122,918 MEO shares at \$0.34 per share, raising \$3,441,792 (before costs). The sales of these shares represented the remaining shares in the Scheme. The Trustee Share Plan scheme closed on 25 August 2010 and has not been renewed.

WA-360-P Regulatory Approval – Petrobras Farm-in

In September 2010, the final condition precedent to the Petrobras farm-in was completed with the registration of Petrobras as a joint venture participant in WA-360-P. MEO has now invoiced Petrobras for the Cash Bonus and Seismic related back-costs.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or state of affairs of the Group, in future financial years.

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company has previously advised on the details of the farmout agreement with Petrobras. During the 2010/2011 financial year, and after receipt of final regulatory approvals, MEO will receive from Petrobras the cash bonus of US\$31.5 million and seismic related back costs of approximately US\$7.5 million. The Company is also expecting to drill the Artemis-1 well in WA-360-P in November 2010. During the 2010/2011 financial year the Group will pursue a farm-out of part of MEO's 100% interest in NT/P68 and pursue other new venture opportunities as appropriate.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2010

9. SHARE OPTIONS AND SHARE PERFORMANCE RIGHTS

Options granted to directors and executives of the Company

There were no options granted by the Company during or since the end of the financial year.

Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry Date	Exercise Price	Number of Shares
30 September 2011	\$0.50	2,000,000
30 June 2012	\$0.85	1,100,000
30 June 2012	\$0.50	2,700,000
30 June 2012	\$1.20	1,100,000
30 June 2012	\$1.00	2,000,000

All options expire on the earlier of their expiry date or termination of the employee's employment. In addition, the ability to exercise the options is conditional on meeting the vesting conditions. These options do not entitle the holder to participate in any share issue of the Company.

Shares issued on the Exercise of Compensation Options

During or since the end of the financial year, there has been no issue of ordinary shares as a result of the exercise of options.

10. INDEMNIFICATION AND INSURANCE OF DIRECTORS

The Company paid a premium in respect of a contract insuring all directors of the Company against legal costs incurred in defending proceedings as permitted by Section 199B of the Corporations Act 2001. Disclosure of premium details is prohibited under the policy.

11. BOARD AND COMMITTEE MEETINGS

The following table sets out the members of the Board of Directors and the members of the Committees of the Board, the number of meetings of the Board and of the Committees held during the year and the number of meetings attended during each director's period of office.

	Board of Directors		Audit Committee		Remuneration and Nomination Committee	
	A	B	A	B	A	B
N M Heath	9	9	1	1	2	2
J Hendrich	9	9	-	-	-	-
S W Hopley	9	9	2	2	-	-
G A Short	8	9	2	2	-	-
M J F Sweeney	9	9	-	-	2	2

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

In addition to the formally constituted Board of Directors meetings set out above, Directors held a one day strategy meeting, a half day risk management workshop and also held a significant number of meetings during the WA-360-P farmout process.

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**DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 30 JUNE 2010**

12. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors have received the independence declaration from the auditor, Ernst & Young, set out on page 10.

Non Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	\$
Tax compliance services	5,000

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

In relation to our audit of the financial report of MEO Australia Limited for the financial year ended 30 June 2010, 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.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Brett Croft'.

Brett Croft
Partner
16 September 2010

MEO Australia Limited

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2010

13. REMUNERATION REPORT (Audited)

The Remuneration Report outlines the remuneration arrangements in place for directors and executives in accordance with Section 300A of the Corporations Act 2001 and its Regulations.

The information provided in this Remuneration Report has been audited as required by Section 308 (3C) of the Corporations Act. This Remuneration Report forms part of the Directors' Report.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors and executives.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

The structure of non-executive director and executive remuneration is separate and distinct.

13.1 Remuneration philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- Competitive rewards are set to attract high calibre executives;
- Executive rewards are linked to shareholder value;
- A significant portion of executive remuneration is dependent upon meeting pre-determined performance benchmarks; and
- Appropriate performance hurdles are established in relation to variable executive remuneration.

During the year, the Company focussed on the successful farmout of a 50% interest in WA-360-P, commenced preparations for the farmout of part of MEO's 100% interest in NT/P68, continued to pursue Gas to Liquids developments on Tassie Shoal and commenced preparations for the drilling of the Artemis -1 exploration well.

Creation of shareholder wealth is dependent upon a successful drilling program, active acreage management and/or the development of one or more of the GTL projects.

Accordingly, the Board's remuneration policy for executives includes the grant of rights with performance criteria linked to drilling and project development milestones and also the grant of rights with performance criteria linked to share price targets and market capitalisation.

In regard to share based remuneration, the Company has an established overall Trading Policy in regard to directors and executives which provides appropriate guidelines, processes and restrictions on the sale of any shares and options in the Company by these officers and their related parties. Unless explicitly stated otherwise all options granted are non ASX listed options and as such have limitations on their marketability.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of high calibre, at a cost which is acceptable to shareholders.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2010

13. REMUNERATION REPORT (Audited) (cont)

The Constitution and ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by members in general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. At the Annual General Meeting held on 13 November 2008 shareholders approved an aggregate annual remuneration of up to \$300,000 of which \$218,000 was paid to non-executive directors during the year ended 30 June 2010 (2009: \$197,213).

Each director has entered into an agreement as to the terms of their appointment as director of the Company and (other than the Managing Director) receives remuneration as a director, by way of fee or superannuation. Under such agreements current at the date of this report, there are no annual, long service leave or other termination entitlements. No remuneration is paid to directors for service on board committees or on the boards of wholly owned subsidiaries.

Non-executive directors have been granted options through the Senior Executive and Officers Option Plan to further align their interests as directors with those of shareholders. Non-executive directors have long been encouraged by the Board to hold shares in the Company. The Company facilitates this through the Directors' Share Savings Plan. Under the plan, non-executive directors are eligible to take up to 100% of their fees in the form of shares in the Company. The shares are purchased on market at the prevailing market share price. During the period of the WA-360-P farmout, the Board decided to suspend the purchase of shares under the Share Savings Plan.

Executive director and other key management personnel remuneration

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward executives for individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

In determining the level and make-up of executive remuneration, the Remuneration Committee reviews market levels of remuneration for comparable executive roles.

It is the policy of Remuneration Committee that employment contracts are entered into with the Managing Director and other executives and consultants covering the following key elements:

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed regularly by the Remuneration Committee. The Committee has access to external advice if required.

Variable Remuneration – Long Term Incentives

- *Senior Executives and Officers Option Plan*

Executive directors and other key management personnel are entitled to participate in the Senior Executive and Officers Plan (see page 16 for details of options granted).

- *MEO Australia Performance Plan*

Performance rights entitle recipients to one fully paid ordinary share in the Company for each right held, upon attainment of performance conditions and expiration of the vesting period in relation to the relevant shares. No other consideration is received or will be received by the Company in relation to the provision of the right or the vesting of shares.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2010

13. REMUNERATION REPORT (Audited) (cont)

Executive directors are granted performance rights in accordance with their employment or consultancy contracts, the terms of which provide for treatment of performance rights held on cessation of employment. The performance rights lapse on expiration of the performance period determined at grant, and on cessation of employment subject to arrangements for death, disability or retirement.

The Company purchases shares on market on behalf of the plan trustee to satisfy obligations under the rights upon satisfaction of performance conditions.

As at the date of this report, there are no Performance Rights outstanding.

Employment contracts

- *Managing Director and Chief Executive Officer Remuneration*

On 16 June 2008, Mr Jürgen Hendrich joined MEO in the role of Chief Executive Officer, and on 25 July 2008 assumed the position of Managing Director and Chief Executive Officer. Mr Hendrich entered into an executive service agreement dated 20 May 2008, which commenced on 16 June 2008 and will continue until 1 July 2011. Under the major terms of the agreement:-

- Mr Hendrich received an initial fixed remuneration per annum plus superannuation which is reviewed by the Remuneration Committee at the completion of each twelve months of service.

The Remuneration Committee and Board of Directors have approved a \$20,000 per annum increase in the fixed remuneration component of the remuneration package with effect from 1 July 2010. The fixed remuneration from 1 July 2010 is \$420,000 per annum plus superannuation.

- Mr Hendrich may resign from his position and thus terminate this contract by giving three months written notice. On resignation any unvested options will lapse.
- The Company may terminate this employment agreement after 30 June 2009 by giving three months' prior notice in writing and making a termination payment equal to twelve months base salary plus any accrued entitlements. Share options that have reached the target price on the date of termination will vest without the need for 50 trading days at or above the target price having been achieved. The expiry date for vested options is June 30, 2012.
- The Company may immediately terminate this employment agreement by giving written notice if serious misconduct has occurred. Where termination with cause occurs all options which have not been exercised at the date of termination of employment will automatically lapse.

- *Other Executives (standard contracts)*

All executives have standard employment contracts. The Company may terminate the executive's employment agreement by providing written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). On termination of notice by the Company, any options that have vested or that will vest during the notice period will be released. Options that have not vested will be forfeited. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2010

13. REMUNERATION REPORT (Audited) (cont)

13.2 Remuneration of key management personnel

For the purposes of this report Key Management Personnel (KMP) of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the group, directly and indirectly, including any director (whether executive or otherwise) of the parent company, and includes the executives in the parent company and the group receiving the highest remuneration.

For the purposes of this report, the term "executive" encompasses the Managing Director and Chief Executive Officer, the Chief Financial Officer and Company Secretary and the Commercial Manager.

Directors and executive officers

N M Heath Chairman (independent non-executive) – appointed Chairman 13 November 2008
 J Hendrich Managing Director and Chief Executive Officer – appointed Chief Executive Officer 16 June 2008 and appointed Managing Director 25 July 2008.
 G A Short Director (independent non-executive) – appointed 14 July 2008
 S W Hopley Director (independent non-executive) – appointed 1 October 2008
 M J F Sweeney Director (independent non-executive) – appointed 1 October 2008

Executives

C H Naylor Chief Financial Officer and Company Secretary
 R J D Gard Commercial Manager – appointed 10 November 2008

Table 1: Remuneration for the year ended 30 June 2010

	<i>Short term</i>				<i>Post employment</i>	<i>Share-based payments</i>	<i>Long term</i>	<i>Total</i>	<i>Performance related</i>
	<i>Directors fees</i>	<i>Salary and fees</i>	<i>STI bonus</i>	<i>Non-monetary benefits</i>	<i>Super-annuation benefits</i>	<i>*Option plan</i>	<i>Long service leave</i>		
	\$	\$	\$	\$	\$	\$	\$	\$	%
Non - executive directors									
N M Heath	60,000	-	-	-	27,200	-	-	87,200	-
S W Hopley	-	-	-	-	43,600	9,550	-	53,150	18.0
G A Short	10,000	-	-	-	33,600	5,333	-	48,933	10.9
M J F Sweeney	10,000	-	-	-	33,600	9,550	-	53,150	18.0
Sub-total non-executive directors	80,000	-	-	-	138,000	24,433	-	242,433	10.1
Executive director									
J Hendrich	-	400,000	-	-	36,000	573,803	16,303	1,026,106	55.9
Other key management personnel									
C H Naylor	-	190,000	-	-	50,000	77,986	9,724	327,710	23.8
R J D Gard	-	211,065	**50,000	-	18,996	77,986	5,626	363,673	35.2
Sub-total executive KMP	-	801,065	50,000	-	104,996	729,775	31,653	1,717,489	45.4
TOTAL	80,000	801,065	50,000	-	242,996	754,208	31,653	1,959,922	41.0

* Refer Note 21 to the consolidated financial statements for fair value calculation of options.

**Mr Gard received a short term incentive bonus in recognition of his contribution to secure Petrobras as a WA-360-P Joint Venture Partner.

Consultants holding key management positions – excluded from 2010 and 2009 remuneration tables

K Hendrick Implementation Manager D Maughan Exploration Manager

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**DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 30 JUNE 2010**

13. REMUNERATION REPORT (Audited) (cont)

13.2 Remuneration of key management personnel (cont)

Table 2: Remuneration for the year ended 30 June 2009

	<i>Short term</i>				<i>Post employment</i>	<i>Share-based payments</i>	<i>Long term</i>	<i>Total</i>	<i>Performance related</i>
	<i>Directors fees</i>	<i>Salary and fees</i>	<i>STI bonus</i>	<i>Non-monetary benefits</i>	<i>Super annuation benefits</i>	<i>*Option Plan</i>	<i>Long Service Leave</i>		
	\$	\$	\$	\$	\$	\$	\$	\$	%
Non - executive directors									
N M Heath	-	-	-	-	64,220	105,875	-	170,095	62.2
S W Hopley	-	-	-	-	29,975	28,650	-	58,625	48.9
G A Short	13,450	-	-	-	23,556	122,667	-	159,673	76.8
M J F Sweeney	20,000	-	-	-	9,975	28,650	-	58,625	48.9
Retired non - executive directors									
W Bisley**	22,174	-	-	-	1,996	-	-	24,170	-
A J Rigg**	10,000	-	-	-	900	-	-	10,900	-
J M D Willis**	887	-	-	-	80	-	-	967	-
Sub-total non-executive directors	66,511	-	-	-	130,702	285,842	-	483,055	59.2
Executive director									
J Hendrich	-	375,240	-	-	33,772	693,596	171	1,102,779	62.9
Retired executive director									
C R Hart**	-	150,185	-	-	11,314	-	-	161,499	-
Other key management personnel									
C H Naylor	-	178,900	-	-	61,100	21,310	3,583	264,893	8.0
R J D Gard (i)	-	118,494	-	-	10,664	217	5,162	134,537	0.2
Sub-total executive KMP	-	822,819	-	-	116,850	715,123	8,916	1,663,708	43.0
TOTAL	66,511	822,819	-	-	247,552	1,000,965	8,916	2,146,763	46.6

* Refer Note 21 to the consolidated financial statements for fair value calculation of options

**W Bisley Chairman (independent non-executive) – resigned 13 November 2008

**C R Hart Managing Director – resigned 30 September 2008

**A J Rigg Director (independent non-executive) – resigned 31 October 2008

**J M D Willis Director (independent non-executive) – resigned 11 July 2008

(i) Mr Gard was appointed 10 November 2008

13.3 Details of performance related remuneration

13.3.1 Equity instruments

All options refer to options over ordinary shares of MEO Australia Limited, which are exercisable on a one-for-one basis under the Senior Executives and Officers Option Plan.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2010

REMUNERATION REPORT (Audited) (cont)

13.3 Details of performance related remuneration (cont)

13.3.2 Options over equity instruments granted as compensation

There were no options granted during or since the end of the financial year as compensation to key management personnel.

	Number of options vested during 2010
Directors	
G A Short*	1,000,000
S W Hopley**	1,000,000
M J F Sweeney**	1,000,000
Executives	
C H Naylor***	450,000
R J D Gard***	450,000

*Options were granted in August 2008, fair value \$0.128, exercise price \$0.50, vest date July 2009 and lapsed 30 November 2009.

**Options were granted in November 2008, fair value \$0.0382, exercise price \$0.50, expiry date 30 September 2011, vest date September 2009.

***Options were granted in June 2009, fair value \$0.1072, exercise price \$0.50, expiry date 30 June 2012, vest date June 2010.

All options expire on the earlier of their expiry date or termination of the employee's employment. These options do not entitle the holder to participate in any share issue of the Company.

13.3.3 Exercise of options granted as compensation

There was no exercise of compensation options during the reporting period.

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**DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 30 JUNE 2010****REMUNERATION REPORT (Audited) (cont)****13.3 Details of performance related remuneration (cont)****13.3.4 Analysis of options over equity instruments granted as compensation**

Details of vesting profiles of the options granted as remuneration are detailed below.

Options Granted		Date	% vested in year	% forfeited in year	Financial years in which grant vests
Number					
Directors					
N M Heath	1,000,000	21 Aug 08	-%	100%	-
J Hendrich	1,000,000	21 Aug 08	-%	100%	-
G A Short	1,000,000	21 Aug 08	100%	100%	30 Jun 10
S W Hopley	1,000,000	13 Nov 08	100%	-%	30 Jun 10
M J F Sweeney	1,000,000	13 Nov 08	100%	-%	30 Jun 10
Executives					
J Hendrich	1,100,000	19 Jun 08	-%	100%	-
J Hendrich	1,100,000	19 Jun 08	-%	-%	30 Jun 11
J Hendrich	1,100,000	19 Jun 08	-%	-%	30 Jun 11
J Hendrich	2,000,000	19 Jun 08	-%	-%	30 Jun 12
C H Naylor	200,000	5 Feb 07	-%	100%	-
C H Naylor	200,000	5 Feb 07	-%	100%	-
C H Naylor	450,000	29 Jun 09	100%	-%	30 Jun 10
C H Naylor	450,000	29 Jun 09	-%	-%	30 Jun 11
R J D Gard	450,000	29 Jun 09	100%	-%	30 Jun 10
R J D Gard	450,000	29 Jun 09	-%	-%	30 Jun 11

13.3.5 Analysis of movements in options granted as part of remuneration

	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$
N M Heath	-	-	121,000
J Hendrich	-	-	478,100
G A Short	-	-	128,000
S W Hopley	-	-	-
M J F Sweeney	-	-	-
C H Naylor	-	-	138,026
R J D Gard	-	-	-

Signed in accordance with a resolution of the directors



J HENDRICH
Managing Director and Chief Executive Officer
Melbourne, 16 September 2010

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010**

	Note	2010 \$	2009 \$
Interest income		1,215,044	970,952
Other income		-	5,200
Income		1,215,044	976,152
Depreciation and amortisation expense		(116,040)	(108,474)
Directors, employees and consultants	4	(3,642,082)	(3,784,343)
Exploration expenditure written-off		(338,617)	(27,085,763)
Foreign exchange (losses)/gains		(67,435)	3,171,217
Other expenses	4	(1,302,375)	(876,915)
Loss before income tax		(4,251,505)	(27,708,126)
Income tax expense	5	(574,316)	(476,658)
Net loss for the period		(4,825,821)	(28,184,784)
Total comprehensive loss for the period		(4,825,821)	(28,184,784)
Basic loss per share (cents per share)	6	(1.07)	(6.76)
Diluted loss per share (cents per share)	6	(1.07)	(6.76)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010**

	Note	2010 \$	2009 \$
CURRENT ASSETS			
Cash and cash equivalents	7	35,989,225	17,200,481
Trade and other receivables	8	1,129,835	95,916
TOTAL CURRENT ASSETS		37,119,060	17,296,397
NON-CURRENT ASSETS			
Property, plant and equipment	9	132,662	129,931
Leasehold improvements	10	411	31,519
Intangible assets	11	93,307	96,238
Exploration and evaluation costs	12	124,217,572	122,129,208
TOTAL NON-CURRENT ASSETS		124,443,952	122,386,896
TOTAL ASSETS		161,563,012	139,683,293
CURRENT LIABILITIES			
Trade and other payables	13	776,256	1,261,299
Provisions	14	69,263	100,519
TOTAL CURRENT LIABILITIES		845,519	1,361,818
NON-CURRENT LIABILITIES			
Provisions	14	59,248	26,695
TOTAL NON-CURRENT LIABILITIES		59,248	26,695
TOTAL LIABILITIES		904,767	1,388,513
NET ASSETS		160,658,245	138,294,780
EQUITY			
Contributed equity	15	205,849,286	179,492,194
Share based payments reserve	15	1,129,424	1,162,356
Accumulated losses	15	(46,320,465)	(42,359,770)
TOTAL EQUITY		160,658,245	138,294,780

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010**

	Issued Capital	Share Based Payments Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$
Balance at 1 July 2009	179,492,194	1,162,356	(42,359,770)	138,294,780
Net loss for the period	-	-	(4,825,821)	(4,825,821)
Total comprehensive loss for the year			(4,825,821)	(4,825,821)
Transactions with owners in their capacity as owners:				
Cost of share based payments	-	832,194	-	832,194
Share issues	26,954,273	-	-	26,954,273
Costs of issues (net of tax)	(597,181)	-	-	(597,181)
Transfer of equity instruments expired unvested	-	(865,126)	865,126	-
At 30 June 2010	205,849,286	1,129,424	(46,320,465)	160,658,245
At 1 July 2008	167,726,255	1,047,954	(14,911,486)	153,862,723
Net loss for the period	-	-	(28,184,784)	(28,184,784)
Total comprehensive loss for the year			(28,184,784)	(28,184,784)
Transactions with owners in their capacity as owners:				
Cost of share based payments	-	1,021,515	-	1,021,515
Transfer of cost of exercised equity instruments	170,613	(170,613)	-	-
Share issues	11,765,050	-	-	11,765,050
Costs of issues (net of tax)	(111,595)	-	-	(111,595)
Purchase of shares on market in settlement of vested performance rights	(58,129)	-	-	(58,129)
Transfer of equity instruments expired unvested	-	(736,500)	736,500	-
At 30 June 2009	179,492,194	1,162,356	(42,359,770)	138,294,780

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010**

	2010	2009
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(4,810,601)	(4,530,297)
Cost recovery from joint venture partners	133,522	674,025
Interest received	967,505	985,338
Net cash from/(used in) operating activities (note 16)	(3,709,574)	(2,870,934)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditure on plant and equipment	(46,587)	(72,758)
Expenditure on intangibles	(38,145)	(109,094)
Expenditure on exploration tenements	(3,132,291)	(18,470,485)
Proceeds from sale of assets	-	90,327
Net cash (used in) investing activities	(3,217,023)	(18,562,010)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issues	26,954,273	6,265,050
Transaction costs on issue of shares	(1,171,497)	(588,253)
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/(used in) financing activities	25,782,776	11,118,668
Net increase/(decrease) in cash and cash equivalents	18,856,179	(10,314,276)
Cash and cash equivalents at beginning of period	17,200,481	24,343,540
Net foreign exchange differences	(67,435)	3,171,217
Cash and cash equivalents at end of period (note 7)	35,989,225	17,200,481

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1 CORPORATE INFORMATION

The financial report of MEO Australia Limited (“MEO Australia”, or the “Company”) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 16 September 2010.

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

The nature of operations and principal activities of the Group are described in Note 3.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, and is presented in Australian dollars. The financial report has also been prepared on a historical cost basis.

(b) Compliance with IFRS

The financial report complies with Australian Accounting Standards issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) New Accounting Standards and Interpretations

The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 30 June 2010:

(i) AASB 8 Operating Segments

AASB 8 replaced AASB 114 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are disclosed in Note 3.

(ii) AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owners changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2010 reporting period. The Group’s assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash Settled Share Based Payment Transactions [AASB 2] (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving services in a group share based payment arrangement must recognise an expense for services regardless of which entity in the Group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share based payment arrangement should be measured, that is, whether it is measured as an equity or a cash settled transaction. The Group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the Group's financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(c) New Accounting Standards and Interpretations (cont)

- (ii) AASB 2009-10 *Amendments to Australian Accounting Standards - Classification of Rights Issues [AASB 132]* (effective from 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group will apply the amended standard from 1 July 2010. As the Group has not made any rights issues in foreign currencies, the amendment will not have any effect on the Group's financial statements.

- (iii) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards Arising from AASB 9* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and may impact the Group's accounting for its financial assets in the future. The standard is not applicable until 1 January 2013 but is available for early adoption. The amendments have no current impact on the Group's financial statements.

- (iv) AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group's financial statements since the Group has not currently entered into any debt or equity swaps.

- (v) AASB 2009-14 *Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement* (effective from 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. As the Group does not have a defined benefit fund, the amendment is not expected to have any impact on the Group's financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(c) New Accounting Standards and Interpretations (cont)

- (vi) The following amendments to standards were also made. These changes have no current impact for the Group and are not effective as at 30 June 2010:
- AASB 2009-5 *Further Amendments to Australian Accounting Standards Arising from the Annual Improvements Project*;
 - AASB 2009-12 *Amendments to Australian Accounting Standards*;
 - AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19*;
 - AASB 2010-1 *Amendments to Australian Accounting Standards – Limited Exemptions from Comparative AASB 7 Disclosures for First-time Adopters*;
 - AASB 2010-2 *Amendments to Australian Accounting Standards arising from reduced disclosure requirements*;
 - AASB 2010-3 *Amendments to Australian Accounting Standards Arising from the Annual Improvements Projects*;
 - AASB 2010-4 *Further Amendments to Australian Accounting Standards Arising from the Annual Improvements Project*;
 - AASB 124 (*Revised*) *Related Party Disclosures (December 2009)*; and
 - AASB 1053 *Applications of Tiers of Australian Accounting Standards*.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of MEO Australia Limited and its subsidiaries as at 30 June 2010 and the results of all the subsidiaries for the year then ended (the Group).

Subsidiaries are all those entities over which the group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income, expenses and profits and losses from intra group transactions, have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(e) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on judgements, 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, and using the assumptions detailed in note 21.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(e) Significant accounting judgements, estimates and assumptions (cont)

Exploration and evaluation costs

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 30 June 2010 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.

(f) Segment reporting

Operating segments are reported in a manner which is materially consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

(g) Foreign currency translation

(i) Functional and presentation currency

Both the functional currencies of the entities in the Group and the presentation currency of the Group is Australian dollars (\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency and translated to the presentation currency as appropriate at year end.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated report are taken to profit or loss.

(h) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(i) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Certain derivatives do not qualify for hedge accounting and changes in the fair value are recognised immediately in profit or loss in other revenues and expenses. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives, except those that qualify as cash flow hedges are taken directly to profit or loss for the year.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

(j) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets which range from 4 to 15 years.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is written down to its recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

(k) Methanol and LNG project costs

Research and feasibility costs are expensed as incurred. Development expenditure incurred on a project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future revenue from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(l) Exploration and evaluation costs

Exploration and evaluation expenditure is carried at cost. If indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Exploration and evaluation costs are accumulated separately for each current 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.

Impairment of exploration and evaluation costs

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits/(losses) and net assets will be varied in the period in which this determination is made.

Farm-outs

The Group will account for farm-out arrangements as follows:

- The Group will not record any expenditure made by the farminee on its behalf;
- The Group will not recognise a gain or loss on the farm-out arrangement but rather will redesignate any costs previously capitalised in relation to the whole interest as relating to the partial interest retained; and
- Any cash consideration to be received will be credited against costs previously capitalised in relation to the whole interest with any excess to be accounted for by the Group as gain on disposal.

(m) Intangible assets

Intangible assets acquired are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and method for an intangible asset with a finite useful life is reviewed at least annually. Changes in the expected useful life are accounted for by changing the amortisation period or method, which is a change in an accounting estimate. Amortisation expense is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

(n) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance date which are classified as non-current assets. Loans and receivables are included in receivables in the consolidated statement of financial position.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade date, the date on which the Group commits to purchase or sell the asset.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(n) Loans and receivables (cont)

Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(o) Interests in joint ventures

Jointly controlled assets

A jointly controlled asset involves joint control and offers joint ownership by the Group and other venturers of assets contributed to or acquired for the purposes of the joint venture, without the formation of a corporation, partnership or entity.

The Group accounts for its share of the jointly controlled assets, and liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

(p) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependant on the use a specific asset or assets and the arrangement conveys a right to use the asset.

Leases under which the lessor retains substantially all of the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised in the statement of comprehensive income on a straight-line basis over the lease term.

(q) Trade and other payables

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of the goods and services.

(r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(r) Provisions (cont)

Employee leave benefits

Wages, salaries, annual leave and sick leave

Liabilities for wage and salaries, including non-monetary benefits and annual leave entitlements expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' service up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date in national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(s) Share-based payment transactions

The Group provides benefits to employees (including directors) of, and consultants to, the Group in the form of share-based payment transactions, whereby services are rendered in exchange for shares or rights over shares ('equity-settled transactions'). There are currently two plans in place to provide these benefits:

- (i) Senior Executives and Officers Option Plan, which provides benefits to directors and senior executives, and
- (ii) MEO Australia Performance Plan which provides benefits to senior executives and consultants.

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value of options and performance rights with market based performance criteria is determined by an external valuer using a binomial option pricing model. The fair value of performance plan rights with non-market performance criteria is determined by reference to the Company's share price at date of grant.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the recipient becomes fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors, based on the best available information at balance date, will ultimately vest. No adjustment is made for the likelihood of market conditions being met as the effect of these conditions is included in determination of fair value at grant date. The charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(s) Share-based payment transactions (cont)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(t) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(u) Reserved shares

Own equity instruments reacquired for later payment as employee share-based payment awards (treasury shares) are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(v) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Specific recognition criteria must also to be met:

Interest income

Revenue is recognised as the interest accrues using the effective interest method.

(w) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date.

Deferred income tax is provided on all temporary differences at balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(w) Income tax (cont)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be used, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when the deductible temporary differences is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be applied.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it is has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right of set off exists to set off current tax assets against current liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxable authority.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Tax consolidation legislation

MEO Australia Limited and its wholly owned subsidiaries have implemented the tax consolidation legislation as of 1 July 2004.

The head entity, MEO Australia Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current tax and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, MEO Australia Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(x) Goods and services tax

Revenues, expenses and assets are recognised net of GST, except receivables and payables which are stated with GST included. Where GST incurred on a purchase of goods or services is not recoverable from the taxation authority, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(y) Earnings per share

Basic earnings per share is calculated as net profit/(loss) attributable to members divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit/(loss) attributable to members divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(z) Parent entity financial information

The financial information for the parent entity, MEO Australia Limited, disclosed in note 24 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less accumulated impairment losses in the financial statements of MEO Australia Limited.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 3 SEGMENT INFORMATION**

The Group's reportable segments are confined to development of methanol and LNG projects and petroleum exploration.

The following tables represent revenue, profit/(loss) information and certain asset and liability information regarding operating segments for the years ended 30 June 2010 and 30 June 2009.

BUSINESS SEGMENTS	METHANOL & LNG DEVELOPMENT		PETROLEUM EXPLORATION		CONSOLIDATED	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Revenue:						
Segment revenue	-	-	-	-	-	-
Interest revenue					1,215,044	976,152
Total consolidated revenue					<u>1,215,044</u>	<u>976,152</u>
Result:						
Segment loss	(423,519)	(302,226)	(338,617)	(27,085,763)	(762,136)	(27,387,989)
Non-segment expenses:						
- Depreciation and amortisation					(116,040)	(108,474)
- Directors, employees and consultants					(3,218,563)	(3,482,117)
- Foreign exchange (losses)/gains					(67,435)	3,171,217
- Other					(1,302,375)	(876,915)
Loss before income tax					<u>(4,251,505)</u>	<u>(27,708,126)</u>
Income tax expense					(574,316)	(476,658)
Net loss for the year					<u>(4,825,821)</u>	<u>(28,184,784)</u>

The segment assets at 30 June 2010 for Petroleum Exploration total \$124,217,572 (30 June 2009: \$122,129,208) and there are no segment assets for Methanol and LNG Development at 30 June 2010 and 30 June 2009. All non-current assets are located in Australia.

NOTE 4 EXPENSES

	Consolidated	
	2010 \$	2009 \$
Directors, Employees and Consultants		
Consultants fees and expenses	846,301	675,029
Tassie Shoal Project expenses	423,519	302,226
Directors remuneration (non-executive)	80,000	66,511
Directors superannuation	138,000	130,702
Directors insurance	39,000	46,750
Fringe benefits tax	27,683	32,990
Payroll tax and workcover	121,657	133,629
Provision for annual and long service leave	57,855	29,032
Salaries (including executive director)	989,314	1,239,412
Share based payments	832,194	1,021,515
Superannuation	86,559	106,547
	<u>3,642,082</u>	<u>3,784,343</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 4 EXPENSES (cont)**

	Consolidated	
	2010	2009
	\$	\$
Other expenses		
Administration and other expenses	192,256	128,249
Audit costs	66,500	77,570
Operating lease expenses	90,175	56,712
Stock exchange registry and reporting costs	294,910	241,805
Travel and corporate promotion costs	606,034	372,579
Trustee stock scheme costs	52,500	-
	<u>1,302,375</u>	<u>876,915</u>

NOTE 5 INCOME TAX**Statement of Comprehensive Income**

	Consolidated	
	2010	2009
	\$	\$
<i>Current income tax</i>		
Current income tax credit/(expense)	1,758,431	4,598,210
Adjustment in respect of current income tax of previous years	161,596	(161,207)
Tax losses not recognised as not probable	(1,753,893)	(4,437,003)
	<u>166,134</u>	<u>-</u>
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(740,450)	3,419,755
Tax losses brought to account to offset net deferred tax liability	-	(3,896,413)
	<u>(740,450)</u>	<u>(476,658)</u>
Income tax expense reported in the Statement of Comprehensive Income	<u>(574,316)</u>	<u>(476,658)</u>

Statement of Changes in Equity

	Consolidated	
	2010	2009
	\$	\$
<i>Deferred income tax related to items charged or credited directly to equity</i>		
Share issue costs	351,449	176,476
Not recognised as not probable	(210,870)	-
Amount recognised in respect of prior years share issue costs now considered probable	433,737	300,182
	<u>574,316</u>	<u>476,658</u>
Income tax benefit reported in equity	<u>574,316</u>	<u>476,658</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 5 INCOME TAX (cont)**

	Consolidated	
	2010	2009
	\$	\$
Tax Reconciliation		
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting (loss) before tax	(4,251,505)	(27,708,126)
At the Group's statutory 30% tax rate (2009: 30%)	1,275,452	8,312,438
Adjustment in respect of current income tax of previous years	161,596	(161,207)
Share based payment expense	(249,658)	(306,455)
Non-deductible expenses	(7,813)	(5,458)
Deductible share purchases for share based payments	-	17,439
Tax losses not brought to account	(1,753,893)	(8,333,415)
Income tax expense reported in the Statement of Comprehensive Income	<u>(574,316)</u>	<u>(476,658)</u>

Deferred Income Tax	Statement of Financial Position		Profit or Loss	
	2010	2009	2010	2009
	\$	\$	\$	\$

Deferred income tax at 30 June relates to the following:

CONSOLIDATED*Deferred tax liabilities*

Prepayments	-	-	-	-
Interest receivable	(83,506)	(9,245)	(74,261)	38,546
Exploration and evaluation costs	<u>(37,265,272)</u>	<u>(36,638,762)</u>	(626,510)	5,110,067
Gross deferred income tax liabilities	<u>(37,348,778)</u>	<u>(36,648,007)</u>		

Deferred tax assets

Accruals	150,102	190,170	(40,068)	(1,737,568)
Provisions	38,553	38,164	389	8,710
Share issue costs	981,232	1,141,436	-	-
Temporary differences not recognised as not probable	(477,206)	(700,073)	-	-
Tax losses brought to account to offset net deferred tax liability	<u>36,656,097</u>	<u>35,978,310</u>	166,134	(3,896,413)
Gross deferred income tax assets	<u>37,348,778</u>	<u>36,648,007</u>		
Net Deferred Tax Asset	-	-		
Deferred tax expense			<u>(574,316)</u>	<u>(476,658)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 5 INCOME TAX (cont)

Tax consolidation

(i) Members of the tax consolidated group

MEO Australia Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2004. MEO Australia Limited is the head entity of the tax consolidated group.

(ii) Tax effect accounting by members of the tax consolidated group

Measurement method adopted under UIG 1052 Tax Consolidated Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the principles in AASB 112 *Income Taxes*.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Tax losses

At balance date, the Group has estimated unused gross tax losses of \$165,157,000 (2009 \$157,588,000) that are available to offset against future taxable profits subject to continuing to meet relevant statutory tests. To the extent that it does not offset a net deferred tax liability, a deferred tax asset has not been recognised in the accounts for these unused losses because it is not probable that future taxable profit will be available to use against such losses.

NOTE 6 EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

For the year ended 30 June 2010 and for the comparative period, there are no dilutive potential ordinary shares as conversion of share options and performance rights would decrease the loss per share and hence are non-dilutive.

The following data was used in the calculations of basic and diluted loss per share:

	Consolidated	
	2010	2009
	\$	\$
Net loss	(4,825,821)	(28,184,784)
	Shares	Shares
Weighted average number of ordinary shares used in calculation of basic and diluted loss per share	453,061,601	417,030,589

Transactions involving ordinary shares or potential ordinary shares that have occurred between the reporting date and the date of completion of these financial statements are set out in note 21. No dividends were paid during the year and no dividends are proposed. No franking credits are held by the Group.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 7 CASH AND CASH EQUIVALENTS**

	Consolidated	
	2010	2009
	\$	\$
Cash at bank and in hand	1,317,538	5,013,831
Short term deposits	34,671,687	12,186,650
	<u>35,989,225</u>	<u>17,200,481</u>

Cash at bank earns interest at floating rates based on daily bank rates.

Short term deposits are made for varying periods of between one month and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.

NOTE 8 TRADE AND OTHER RECEIVABLES

	Consolidated	
	2010	2009
	\$	\$
Goods and services tax refund	57,683	28,739
Interest receivable	278,354	30,816
Other	793,798	36,361
	<u>1,129,835</u>	<u>95,916</u>

At balance date, there are no trade receivables that are past due but not impaired. Due to the short term nature of these receivables, their carrying value approximates fair value. Trade receivables are non-interest bearing and are generally on 30-90 day terms. Details regarding the credit risk of current receivables are disclosed in note 17.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT**Plant and Equipment**

	Consolidated	
	2010	2009
	\$	\$
At cost	237,103	190,516
Accumulated depreciation	(104,441)	(60,585)
	<u>132,662</u>	<u>129,931</u>
<i>Movement in Plant and Equipment</i>		
Net carrying amount at beginning of year	129,931	88,545
Additions	46,587	72,758
Asset disposals – cost	-	(5,870)
Depreciation	(43,856)	(28,644)
Asset disposals – accumulated depreciation	-	3,142
	<u>132,662</u>	<u>129,931</u>

The useful life of the plant and equipment is estimated for 2010 and 2009 as 5 to 15 years.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 10 LEASEHOLD IMPROVEMENTS**

	Consolidated	
	2010	2009
	\$	\$
At cost	110,659	110,659
Accumulated depreciation	(110,248)	(79,140)
	<u>411</u>	<u>31,519</u>
<i>Movement in Leasehold Improvements</i>		
Net carrying amount at beginning of year	31,519	68,368
Asset scrapped – cost	-	(2,075)
Depreciation	(31,108)	(36,849)
Asset scrapped – accumulated depreciation	-	2,075
	<u>411</u>	<u>31,519</u>

The useful life of the Leasehold Improvements is estimated as 3 years.

NOTE 11 INTANGIBLE ASSETS

	Consolidated	
	2010	2009
	\$	\$
Software licences at cost	216,234	178,089
Accumulated amortisation	(122,927)	(81,851)
	<u>93,307</u>	<u>96,238</u>
<i>Movement in Intangibles</i>		
Net carrying amounts at beginning of year	96,238	94,093
Additions	38,145	41,912
Amortisation	(41,076)	(39,767)
	<u>93,307</u>	<u>96,238</u>

The useful life of the intangibles is estimated as 4 years.

NOTE 12 EXPLORATION AND EVALUATION COSTS

	Consolidated	
	2010	2009
	\$	\$
Balance at beginning of year	122,129,208	139,162,761
Expenditure for the year	2,088,364	10,035,415
Expenditure written-off during the year	-	(27,068,968)
	<u>124,217,572</u>	<u>122,129,208</u>

The Group continues to carry forward \$112,705,807 (2009 - \$112,860,393) of seismic and well related costs for the Heron and Blackwood geological areas of interest in NT/P68 and \$9,785,841 (2009 - \$9,268,815) of seismic and other costs related to the Artemis prospect in WA-360-P and the deposit of \$1,725,924 relating to the acquisition of 5% interest in WA-360-P.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 12 EXPLORATION AND EVALUATION COSTS(cont)**

At 30 June 2009, the Group wrote-off \$10,911,467 of costs associated with the Zeus area of interest in WA-361-P due to the dry hole result from the Zeus-1 exploration well and wrote-off \$1,436,117 of capitalised costs related to WA-359-P due to limited exploration activity expected in the permit. In addition, the Group wrote-off \$14,721,384 of seismic and Heron-2 well production testing costs relating to the Epenarra geological area of interest in NT/P68.

NOTE 13 TRADE AND OTHER PAYABLES

	Consolidated	
	2010	2009
	\$	\$
Trade payables	776,256	1,261,299
	<hr/>	<hr/>
	776,256	1,261,299
	<hr/>	<hr/>

Trade payables are non-interest bearing and are normally settled on 30 day terms.

NOTE 14 PROVISIONS

	Consolidated	
CURRENT	2010	2009
	\$	\$
Employee benefits		
Annual leave entitlement	69,263	69,158
Long service leave entitlement	-	31,361
	<hr/>	<hr/>
	69,263	100,519
	<hr/>	<hr/>
NON-CURRENT		
Employee benefits		
Long service leave entitlement	59,248	26,695
	<hr/>	<hr/>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 15 CONTRIBUTED EQUITY AND RESERVES**

	2010	Consolidated		2009
	Shares	2010	2009	2009
		\$	Shares	\$
ISSUED AND PAID UP CAPITAL				
Ordinary shares	467,098,037	205,849,286	407,199,652	179,492,194
Ordinary shares issued pursuant to trustee stock scheme	10,122,918	-	10,122,918	-
	<u>477,220,955</u>	<u>205,849,286</u>	<u>417,322,570</u>	<u>179,492,194</u>
Movements in Ordinary Shares				
Balance at beginning of year	407,199,652	179,492,194	385,808,652	167,726,255
<i>Share Issues:</i>				
Placement of shares at \$0.55	-	-	11,391,000	6,265,050
Placement of shares at \$0.45	59,898,385	26,954,273	-	-
Transaction costs (net of tax)		(597,181)	-	(111,595)
Shares sold by Trustee of Trustee Stock Scheme	-	-	10,000,000	5,500,000
Transfer of costs of exercised equity instruments	-	-	-	170,613
Purchase of shares on market in settlement of vested performance rights	-	-	-	(58,129)
Balance at end of year	<u>467,098,037</u>	<u>205,849,286</u>	<u>407,199,652</u>	<u>179,492,194</u>

	Consolidated	Consolidated
	2010	2009
	Shares	Shares
Movements in Ordinary Shares Issued Pursuant to Trustee Stock Scheme		
Balance at beginning of year	10,122,918	20,122,918
Shares placed with Trustee during the year	-	-
Shares sold by Trustee during the year	-	(10,000,000)
Balance at end of year	<u>10,122,918</u>	<u>10,122,918</u>

(a) Terms and Condition of Ordinary Shares

Ordinary shares entitle their holder to receive dividends as declared. In the event of winding up the company, ordinary shares entitle their holder to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up or which should have been paid up on shares held. Each ordinary share entitles the holder to one vote, either in person or by proxy, at a meeting of the company. Ordinary shares issued during the year and since the end of the year, from date of issue rank equally with the ordinary shares on issue.

(b) Trustee Stock Scheme

In 2000, the Company established a Trustee Stock Scheme, pursuant to which ordinary shares, ranking equally with other ordinary shares on issue, were issued to a trustee. When those shares are sold by the trustee the net proceeds are paid to the Company by way of subscription monies. The Trustee does not exercise any voting rights in respect of shares held pursuant to the scheme. The Trustee may sell shares at a discount up to 20% to the last sale price and at a greater discount, if so approved by the directors and recommended by a stockbroker. In 2006, by orders of the Supreme Court of Victoria the vesting date of the plan was extended for 5 years to 25 August 2010. The Trustee Share Plan scheme closed on 25 August 2010 and has not been renewed.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 15 CONTRIBUTED EQUITY AND RESERVES (cont)****(c) Share Options**

At 30 June 2010 8,900,000 options over unissued shares granted to directors/ex-directors, executives and consultants were outstanding. The options are granted pursuant to the Senior Executives and Officers Option Plan, details of which are set out in note 21.

(d) Capital Management

Capital is defined as equity. When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits of other stakeholders. All methods of returning funds to shareholders outside of dividend payments or raising funds are considered within the context of the Company's objectives.

The Group will seek to raise further capital, if required, as and when necessary to meet its projected operations. The decision of how the Group will raise future capital will depend on market conditions existing at that time. It is the Group's plan that this capital will be raised by any one or a combination of the following: placement of shares, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares to the public. Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the company's intention to meet its obligations by either partial sale of the Company's interests or farmout, the latter course of action being part of the Company's overall strategy.

The Group is not subject to any externally imposed capital requirements.

OTHER RESERVES**Share Based Payments Reserve**

The share based payments reserve records the value of benefits provided as equity instruments to directors, employees and consultants under share-based payment plans (note 21).

	Consolidated	
	2010	2009
	\$	\$
Balance at beginning of year	1,162,356	1,047,954
Cost of share based payments	832,194	1,021,515
Cost of exercised equity instruments transferred to contributed equity	-	(170,613)
Cost of unvested expired equity instruments transferred to accumulated losses	(865,126)	(736,500)
	<u>1,129,424</u>	<u>1,162,356</u>
Balance at end of year		

ACCUMULATED LOSSES

	Consolidated	
	2010	2009
	\$	\$
Balance at beginning of year	(42,359,770)	(14,911,486)
Net loss for the year	(4,825,821)	(28,184,784)
Transfer from Share Based Payments Reserve	865,126	736,500
Cost of equity instruments expired unvested	<u>865,126</u>	<u>736,500</u>
Balance at end of year	<u>(46,320,465)</u>	<u>(42,359,770)</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 16 STATEMENT OF CASH FLOWS RECONCILIATION****Reconciliation of net loss after tax to net cash flows used in operating activities**

	Consolidated	
	2010	2009
	\$	\$
Net loss	(4,825,821)	(28,184,784)
<i>Adjustments for:</i>		
Exploration expenditure written-off	338,617	27,085,763
Depreciation and amortisation	116,040	108,474
Share based payments	832,194	1,021,515
Exchange rate adjustments	67,435	(3,171,217)
Deferred income tax expense	574,316	476,658
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(1,004,885)	(19,286)
(Decrease)/increase in trade and other payables	191,233	(217,090)
(Decrease)/increase in provisions	1,297	29,033
	<hr/>	<hr/>
Net cash flows from/(used in) operating activities	(3,709,574)	(2,870,934)

NOTE 17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise cash and short term deposits, the main purpose of which is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are credit risk, interest rate risk, exchange rate risk and liquidity risk. The Board of Directors has reviewed each of those risks and has determined that they are not significant in terms of the Group's current activities. The Group also enters into derivative financial instruments, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations. Speculative trading in derivatives is not permitted. There are no derivatives outstanding at 30 June 2010 (2009: \$nil).

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the consolidated financial statements.

Credit risk

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the results being that the Group's exposure to bad debts is not significant.

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. No collateral is held as security. Exposure at balance date is the carrying value as disclosed in each applicable note.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and cash equivalents with a floating interest rate:

	Consolidated	
	2010	2009
	\$	\$
Cash and cash equivalents	35,989,225	17,200,481

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont)**

Short term deposits are made for varying periods of between one month and three months, depending on the immediate cash requirements of the group, and earn interest at the respective short term deposit rates.

Taking into account past performances, future expectations economic forecasts, and management's knowledge and experience of the financial markets, the group believes that +/- 1.0% from the year-end rates of 5.5% represents the 'reasonably possible' movement interest rates over the next 12 months. The following is the impact of this on the profit or loss with all other variables including foreign exchange rates held constant:

	Consolidated Net Profit	
	2010	2009
	\$	\$
+1.0% (100 basis points) increase/decrease in interest rates with all other variables held constant	349,000	126,000
-1.0% (100 basis points) increase/decrease in interest rates with all other variables held constant	(349,000)	(126,000)

There is no impact on equity other than the above net profit sensitivities on retained earnings/accumulated losses.

Foreign currency risk

The Group's exposure to exchange rate risk relates primarily to trade payables and cash denominated in US dollars. Where a payable is significant, US dollars are purchased on incurring the liability or commitment. The Group also manages its currency risk through the active management of its exposures. This includes entering into various forward currency contracts throughout the year. At balance date and at 30 June 2009, all the contracts were closed.

The Group's exposure to its unhedged financial assets and liabilities is as follows:

		Consolidated	
		2010	2009
		\$	\$
USD			
	Cash	1,702,523	3,806,568
	Total Financial Assets	1,702,523	3,806,568
		2010	2009
		\$	\$
	Trade Creditors	-	27,730
	Total Financial Liabilities	-	27,730

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont)

The following sensitivity analysis is based on the foreign currency risk exposure in existence at the balance date, with all other variables remaining constant:

	Consolidated Net Profit	
	2010 \$	2009 \$
10% strengthening in AUD/USD rate (for 2010 from 0.85 to 0.94 and for 2009 from 0.81 to 0.89) with all other variables held constant	(155,000)	(249,000)
10% weakening in AUD/USD rate (for 2010 from 0.85 to 0.77 and for 2009 from 0.81 to 0.73) with all other variables held constant	189,000	304,000

A sensitivity of 10% has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on a 5 year historical basis and market expectations for potential future movement.

There is no impact on equity other than the above net profit sensitivities on retained earnings/accumulated losses.

Liquidity Risk

The Group's exposure to financial obligations relating to corporate administration and projects expenditure, are subject to budgeting and reporting controls, to ensure that such obligations do not exceed cash held and known cash inflows for a period of at least 1 year.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built in an appropriate liquidity risk framework for the management of the Group's short, medium and longer term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate equity funding through the monitoring of future cash flow forecasts of its operations, which reflect management's expectations of the settlement of financial assets and liabilities.

The Group has limited financial resources and will need to raise additional capital from time to time as such fund raisings will be subject to factors beyond the control of the Company and its directors. When MEO requires further funding for its programs, then it is the Company's intention that the additional funds will be raised by any one or a combination of the following: placement of shares, sale of Trustee Stock Scheme shares, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares to the public. Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the Company's intention to meet its obligations by either partial sale of the Company's interests or farmout, the latter course of action being part of the Company's overall strategy.

Maturity Analysis

At balance date, the group holds \$776,256 of financial liabilities consisting of trade and other payables. All financial liabilities have a contractual maturity of 30 days except for the accrued demobilisation costs of the Songa Venus Drill Rig. It is expected that this liability of \$143,000 will be settled in 2011.

Fair Values

The aggregate net fair values of the financial assets and liabilities are the same as the carrying values in the statement of financial position.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 18 COMMITMENTS AND CONTINGENCIES****(a) Commitments**

	Consolidated	
	2010	2009
	\$	\$
Operating Lease		
Future minimum rentals payable under operating lease for office premises at balance date:		
Payable not later than one year	-	149,676
Payable later than one year but not later than five years	-	-
	-	149,676
	-	149,676

Exploration Commitments – NT/P68

Estimated cost of minimum work requirements contracted for under exploration permit is estimated at balance date		
Payable not later than one year	200,000	100,000
Payable later than one year but not later than five years	2,245,000	-
	2,445,000	100,000
	2,445,000	100,000

In February 2010, the Designated Authority on behalf of the Joint Authority for the Offshore Area of the Northern Territory renewed the NT/P68 exploration permit for a further five years with a minimum commitment being the primary term of the first three years.

Exploration Commitments –WA-360-P and WA-361-P**WA-360-P**

On 21 December 2009, MEO triggered the option to fund the Permit Year 5 (commencing 1 February 2010) Artemis-1 commitment well in WA-360-P, thereby completing the farm-in for a 70% interest in the Permit.

MEO executed a farm-in agreement with Petrobras for 50% interest in WA-360-P. As part of the farm-in terms, Petrobras has agreed to fund 100% of the Artemis-1 well to a capped cost of US\$41million.

The year six permit year ends on 31 January 2012 and commitments consist of geotechnical studies of \$200,000 (100% terms).

WA-361-P

In respect of WA-361-P, the Group has permit year 6 geotechnical studies as the remaining permit commitment of \$200,000 (100% - terms). The year six permit year ends on 31 January 2011.

(b) Contingent assets/liabilities relating to WA-360-P

Following an extensive farmout process MEO selected Petrobras as its preferred farminee and executed a binding farm-in agreement with Petrobras in April 2010. To earn a 50% interest in the permit, Petrobras agreed to reimburse MEO's historical costs of approximately US\$7.5million, pay a cash consideration of US\$31.5million and fund 100% of the Artemis-1 well to a capped cost of US\$41million. In the event of success, MEO will receive an additional US\$31.5million cash and be free carried for its share (20%) of two follow-up wells the timing of which is subject to Joint Venture approval.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 18 COMMITMENTS AND CONTINGENCIES (cont)

(b) Contingent assets/liabilities relating to WA-360-P (cont)

The transaction is conditional only on the receipt of Australian regulatory approvals including the Foreign Investment Review Board (FIRB). MEO was advised in late June that the FIRB had no objections to the transaction and in September received the remaining regulatory approvals from the Designated Authority. This paves the way for MEO to receive the approximately US\$39million cash consideration from Petrobras, although an asset has not been recognised in the accounts in respect of the US\$39million, as all farm-in conditions precedent were not completed by 30 June 2010.

In June 2010, MEO announced that it had agreed to purchase an additional 5% interest in the permit from one of its Joint Venture partners for US\$7million cash to take its interest in the permit to 25%. MEO has paid a deposit of US\$1.5 million with the balance of US\$5.5 million payable on the later of the date on which MEO receives the cash consideration payable from Petrobras in respect of the farm-in to WA-360-P, or, regulatory approvals for the 5% equity transfer are obtained. No liability has been recognised in respect of the US\$5.5 million as conditions precedent relating to the acquisition were not completed at 30 June 2010. The 5% acquisition will be "free carried" through the drilling of the Artemis-1 well and thereafter will be required to pay for 5% of all joint venture commitments.

NOTE 19 RELATED PARTY DISCLOSURE

Subsidiaries

The consolidated financial statements include the financial statements of MEO Australia Limited, and the following subsidiaries all of which are incorporated in Australia and have a 30 June balance date. The Parent bears the costs of administration of the subsidiaries.

	% of	
	Equity Interest	
	2010	2009
	%	%
North West Shelf Exploration Pty Ltd	100	100
Methanol Australia Pty Ltd	100	100
LNG Australia Pty Ltd	100	100
TSP Arafura Petroleum Pty Ltd	100	100
Oz-Exoil Pty Ltd	100	100
Offshore Methanol Pty Ltd	100	100
Offshore LNG Pty Ltd	100	100
Gastech Systems Pty Ltd	100	100

North West Shelf Exploration Pty Ltd holds a 25% interest in WA-360-P (depending on arrangements), a 50% interest in WA-361-P (depending on arrangements). MEO Australia Limited operates the permits.

Methanol Australia Pty Ltd holds the Tassie Shoal Methanol Project. MEO Australia Limited operates the project and bears the cost of project expenditure.

LNG Australia Pty Ltd holds the Timor Sea LNG Project. MEO Australia Limited operates the project and bears the cost of project expenditure.

TSP Arafura Petroleum Pty Ltd and Oz-Exoil Pty Ltd are holders of 50% each in petroleum exploration permit NT/P68. MEO Australia Limited operates the permit.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 20 KEY MANAGEMENT PERSONNEL (cont)****Movement in shares**

The movement during the reporting period in the number of ordinary shares in MEO Australia Limited held directly, indirectly or beneficially, by key management personnel, including their related parties, is as follows:

30 June 2010	Held at 1 July 2009	Purchases	Received on Exercise of Options	Sales	Held at 30 June 2010
Shares held in MEO Australia Limited (number)					
<i>Directors</i>					
N M Heath	916,341	83,659	-	-	1,000,000
G A Short*	89,957	22,487	-	-	112,444
M J F Sweeney	139,984	-	-	-	139,984
S W Hopley	-	70,000	-	-	70,000
<i>Executives</i>					
J Hendrich**	1,261,000	439,000	-	-	1,700,000
C H Naylor	390,000	100,000	-	-	490,000
R J D Gard	2,020,000	180,000	-	-	2,200,000

*Purchases include purchase of shares on market pursuant to Directors' Share Savings Plan. No shares were granted to key management personnel during the reported period as compensation. **Includes 439,000 shares purchased by entity controlled by spouse of managing director and chief executive officer

30 June 2009	Held at 1 July 2008	Purchases	Received on Exercise of Options	Sales	Held at 30 June 2009
Shares held in MEO Australia Limited (number)					
<i>Directors</i>					
N M Heath**	50,000	866,341	-	-	916,341
G A Short**	-	89,957	-	-	89,957
M J F Sweeney**	-	139,984	-	-	139,984
S W Hopley	-	-	-	-	-
W Bisley**	1,527,792	198,050	-	-	*1,725,842
C R Hart**	9,735,887	-	-	-	*9,735,887
A J Rigg**	550,575	13,057	-	-	*563,632
J M D Willis**	1,962,602	-	-	-	*1,962,602
<i>Executives</i>					
J Hendrich	761,000	500,000	-	-	1,261,000
C H Naylor	-	390,000	-	-	390,000
R J D Gard	-	2,020,000	-	-	2,020,000

* Shares held at the time of resignation. **Purchases include purchase of shares on market pursuant to Directors' Share Savings Plan. No shares were granted to key management personnel during the reported period as compensation.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 20 KEY MANAGEMENT PERSONNEL (cont)****Options over equity instruments**

The movement during the reporting period in the number of options over ordinary shares in MEO Australia Limited held, directly, indirectly and beneficially by key management personnel, including their related parties is as follows:

	Held at 1 July 2009	Granted as Remuneration	Options Exercised	Options Lapsed	Held at 30 June 2010	Vested in 2010	Vested and exercisable at 30 June 2010
Options (number)							
<i>Directors</i>							
N M Heath	1,000,000	-	-	1,000,000	-	-	-
J Hendrich	1,000,000	-	-	1,000,000	-	-	-
G A Short	1,000,000	-	-	1,000,000	-	1,000,000	-
M J F Sweeney	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000
S W Hopley	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000
<i>Executives</i>							
J Hendrich	5,300,000	-	-	1,100,000	4,200,000	-	-
C H Naylor	1,300,000	-	-	400,000	900,000	450,000	450,000
R J D Gard	900,000	-	-	-	900,000	450,000	450,000

	Held at 1 July 2008	Granted as Remuneration	Options Exercised	Options Lapsed	Held at 30 June 2009	Vested in 2009	Vested and exercisable at 30 June 2009
Options (number)							
<i>Directors</i>							
N M Heath	-	1,000,000	-	-	1,000,000	1,000,000	1,000,000
J Hendrich	-	1,000,000	-	-	1,000,000	1,000,000	1,000,000
G A Short	-	1,000,000	-	-	1,000,000	-	-
M J F Sweeney	-	1,000,000	-	-	1,000,000	-	-
S W Hopley	-	1,000,000	-	-	1,000,000	-	-
W Bisley	1,000,000	-	-	1,000,000	-	-	-
W J Dewé	1,000,000	-	-	1,000,000	-	-	-
C R Hart	1,000,000	-	-	1,000,000	-	-	-
A J Rigg	1,000,000	-	-	1,000,000	-	-	-
J M D Willis	1,000,000	-	-	1,000,000	-	-	-
<i>Executives</i>							
J Hendrich	5,300,000	-	-	-	5,300,000	-	-
C H Naylor	400,000	900,000	-	-	1,300,000	200,000	400,000
R J D Gard	-	900,000	-	-	900,000	-	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 21 SHARE BASED PAYMENT PLANS

Senior Executives and Officers Option Plan

Share options are granted to senior executives and non-executive directors. There were no options granted during the financial year (2009: 7,700,000 options).

Movements in share options on issue during the year:

	2010	2009
	Options	Options
Outstanding at the beginning of the year	13,400,000	10,700,000
Granted during the year	-	7,700,000
Forfeited during the year	(4,500,000)	(5,000,000)
Exercised during the year	-	-
Outstanding at the end of the year	<u>8,900,000</u>	<u>13,400,000</u>

In June 2009, 2,700,000 share options were granted to executives exercisable at a price of 50 cents per option on or before 30 June 2012. These options vest 50% on 30 June 2010 and 50% on 30 June 2011.

The fair value of the options at date of grant was estimated to be 10.72 cents for the options vesting on 30 June 2010 and 13.28 cents for options vesting on 30 June 2011. The fair value was determined using a Barrier Option pricing model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	130%	Contractual life (years)	4
Risk-free interest rate	4.56%	Dividend yield	0%
Early exercise multiple/estimated life for options expiring 30 June 2010	2.72 years	Early exercise multiple/estimated life for options expiring 30 June 2011	2.88 years

The total amount expensed in the year relating to these share options was \$233,598 (2009: \$651).

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.

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.

The fair value of the options at date of grant was estimated to be 3.82 cents. The fair value was determined using a Barrier Option pricing 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	3 years
Risk-free interest rate	3.76%	Dividend yield	0%
Early exercise multiple/estimated life	2.7 years		

The total amount expensed in the year relating to these share options was \$19,100 (2009: \$57,300).

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 21 SHARE BASED PAYMENT PLANS (cont)

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 vested on 15 May 2009, 16 June 2009 and 14 July 2009 respectively. These options were not exercised by 30 November 2009.

The fair value of the options at date of grant was estimated to be 12.1 cents for the tranche of 50 cents options granted to Mr N M Heath, 12.5 cents for the tranche of 50 cent options granted to Mr J Hendrich and 12.8 cents for the tranche of 50 cent options granted to Mr G A Short. The fair value was determined using a Barrier Option pricing 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	1.25 years
Risk-free interest rate	5.875%	Dividend yield	0%
Early exercise multiple/estimated life - options N M Heath	1.15 years	Early exercise multiple/estimated life – options G A Short	1.20 years
Early exercise multiple/estimated life – options J Hendrich	1.18 years		

The total amount expensed in the year relating to these share options was \$5,333 (2009: \$368,667).

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.

On 16 June 2008, 5,300,000 share options were granted to the Chief Executive Officer, Mr J Hendrich.

The share options package is based entirely on the share price performance of the MEO; details are as follows:-

- 1.1 million Options, granted at an option price of 50 cents, vest after 50 trading days at a price at or above 85 cents, but lapse on 30 June 2010. These options lapsed on 30 June 2010 as the share price hurdle was not achieved.
- 1.1 million Options, granted at an option price of 85 cents, vest after 50 trading days at a price at or above 120 cents, but lapse on 30 June 2011.
- 1.1 million Options, granted at an option price of 120 cents, vest after 50 trading days at a price at or above 160 cents, but lapse on 30 September 2011.

The expiry date for all options is 30 June 2012.

The following is a market capitalisation target

- 2 million options are granted at an option price of \$1.00. These Options vest when the market capitalisation of MEO reaches or exceeds \$1 billion for 30 trading days, but lapse on September 30, 2011.

The expiry date for these options is 30 June 2012.

The fair value of the options at date of grant is estimated to be 32.1 cents for the tranche of 50 cents options, 31.1 cents for the tranche of 85 cent options, 28.5 cents for the tranche of \$1.20 options and 23.1 cents for the tranche of \$1.00 options. The fair value was determined using a Barrier Option pricing model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 21 SHARE BASED PAYMENT PLANS (cont)**

Expected volatility	95%	Contractual life	4 years
Risk-free interest rate	6.805%	Dividend yield	0%
Estimated life – 50 cent options	1.8 years	Estimated life – 85 cent options	2.8 years
Estimated life – 120 cent options	3.1 years	Estimated life – 100 cent options	3.4 years

The total amount expensed in the year relating to these share options was \$573,803 (2009:\$573,803).

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.

MEO Australia Performance Plan

Performance rights granted to executives and consultants entitle recipients to one fully paid ordinary share in the Company for each right held, upon attainment of performance conditions and upon expiration of the vesting period in relation to relevant shares. The Company purchases shares on market on behalf of the plan trustee to satisfy obligations under the Plan upon satisfaction of performance conditions.

The fair value of rights with non-market conditions is the Company's share price at date of grant. The number of those rights, the fair value of which is recognised at balance date, is determined by the estimated likelihood of the rights vesting, i.e. the performance conditions being met. The amount recognised for such rights that expire unvested, is reversed.

	2010	2009
	Rights	Rights
Movements in performance rights on issue during the year:		
Outstanding at the beginning of the year	-	2,175,000
Granted during the year	-	-
Vested during the year	-	(175,000)
Expired during the year	-	(2,000,000)
Unvested outstanding at the end of the year	-	-
	=====	=====

	Consolidated	
	2010	2009
	\$	\$

NOTE 22 AUDITORS' REMUNERATION

Amounts received or due and receivable by the auditor for:		
Audit or review of the financial reports	66,500	77,570
Non-audit services: Tax advice	5,000	-
	=====	=====
	71,500	77,570
	=====	=====

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 23 INTERESTS IN JOINTLY CONTROLLED ASSETS**

MEO Australia, through its wholly-owned subsidiaries, TSP Arafura Petroleum Pty Ltd and Oz-Exoil Pty Ltd, holds a 100% interest in the NT/P68 Joint Venture. The principal activity of the joint venture is the exploration, development and production of hydrocarbons.

MEO Australia, through its wholly-owned subsidiary - North West Shelf Exploration Pty Ltd, will hold a 25% interest in WA-360-P (subject to completion of all regulatory approvals) and a 50% interest in WA-361-P (subject to completion of all regulatory approvals). The principal activity of the joint ventures is the exploration, development and production of hydrocarbons.

Commitments related to joint venture assets

Commitments relating to the joint venture assets are set out in Note 18 to the accounts.

Contingent liabilities

As at 30 June 2010, there are no contingent liabilities relating to NT/P68 joint venture or WA-361-P and WA-360-P joint ventures.

NOTE 24 PARENT ENTITY INFORMATION

	2010	2009
Information relating to MEO Australia Limited	\$	\$
Current assets	36,011,211	12,594,045
Total assets	161,346,313	138,790,319
Current liabilities	702,116	542,140
Total liabilities	761,364	568,835
Issued capital	203,971,710	178,188,934
Share based payments reserve	1,129,424	1,162,356
Accumulated losses	(44,516,185)	(41,129,806)
Total shareholders' equity	160,584,949	138,221,484
Loss of the parent entity	(4,251,504)	(27,708,126)
Total comprehensive income /(loss) of the parent entity	(4,251,504)	(27,708,126)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries	n/a	n/a
Details of any contingent liabilities of the parent entity	n/a	n/a
Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment.	n/a	n/a

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 25 EVENTS SUBSEQUENT TO BALANCE DATE

Additional Equity in WA-361-P

In July 2010, MEO acquired an additional 15% equity in WA-361-P from Gascorp Australia Pty Ltd for US\$1.0 million. MEO's interest in the Permit increases from 35% to 50%.

Trustee Share Sales

In August 2010 the Trustee of the MEO Trustee Share Plan, Doravale Enterprises Pty Ltd, sold 10,122,918 MEO shares at \$0.34 per share, raising \$3,441,792 (before costs). The sales of these shares represented the remaining shares in the Scheme. The Trustee Share Plan scheme closed on 25 August 2010 and has not been renewed.

WA-360-P Regulatory Approval – Petrobras Farm-in

In September 2010, the final condition precedent to the Petrobras farm-in was completed with the registration of Petrobras as a joint venture participant in WA-360-P. MEO has now invoiced Petrobras for the Cash Bonus and Seismic related back-costs.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or state of affairs of the Group, in future financial years.

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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, notes and the additional disclosures included in the Directors' Report designated as audited, of the Company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date.
 - (ii) Complying with Accounting Standards and *Corporations Regulations 2001*.
- (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.
- (c) The financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2010.

On behalf of the Board



J HENDRICH

Managing Director & Chief Executive Officer

Melbourne, 16 September 2010

Independent auditor's report to the members of MEO Australia Limited

Report on the Financial Report

We have audited the accompanying financial report of MEO Australia Limited, which comprises the consolidated statement of financial position as at 30 June 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the 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 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. In Note 2(b), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of MEO Australia Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of MEO Australia Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'Brett Croft'.

Brett Croft
Partner
Melbourne
16 September 2010