Annual Report 2008

In transition

MEO Australia
energy for the future

Corporate Directory

Directors
Warwick Bisley (Chairman)
Jürgen Hendrich (Managing Director & Chief Executive Officer)
Christopher R Hart
Nicholas M Heath
Andrew J Rigg
Gregory A Short

Company Secretary
Colin H Naylor
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Melbourne, Victoria 3000 Australia

Registered Office and Principal Operations Office
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Auditor
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Melbourne, Victoria 3000 Australia

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

Website www.meoaustralia.com.au
Incorporated 14 September 1994 Victoria, Australia

Caring

RESPONSIBLE CARE
A PUBLIC COMMITMENT

PACIA

The Company is a member of the Plastics and Chemicals Industries Association ("PACIA"), which is the pre-eminent national body and voice of chemical industry in Australia. PACIA member companies embrace the entire supply chain from producers of raw materials, such as methanol, to chemical and plastics manufacturers.

As a member of PACIA, the Company has committed to, and is proud to be an active participant in the Association's policies of Responsible Care®. These policies provide Codes of Practice for a range of activities including operational safety, resource sustainability and preservation of the environment.

APPEA

In 2007 the Company became a proud member of the Australian Petroleum Production and Exploration Association (APPEA) and subscribes to the association's social responsibilities, safety and environmental standards for the exploration and production of oil and gas assets. APPEA membership compliments the Company's membership of PACIA.

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.

Inside this report

Warwick Bisley - Chairman

ChairmansMessage

Dear Shareholder,

The company has successfully managed the highest level of activity in our history, and is poised to make significant progress to develop our resources in the coming year. Our continuing objective is to commercialise gas to liquid opportunities employing innovative approaches. In particular, our commitment to adding real value to natural gas containing high levels of carbon dioxide is unique in Australia.

Over $75 million was raised during the period, primarily from a Share Placement and Share Purchase Plan. The funds raised together with those raised in the prior year enabled the drilling of two discovery wells, Heron-2 and Blackwood-1, together with follow up 3D seismic at Blackwood and our 2D & 3D seismic obligations on the West Australian Permits acquired during the year. This work was undertaken with MEO as Operator and was completed with no environmental incidents and with a safety performance comparable with industry good practice based on reportable injury statistics.

Heron-2 confirmed the presence of gas, which appears relatively low in carbon dioxide, in the Elang/Plover formation. The large size and depth of this reservoir means significant further expenditure will be required for follow up appraisal to define the size and quality of this potentially large resource.

Blackwood, which is a 100% MEO field, appears similar to Evans Shoal gas in quality and is estimated to hold reserves sufficient for the first Methanol train. Consequently an early opportunity was taken to acquire a 3D seismic survey over this exciting discovery.

Our near term NT/P68 permit obligation has been met with both Heron and Blackwood being good fits with the Company's Tassie Shoal GTL projects. The farmin requirements of the West Australian permits means work on these permits is more urgent. These permits are very prospective and have raised much interest during farmout discussions. A commitment has been made to drill WA-361-P late in 2008 and decisions to drill the remaining two permits will be taken before year end. The proximity of these permits to existing LNG infrastructure will encourage commercialisation thus adding to the business growth prospects of MEO.

We undertook activities to farmout further interests in our assets, expecting potentially different partners for the various assets. However, Resource Development International (RDI) offered to farmin to all of our permits and both Methanol and LNG projects, leading to a strategic alliance. RDI will have extensive mineral assets with a secure income stream and is focused on supplying the high growth China market.

RDI plans an IPO later in 2008, with a likely listing in Hong Kong. Despite the current turmoil in equity markets there is a level of optimism that this IPO will be proceed in this time frame. Should RDI exercise all their options as various milestones are met on the farmins, MEO ultimately will be essentially fully funded and retain a 20 percent carried interest in the GTL projects and NT/P68 gas fields, and at least a 25% interest in the West Australian permits. The resulting shareholder dilution is comparable to alternate scenarios, however funding under this arrangement is more certain.

Further details of all the activities mentioned above are contained in this Annual Report.

MEO is also undertaking leadership renewal. The co-founder of MEO and Managing Director, Chris Hart, elected to retire and was replaced in July 2008 after an extensive hand over by Jürgen Hendrich. The Board has expressed it's thanks to Mr Hart for his major contributions to creating and developing MEO to date. Several long serving Directors have retired from the Board and have been replaced by very well qualified candidates, a tribute to the potential of our activities. My own planned retirement after seven years service will occur following the 2008 AGM and I will be replaced as Chairman by Mr Nick Heath who brings to this position a wealth of leadership and industry experience at the highest levels.

In the coming year we are undertaking a period of exciting growth with activities planned for both the West Australian and Northern Territory Permits as well as continued development of our Methanol and LNG projects, which retain their embedded competitive advantages. This will be an exciting period for the growing MEO team, that is continuing to develop its capabilities. I wish to thank all the members of the MEO team for their untiring efforts over the past year.

Warwick Bisley
Chairman

30 September 2008

ActivityReport

Jürgen Hendrich -
Managing Director and Chief Executive Officer

During the year, MEO drilled two significant wells - Heron-2 (90%) & Blackwood-1 (100%) - in its core NT/P68 acreage resulting in the declaration of two gas discoveries and materially advancing its proposed gas-to-liquids (GTL) projects. Concurrently, the Company expanded its exploration acreage portfolio by farming into three highly prospective Carnarvon Basin permits (WA-359-P, WA-360-P and WA-361-P) and committed to drilling the multi-Tcf Zeus prospect in WA-361-P (35%) later this year. In early July 2008, MEO announced a major strategic and funding alliance with Resource Development International (RDI) covering all of the Company's permits and GTL projects.

OVERVIEW OF THE COMPANY'S PROJECTS

Commonwealth Government Environmental approvals have been granted until 2052 under the Environment Protection and Biodiversity Conservation (EPBC) Act 1999, for the Company's proposed Tassie Shoal Methanol Project (TSMP) and the Timor Sea LNG Project (TSLNG). These projects convert natural gas into readily transportable and marketable commodities, ie chemical grade methanol and liquefied natural gas (LNG).

The Company is focused on establishing commercial gas resources for each project from its exploration permit, NT/P68, while canvassing the potential for sourcing third party gas supplies from other regional gas accumulations in the Bonaparte Basin to complement its own resources. MEO also has an active exploration program underway in its highly prospective Northwest Shelf permits.

PETROLEUM EXPLORATION ACTIVITIES

MEO is the Operator in each of the following permits with the Joint Venture partners as shown:

Bonaparte Basin

Permit/Discovery	MEO	Petrofac	RDI	Remarks
NT/P68	90%-100%	Earning 10%	0%	RDI staged farm-in (25%+25%+20%)
	(diluting to 20%)		Earning up to 70%	Contingent upon IPO
Heron North	90%-20%	10%	Earning up to 70%	Petrofac participated in Heron-2
Blackwood	100%-30%	0%	Earning up to 70%	MEO 'sole-risked' Blackwood-1

Carnarvon Basin

	MEO	Cue Energy	GasCorp	RDI	Remarks
WA-361-P					
<RDI farmin	60%-70%	15%-20%	15%-20%	0%	MEO has committed to Zeus-1
>RDI farmin	35%	15%	15%	35%	RDI earning 35%
WA-360-P					
<RDI farmin	60%-70%	15%-20%	15%-20%	0%	MEO has option to drill a well
>RDI farmin	25%-35%	15%-20%	15%-20%	35%	RDI has option to earn 35%

	MEO	Cue Energy	Exoil	RDI	Remarks
WA-359-P					
<RDI farmin	60%-70%	15%-20%	15%-20%	0%	MEO has option to drill a well
>RDI farmin	25%-35%	15%-20%	15%-20%	35%	RDI has option to earn 35%

Exploration Permit NT/P68 – Bonaparte Basin, Timor Sea (MEO 90%-100%)

NT/P68 is a 12,070 km^2 petroleum exploration permit located in the Australian waters of the Timor Sea some 25 km west of Tassie Shoal and approximately 200 km northwest of Darwin. The Company maintains the view that the permit offers considerable scope for the confirmation of commercial gas accumulations that may support the future gas supply demands of the TSMP and the TSLNGP.

The objective of the 2007/08 drilling campaign was to establish the presence of commercial gas resources in NT/P68 to support the development of the approved gas-to-liquid projects; the Tassie Shoal Methanol Project (TSMP) and the Timor Sea LNG Project (TSLNGP). MEO secured the newly built West Atlas jack-up drilling rig (owned by Atlas Drilling and operated by Seadrill Drilling Management) to drill two wells.

Heron-2 commenced drilling in October 2007, targeting dual objectives:

1. The Darwin Formation in the Epenarra structure. Heron-1 (1972) intersected a 52m gas bearing interval;
2. The deeper Plover Formation in the Heron North structure. Heron-1 (1972) considered to have just clipped the top of this interval in the adjacent Heron South structure.

Darwin Formation – Epenarra Structure

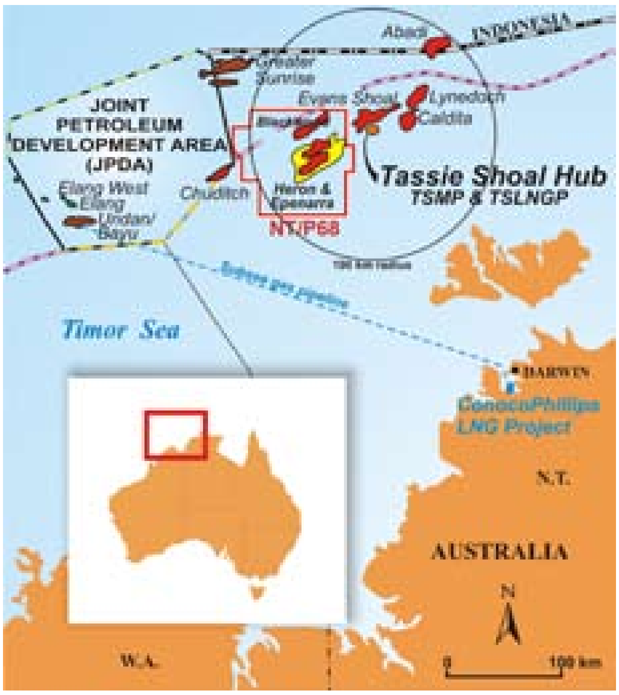
Epenarra is a large, conventional four-way dip anticline (domal structure) extending over at least 1,200 km^2. The mean assessed Gas-In-Place (GIP) for the Epenarra structure prior to drilling was 5,620 Bcf, of which 3,200 Bcf is expected to be recoverable. Studies by CSIRO Petroleum, indicated gas present would likely contain low levels of CO_2 (1%-3%) and contain high levels of gas liquids (>100 bbls/mmcf).

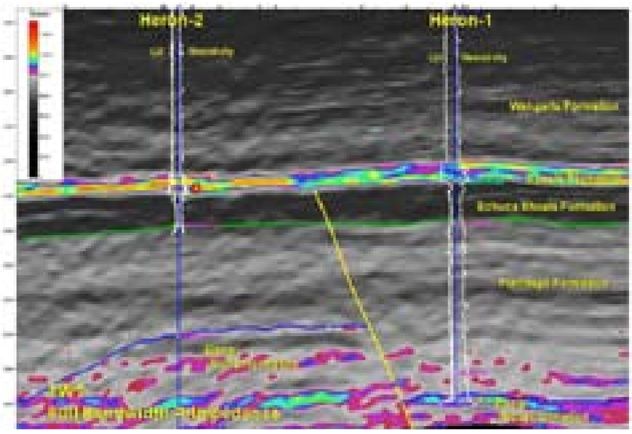
The Darwin Formation is a shale (typically a sealing unit), however the lowermost 50m was expected to have a lower clay and higher carbonate content with intense fracturing creating the potential to reservoir liquids-rich gas suitable for conversion to LNG.

Heron-2 was designed to intersect the Epenarra structure away from its crest where the fracture density was expected to be greatest. The well was drilled 2.7 km away from Heron-1 and intersected the expected 50m thickness of the lower Darwin Formation, however the expected fracture density was not present and those fractures encountered did not appear to be open.

On production test, only minor amounts of gas flowed to surface. Drilling and well completion practices employed on Heron-2 may not have been optimal to test this formation and it is likely that a dedicated horizontal well specifically engineered to test this formation will need to be drilled.

While the Darwin Formation play remains a potentially prospective play, substantial technical work is required to ascertain the location of the likely sweet-spots on the 1,200 km^2 structure.

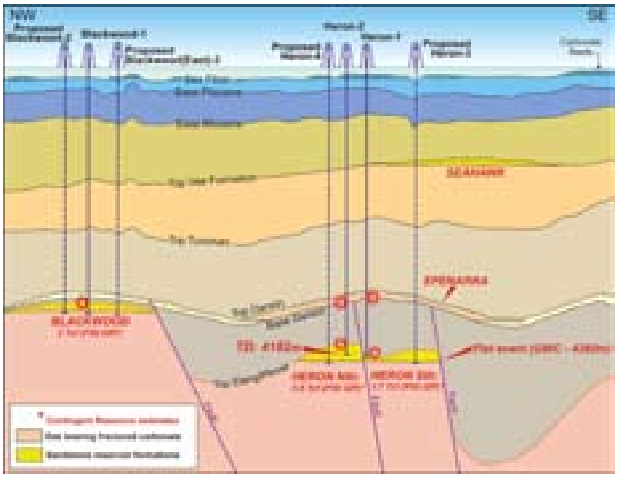




Elang/Plover Formation – Heron North Structure

The Heron North and South structures are large, tilted fault blocks. The combined pre-drill mean assessed Gas-In-Place (GIP) for the Heron North and South structures was 5,537 Bcf of which 3,875 Bcf is expected to be recoverable.

Studies by CSIRO Petroleum indicated the Elang/Plover formation was likely contain dry gas with 15%-25% CO_2 ideally suited to Methanol production. Each methanol plant requires 1,400 Bcf of raw gas to operate for 20 years.



Heron-2 was planned as a 75 day well to be drilled to 4,300m. High temperatures and pressures were expected. The well intersected gas bearing sands at 3,929m some 237m structurally higher than Heron-1. The uppermost sand recorded dry gas and associated CO_2. Sands intersected below this interval demonstrated a vastly different gas quality – a wet gas signature and no CO_2. This unexpected observation is deemed to be very encouraging.

The extensive loss of drilling fluid (mud) –1,180 bbls at rates up to 60 bbls/hr – and subsequent pumping of lost circulation material (LCM) designed to plug up fractures and prevent further loss of drilling fluid, necessitated the decision to run a 7" liner at 3,983m and case off the high-pressure shale unit above this reservoir interval. This allowed the drilling fluid density to be lowered in order to restrict further losses. The well was subsequently drilled to 4,182m. Further significant losses of drilling fluids caused the premature cessation of drilling at which point, the Joint Venture decided to evaluate the well with wireline logs and conduct an open-hole production test.

Testing operations commenced on 4th January, however were interrupted by Cyclone Helen. Prior to shutting the well in for 48 hours, the well had flowed up to 6 mmcf/d dry gas, high in CO_2. Following the resumption of activities, the production test string was recovered and the wellbore cleaned out ahead of a re-testing attempt. At this point, a blockage in the wellbore was encountered at 4,060m immediately below the uppermost sand. Attempts at removing this blockage failed. Subsequent attempts to sidetrack around this blockage and re-test the well resulted in a further collapse of the shale below this sand, necessitating the decision to abandon this section.

The gas composition (dry, high CO_2), modest flow rate, wellbore blockage encountered below the upper sand, wet gas signature encountered while drilling and extensive losses of drilling fluid suggested that the well collapsed above the uppermost sands and precluded the ability of the lower sands to contribute to the flow rate. Consequently, this deeper interval with encouraging gas quality remains untested.

The recovery of hydrocarbons to surface enabled MEO to declare Heron-2 a gas discovery. The rig was released from Heron-2 on 29th January 2008 after 109 days on location, compared with an expectation of 75 days.

Blackwood-1

Blackwood-1 was spudded on 1st February 2008 and was designed to be drilled to 3,454m. The primary target was the Elang/Plover formation sands expected at 3,351m. MEO sole-risked the well (ie paid 100% of the costs) which reached a total depth of 3,286m.

Pre-drill expectations were for 1,461-2,572 Bcf of in-place gas resources expected to contain moderate to high levels of CO_2, suitable for methanol production.

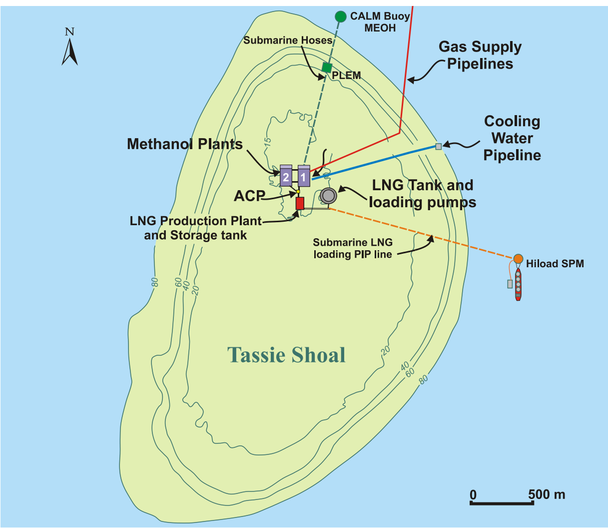
The Elang/Plover formation was encountered some 174m high to prognosis at 3,177m. A 49m gross gas column was interpreted from wireline logging data and MDT formation pressures. Dry gas with 25-30% CO_2 similar to Evans Shoal gas was recovered to surface in line with pre-drill expectations.

The recovery of hydrocarbons to surface enabled MEO to declare a gas discovery at Blackwood. The rig was released from Blackwood-1 on 11th March after 39 days on location.

A contract was awarded to PGS on 26th March 2008 to acquire approximately 384 km^2 of 3D seismic over the greater Blackwood structure commencing late April. Processing of the survey continues, with the final volume expected in house during November 2008.

Tassie Shoal Methanol Project (TSMP) (MEO 50%)

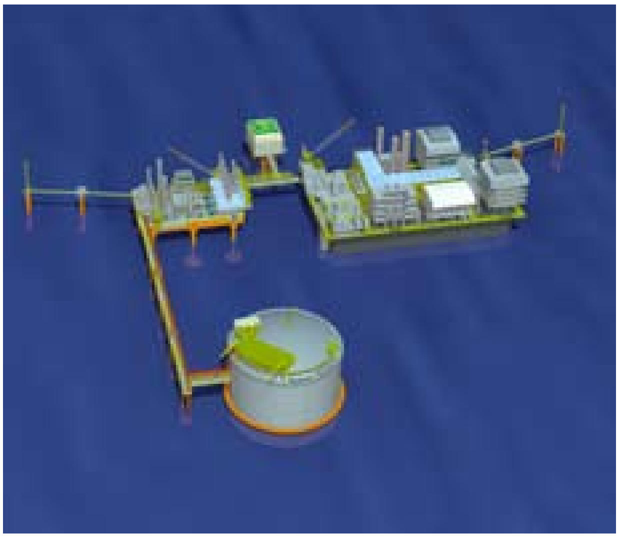
Subject to securing adequate gas supplies, the Company proposes the staged construction of two large natural gas reforming and methanol production plants, each with an annual production capacity of 1.75 million tonnes on its own concrete gravity structure (CGS). Each pre-fabricated and pre-commissioned plant will be towed to Tassie Shoal and grounded for operation using sea water ballast. Tassie Shoal is an area of shallow water in the Australian waters of the Timor Sea approximately 275 km north-west of Darwin, Northern Territory.

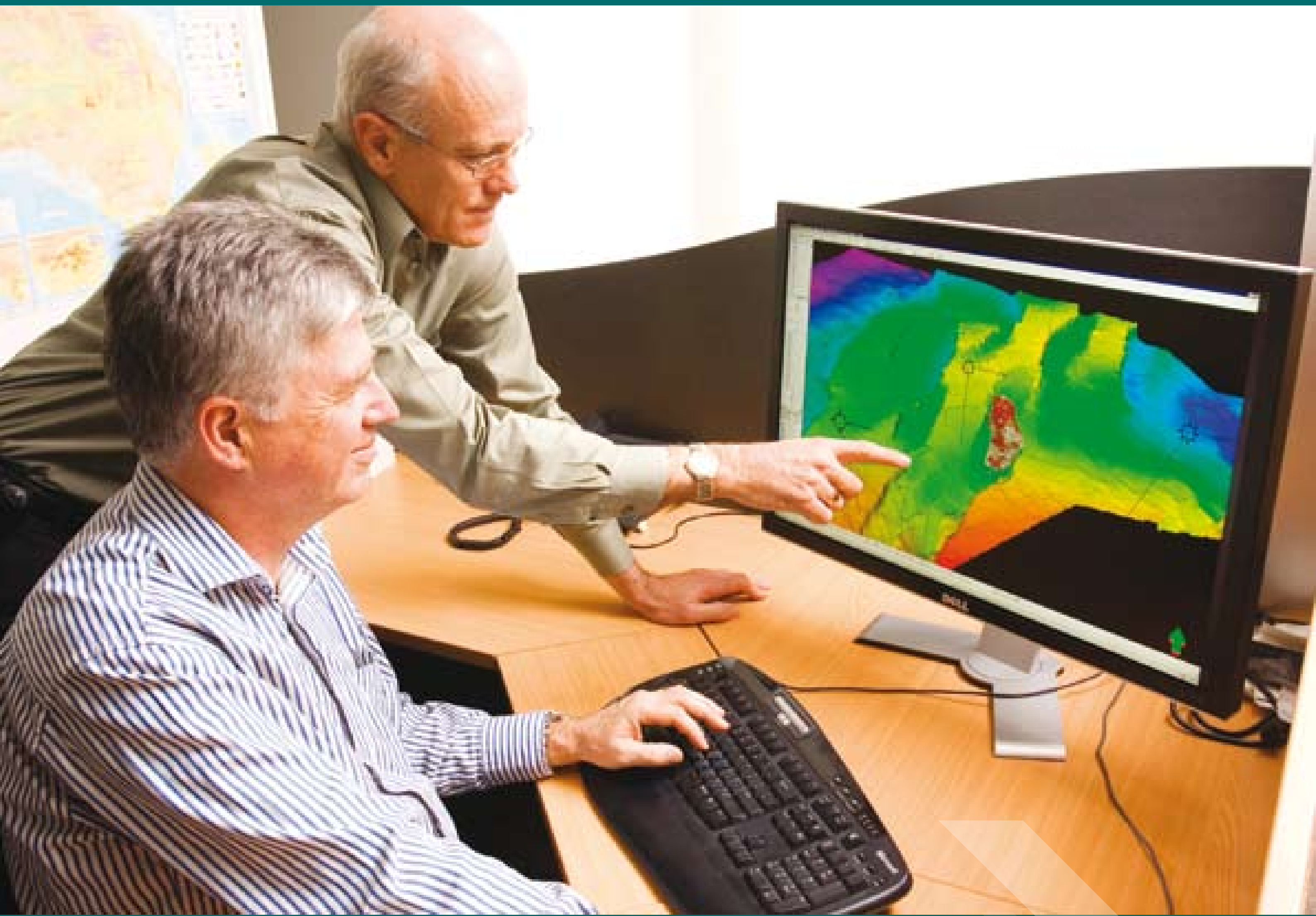


During the year, the TSMP project team further optimized the design of the plant and concrete substructure and continued to progress the resolution of various commercial matters, including gas supply options, so that Front End Engineering and Design (FEED) studies can commence. In parallel, site selection studies continued for a suitable South East Asian casting basin to construct the facilities.

At this stage no contracts for the supply of gas have been entered into. While no assurances can be given, the Company is confident that it will be able to source gas supply from one or more accumulations in the vicinity of Tassie Shoal, including the two gas discoveries (Heron and Blackwood) declared in NT/P68.

Timor Sea LNG Project





(TSLNGP) (MEO 90%)

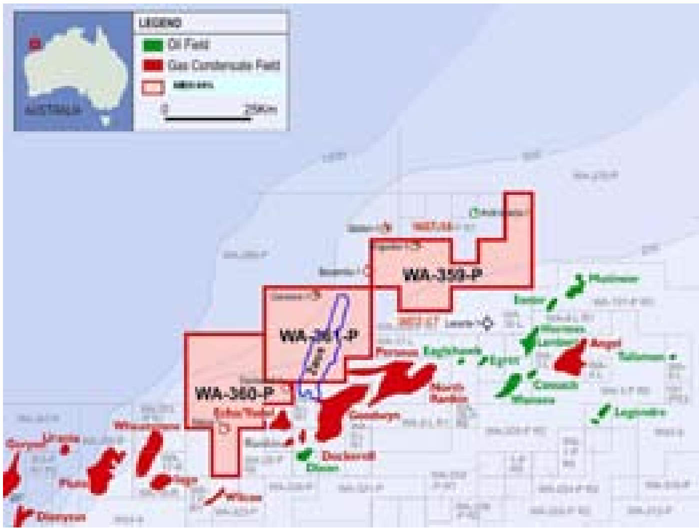
The TSLNGP received its Commonwealth environmental approval to construct, install and operate adjacent to the TSMP on May 5, 2004. A 3 Mtpa LNG plant requires approximately 3 Tcf of gas to operate for 20 years. Both projects are designed to share infrastructure, logistic support systems and benefit from a number of production process synergies.

Gas supply for the LNG plant could come from a number of regional gas fields facing economic challenges including large distances from land and expensive construction costs. The TSLNGP has existing Environmental Approvals and attractive capital costs by virtue of the ability to construct the facilities in a low cost environment. During the year a full capital cost and operating cost review was initiated in response to cost escalations being experienced by the oil & gas industry with results expected early in the fourth quarter of 2008.

Torp Technology completed their design of a dedicated LNG loading system based on the Torp HiLoad LNG technology. This system utilises CALM buoy technologies and flexible LNG hoses that have recently been fully certified for commercial, cryogenic applications. The system replaces the open sea jetty and associated tug boats, significantly improves LNG loading availability and avoids the higher operating costs associated with jetty docking and tug boat assistance. These improvements in design and plant performance continue to ensure the project maintains a competitive production cost position in the global LNG market.

Exploration Permits WA-359-P, WA-360-P, WA-361-P – Carnarvon Basin, (MEO 35%-70%)

In October 2007, the company expanded its portfolio of interests to the Carnarvon Basin off Australia's North West Shelf. MEO earned a 60% interest and Operatorship in WA-359-P, WA-360-P and WA-361-P by fulfilling the outstanding permit third year seismic obligations. MEO invested $7.2m in acquiring 250 line km of new 2D seismic in WA-359-P, 250 km^2 new 3D seismic in both WA-360-P (200 km^2) and WA-361-P (50 km^2) and reprocessing the 1997 Rosie 3D seismic survey acquired over part of these permits.



Completion of this seismic work program earned MEO the right to a 60% interest in each permit until 1 January 2009, at which point it must irrevocably commit to funding 100% of a well in each permit to secure a 70% interest in that permit or hand the 60% earned interest in the permit back to the existing partners.

As at the date of this report, MEO had given this commitment to funding 100% of a well in relation to the first of the three permits, WA-361-P. MEO secured Resource Development International (RDI) who will earn a 35% interest by funding 80% of the cost of the Zeus-1 well to a cap of US$31.25 million. MEO will pay 20% of the well costs to up to this cap and retain a 35% interest.

Zeus-1 will test the multi-tcf Zeus unconventional play. In the event of success, RDI will fund MEO's share of two appraisal wells. MEO sees a plethora of immediate commercial options for a significant gas discovery.

SUMMARY

The 2007/08 drilling program resulted in the declaration of two gas discoveries. The Blackwood discovery alone, may have sufficient resources to underpin the first methanol plant, however requires follow up appraisal drilling to confirm the size and productivity of this resource. MEO acquired a new 3D seismic survey immediately after drilling to assist with location of subsequent wells.

Heron-2 gave mixed results. The Darwin Formation did not yield the sweet gas low in CO_2 required to underpin the proposed LNG project, however the potential in that play remains to be unlocked with further technical work. The deeper Elang/Plover target yielded the promise of better quality gas than expected and notwithstanding the requirement to re-drill this target, the potential gas quality upside exceeds pre-drill expectations.

Finally, the prospectivity of the WA permits continues to grow and will initially be tested by Zeus-1. The proximity of this acreage to established and proposed infrastructure, gives MEO enormous optimism for the commercial prospects of any discovery. Furthermore, numerous potential drilling targets are emerging from the technical work being undertaken on the reprocessed and new seismic data.

Notwithstanding the current difficult market conditions, MEO is very pleased with the strategic funding alliance it has agreed with RDI. Subject to a successful float of RDI, MEO is well placed to advance each of its projects, while retaining a meaningful equity interest and concurrently reducing its reliance on equity capital markets.

Directors' Report

For The Year Ended 30 June 2008

The directors of MEO Australia Limited (variously the "Company", "MEO" and "MEO Australia") submit their report for the financial year ended 30 June 2008. MEO Australia is a company limited by shares, incorporated and domiciled in Australia.

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.

Warwick Bisley B.Eng (Mech) (Hons) FTSE, FRACI, FIE Aust, MAICD
Chairman *(Appointed non-executive director 18 October 2001, Chairman 1 July 2005)*

Mr Bisley is a mechanical engineer with extensive domestic and international senior management experience in the petrochemical industry wholly with Esso/Exxon companies.
Mr Bisley has served as a non-executive director since appointment to the Board and serves on the Remuneration and Nomination Committee.

Nicholas M Heath B.Eng (Chem) (Hons)
Non-Executive Director *(Appointed 12 May 2008)*

Mr Heath is a chemical engineer with over 30 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 has been appointed to the Audit Committee. Mr Heath also serves on the Board of ASX listed coal seam gas company – Metgasco Limited (ASX: MEL).

Christopher R Hart FAICD
Founder & Non-Executive Director *(Appointed 21 June 1995)*

Mr Hart co-founded Timor Sea Petroleum NL (the precursor to MEO Australia) and remained Managing Director until July 2008. Mr Hart elected to retire from executive duties at MEO during 2008 and retires from the board at the end of September 2008. Mr Hart leaves MEO with environmental approvals for two Gas-To-Liquids (GTL) Projects, two gas discoveries in its NT/P68 acreage, cash in the bank and a renewed board of directors and executive management team. The Board thanks Mr Hart for his tireless and diligent contribution to the company over many years of service and wishes him well in his retirement.

Jürgen Hendrich B.Sc. (Geology) (Hons), PDM
Chief Executive Officer *(Appointed 16 June 2008)*
& Managing Director *(Appointed 25 July 2008)*

Mr Hendrich brings over 24 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 JB Were) 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 and is a non-executive director of ASX listed Segue Resources (ASX: SEG).

Andrew J Rigg B. Sc (Geology) (Hons) MAICD
Non-Executive Director *(Appointed 28 November 1997)*

Mr Rigg is a petroleum geologist with wide experience in significant Australian and international petroleum exploration and production projects, including CO_2 sequestration. Mr Rigg is a Non-Executive Director and Deputy Chairman for Mosaic Oil NL (ASX: MOS), Non-Executive Director for Anzon Australia Ltd (ASX: AZA) and is MD/CEO of Elk Petroleum (ASX: ELK). Mr Rigg is also an adviser to Australian Coal Association Low Emissions Technology Pty Ltd on CO_2 storage. Mr Rigg is Chairman of the Audit Committee.

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

John A Newton
(Appointed 11 December 2006 and resigned 28 September 2007)

Mr John Newton has a background in international stockbroking, accounting and corporate finance. Mr Newton has a Diploma of Commerce and is a Member of the Real Estate and Stock Institute. Mr Newton served on the Remuneration and Nomination Committee.

Walter J Dewé MA FAICD
(Appointed 28 November 1997 and resigned 21 February 2008)

Mr Dewé is a petroleum engineer and has an extensive international commercial and technical background in petroleum production and processing industries. Mr Dewé was previously Chairman of the Audit Committee.

James M D Willis
(Appointed 28 November 1997 and resigned 11 July 2008)

Mr Willis is the managing director of a group of Melbourne based privately controlled oil and gas exploration companies. Until March 2007 he was a resources lawyer specialising in oil and gas matters and has extensive experience in all aspects of the commercial and contractual framework for the conduct of oil and gas exploration and production. Mr Willis was the Chairman of the Remuneration and Nomination Committee.

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.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year 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 2008 including directors (2007: 9). The Company also engages a number of full and part time consultants to assist in the development and management of its various activities.

RESULTS FOR THE YEAR

The net loss of the Group for the financial year, after provision for income tax, was $1,870,636 (2007: loss after tax of $3,370,651).

The successful drilling and commercialisation of any commercial oil and gas discoveries in NT/P68 and the North West Shelf Permits WA-359P, WA-360P and WA-361P and/or the development of the Company's methanol and LNG Projects could ultimately lead to the establishment of a profitable business. While the Company 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 farm out or joint development arrangements with other companies.

Subsequent to year end the Company announced a major strategic alliance with Resource Development International. Further details are in the *Events After Balance Date* section on Page 26 of this Directors Report.

Dividends

No dividend has been paid, provided or recommended during the financial year and to the date of this report (2007: nil).

Review of Financial Condition

At balance date the Company held cash and cash equivalents of $24,343,540. During the year the Company decreased the cash balance by $44,694,527 (before foreign exchange fluctuations) following net capital raisings of $68,550,215 and interest received of $2,953,631 which were used to meet exploration and capital cash outflows of $115,177,152 and net corporate costs of $1,021,221.

As announced in June 2007, Petrofac Limited farmed into NT/P68 and will earn a 10% interest by funding 25% of wells costs associated with the Heron appraisal drilling program. The Heron-2 well was the first well in the appraisal drilling program.

Share Issues

During the year the Company raised a total of $73,588,000 (before transaction and other costs - $5,037,785) from:

- the proceeds from the Share Purchase Plan – $10,388,000
- the proceeds from the exercise of 30 November 2009 options – $700,000
- the proceeds from a placement of 50,000,000 shares at an issue price of $1.25 – $62,500,000

Trustee Share Sales

On 9 May 2008 a placement of 20,000,000 shares was made to the Trustee of the MEO Trustee Share Plan, Doravale Enterprises Pty Ltd. Subsequent to year end the Trustee disposed of 10,000,000 shares at $0.55 per share.

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

Share Options

30 November 2009 Options

In the prior year, 1,400,000 30 November 2009 options exercisable at 50 cents were exercised (cash proceeds received $700,000).

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

Chief Executive Officer Share Options

On 16 June 2008, Mr Jürgen Hendrich joined MEO in the role of Chief Executive Officer. The Board of Directors agreed to the granting of 5,300,000 share options, the terms and conditions of which are set out in the Remuneration Report on Page 21.

REVIEW OF OPERATIONS

Overview of the Company's Projects

The Company continues to progress its two proposed gas-to-liquid (GTL) production projects that convert natural gas into readily transportable and marketable commodities, i.e. chemical grade methanol and liquefied natural gas (LNG). Commonwealth Government Environmental approvals have been granted under the Environment Protection and Biodiversity Conservation (EPBC) Act 1999, for the Tassie Shoal Methanol Project (TSMP) and the Timor Sea LNG Project (TSLNG).

MEO is currently focused on establishing commercial gas resources for each project from its exploration permit, NT/P68, while canvassing the potential for sourcing third party gas supplies from other gas accumulations in the Bonaparte Basin region to complement its own resources. Site selection studies progressed to secure a South East Asian casting basin in which to construct the proposed methanol plants. Several sites in Thailand have been short-listed.

MEO had a very active year, drilling two wells as Operator in NT/P68 – Heron-2 and Blackwood-1 – resulting in the declaration of two gas discoveries. Blackwood-1 was drilled as a "sole-risk" operation meaning MEO paid 100% of the costs and retains a 100% interest in this discovery. The company immediately followed up the Blackwood discovery by acquiring 384 km^2 of new 3D seismic data to better delineate the structure for follow-up appraisal drilling planned for 2009.

MEO also has an active exploration program underway having expanded its exploration portfolio during the year by adding three highly prospective exploration permits off the coast of Western Australia (WA-359-P, WA-360-P and WA-361-P), immediately adjacent to the Woodside Operated North West Shelf Gas fields. MEO secured a 60% interest until 1 January 2009 by meeting the outstanding seismic acquisition obligations associated with these permits. MEO must elect to fund the drilling of a well in each permit by 1 January 2009 in order to remain in each permit beyond this date.

Technical work conducted by the MEO team, confirmed the multi-Tcf Zeus prospect for drilling in WA-361-P. The company secured the Songa Venus semi-submersible drilling rig and has elected to drill this prospect commencing late October thereby securing its interest in WA-361-P. MEO has identified several potential commercialisation options in the event of a successful gas discovery.

Subsequent to year end, MEO reached agreement with Resource Development International Pty Ltd (RDI) – an entity associated with Prof. Clive Palmer, one of Australia's wealthiest men – whereby RDI has been granted options to earn an interest in all of MEO's exploration permits and the GTL projects by funding a series of work programmes. With the exception of the WA-361-P farm-in, these options are largely contingent upon the successful IPO and subsequent Hong Kong listing of RDI.

ENVIRONMENT, HEALTH AND SAFETY

The Company believes all injuries are avoidable and 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 PACIA and APPEA Codes of Practice.

During the year there were no reported environmental incidents. No Lost Time Injuries were sustained during the 156 days that MEO contracted the West Atlas drilling rig, however there were two recordable injuries that required first aid treatment and restricted work duties for the injured workers. A Health and Safety advisor was engaged specifically for the 2007/2008 drilling campaign in NT/P68. This practice will be repeated for the 2008 & 2009 drilling campaigns.

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

The upstream activity by the Company 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 Company to undertake the work.

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.

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 & Nomination Committee	
	Held	**Attended**	**Held**	**Attended**	**Held**	**Attended**
W Bisley	15	15	-	-	6	6
W J Dewé*	8	8	4	4	-	-
C R Hart	15	14	-	-	-	-
N M Heath**	3	3	-	-	-	-
A J Rigg	15	15	4	4	-	-
J M D Willis	15	14	-	-	6	6
J A Newton*	3	2	-	-	2	2

* Mr J A Newton resigned from the Board 28 September 2007 and Mr W J Dewé resigned from the Board on 21 February 2008.
** Mr N M Heath joined the Board on 12 May 2008.

DIRECTORS' INTERESTS

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 November 2009 Options	Performance Plan Rights	Performance Options
W Bisley	1,535,922	1,000,000	-	-
J Hendrich	761,000	1,000,000	-	5,300,000
C R Hart	9,735,887	1,000,000	2,000,000	
A J Rigg	554,640	1,000,000	-	-
N M Heath	162,170	1,000,000	-	-
G A Short	-	1,000,000	-	-

The terms of the options are set out in Note 22 to the financial statements. Details, including fair value at date of grant of the options and performance rights granted to directors, are set out in the Remuneration Report.

REMUNERATION REPORT (AUDITED)

Directors

W Bisley	Chairman (non-executive)
C R Hart	Managing Director
A J Rigg	Director (non-executive)
N M Heath	Director (non-executive) – appointed 12 May 2008
J M D Willis	Director (non-executive) – resigned 11 July 2008
W J Dewé	Director – resigned 21 February 2008
J A Newton	Director (non-executive) – resigned 28 September 2007

Executive

J Hendrich	Chief Executive Officer – appointed 16 June 2008
C H Naylor	Chief Financial Officer and Company Secretary

REMUNERATION REPORT (AUDITED) (CONT)

The Remuneration Report outlines the remuneration arrangements in place for directors and executives in accordance with the requirements of the Corporations Act 2001 and its Regulations. 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 & chief executive officer and the chief financial officer & company secretary.

Remuneration of key management personnel

Table 1: Remuneration for the year ended 30 June 2008

	Short Term		Post Employment		Equity Settled Share-based Payment			
	Directors Fees $	Salary and Fees $	Non-monetary benefits $	Super-annuation $	Perfor-mance Plan $	**Option Plan $	Total $	Perfor-mance Related %
Non - executive directors								
W Bisley	60,000	-	-	5,400	-	-	65,400	-
N M Heath (b)	-	-	-	4,491	-	15,125	19,616	77.1
J A Newton (e)	-	-	-	8,175	-	-	8,175	-
A J Rigg	30,000	-	-	2,700	-	-	32,700	-
J M D Willis	28,500	-	-	4,200	-	-	32,700	-
Sub-total non-executive directors	**118,500**	**-**	**-**	**24,966**	**-**	**15,125**	**158,591**	**9.5**
Executive directors								
W J Dewé (a)	-	64,650	-	21,021	40,975	-	126,646	32.4
C R Hart	-	245,478	26,620	102,902	77,822	-	452,822	17.2
Other key management personnel								
J Hendrich (c)	-	*265,625	-	1,406	-	29,116	296,147	9.8
C H Naylor (d)	-	176,988	-	15,929	-	74,489	267,406	27.9
Sub-total executive KMP	**-**	**752,741**	**26,620**	**141,258**	**118,797**	**103,605**	**1,143,021**	**19.5**
TOTAL	**118,500**	**752,741**	**26,620**	**166,224**	**118,797**	**118,730**	**1,301,612**	**18.2**

* Includes $250,000 commencement fee
** Refer Note 22 for fair value calculation of options

(a) Mr W J Dewé resigned from the Board 21 February 2008
(b) Mr N M Heath was appointed a director on 12 May 2008
(c) Mr J Hendrich was appointed Chief Executive Officer on 16 June 2008
(d) Mr C H Naylor commenced as Chief Financial Officer & Company Secretary on 5 February 2007.
(e) Mr J A Newton resigned from the Board 28 September 2007.

Table 2: Remuneration for the year ended 30 June 2007

	Short Term		Post Employment	Equity Settled Share-based Payment			
	Directors Fees $	Salary and Fees $	Super-annuation $	Perfor-mance Plan $	***Option Plan $	Total $	Perfor-mance Related %
Non - executive directors							
W Bisley	50,000	-	4,500	-	147,300	201,800	73.0
N M Heath	-	-	-	-	-	-	-
J A Newton*	5,000	-	10,107	-	229,833	244,940	93.8
A J Rigg	25,000	-	2,250	-	147,300	174,550	84.4
J M D Willis	6,813	-	20,437	-	147,300	174,550	84.4
Sub-total non-executive directors	**86,813**	**-**	**37,294**	**-**	**671,733**	**795,840**	**84.4**
Executive directors							
W J Dewé	-	96,825	27,250	45,772	147,300	317,147	60.9
C R Hart	-	343,153	-	119,555	147,300	610,008	43.7
Other key management personnel							
J Hendrich	-	-	-	-	-	-	-
C H Naylor**	-	62,185	5,596	-	42,445	110,226	38.5
Sub-total executive KMP	**-**	**502,163**	**32,846**	**165,327**	**337,045**	**1,037,381**	**48.4**
TOTAL	**86,813**	**502,163**	**70,140**	**165,327**	**1,008,778**	**1,833,221**	**64.0**

* Mr Newton was appointed to the Board on 11 December 2006.
** Mr Naylor commenced as Chief Financial Officer on 5 February 2007.
*** Refer Note 22 for fair value calculation of options

Remuneration and Nomination Committee

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

The Remuneration 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.

REMUNERATION REPORT (AUDITED) (CONT)

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.

The Company during the year has focussed on the drilling of the Heron-2 and Blackwood-1 exploration wells and the subsequent acquisition, processing and interpretation of 3D seismic over the Blackwood structure in NT/P68. In prior years, the Company has been engaged in the GTL projects development and approvals. Creation of shareholder wealth is dependent upon a successful drilling program 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 respect of the performance share rights with share price and/or market capitalisation targets, the history of MEO's share price and market capitalisation over the last five years using the share price as at 30 June each year is as follows:- June 2008 Share Price $0.495 (Market capitalisation $191.0 million); June 2007 Share Price $1.39 (Market capitalisation $439.5 million); June 2006 Share Price $0.22 (Market capitalisation $29.7 million); June 2005 Share Price $0.084 (Market capitalisation $9.9 million) and June 2004 Share Price $0.16 (Market capitalisation $16.3 million).

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, whilst incurring a cost which is acceptable to shareholders.

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 15 July 1997 shareholders approved an aggregate remuneration of up to $200,000 of which $150,905 was paid to directors during the year ended 30 June 2008 (2007: $138,860).

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 required to take at least 20% 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 drilling the Heron-2 and Blackwood-1 wells, the Board agreed to suspend the purchase of shares under the Share Savings Plan.

Senior Executives and Officers Option Plan

30 November 2009 Options

1,000,000 options exercisable at a price of 50 cents on or before 30 November 2009 were granted to each director, Messrs W Bisley, W J Dewé, C R Hart, A J Rigg and J M D Willis in November 2006. In January 2007 a further 1,000,000 options exercisable at a price of 50 cents on or before 30 November 2009 were granted to director, Mr J A Newton and in February 2007, 400,000 options exercisable at a price of 50 cents on or before 30 November 2009 were granted to the Chief Financial Officer, Mr C H Naylor which vest 50% in February 2008 and 50% in February 2009.

During the year 1,000,000 options were exercised by Mr J A Newton and 400,000 options were exercised by a former executive of the Company.

There were no director related options granted during the financial year.

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

At balance date all options to non-executive directors are vested. Shares allotted on exercise of the options rank pari passu in all respects with other fully paid ordinary shares. Option holders may only participate in a new issue of securities to holders of ordinary shares in MEO Australia Limited if an option has been exercised and a share issued in respect of that option before the record date for determining entitlements to the new issue.

Managing Director and Chief Executive Officer Options

On 16 June 2008, Mr Jürgen Hendrich joined MEO in the role of Chief Executive Officer, and on 25 July 2008 assumed the role of Managing Director and Chief Executive Officer. The Board of Directors agreed to the granting of share options as the basis for the "At Risk" component of the salary package for Mr 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 MEO share price at or above 85 cents, but lapse on 30 June 2010.
- 1.1 million Options, granted at an option price of 85 cents, vest after 50 trading days at a MEO share 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 MEO share 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 30 September 2011.

The expiry date for these options is 30 June 2012.

REMUNERATION REPORT (AUDITED) (CONT)

Compensation options: Granted and vested during the year (Consolidated)

	Terms and Conditions for each Grant								Vested	
	No.	Grant Date	Fair value per option at grant date ($) (note 22)	Exercise Price per option ($) (note 22)	Expiry date	First vest date	Last vest date		No.	%
30 June 2008										
Executive										
J Hendrich	1,100,000	19 Jun 08	0.3210	0.50	30 Jun 12	28 Aug 09	30 Jun 10		-	-
J Hendrich	1,100,000	19 Jun 08	0.3110	0.85	30 Jun 12	28 Aug 09	30 Jun 11		-	-
J Hendrich	1,100,000	19 Jun 08	0.2850	1.20	30 Jun 12	28 Aug 09	30 Sep 11		-	-
J Hendrich	2,000,000	19 Jun 08	0.3050	1.00	30 Jun 12	31 Jul 09	30 Sep 11		-	-
Total	**5,300,000**									
30 June 2007										
Directors										
W Bisley	1,000,000	10 Nov 06	0.1473	0.50	30 Nov 09	10 Nov 06	10 Nov 06		1,000,000	100
W J Dewé	1,000,000	10 Nov 06	0.1473	0.50	30 Nov 09	10 Nov 06	10 Nov 06		1,000,000	100
C R Hart	1,000,000	10 Nov 06	0.1473	0.50	30 Nov 09	10 Nov 06	10 Nov 06		1,000,000	100
J A Newton	1,000,000	17 Jan 07	0.2298	0.50	30 Nov 09	17 Jan 07	17 Jan 07		1,000,000	100
A J Rigg	1,000,000	10 Nov 06	0.1473	0.50	30 Nov 09	10 Nov 06	10 Nov 06		1,000,000	100
J M D Willis	1,000,000	10 Nov 06	0.1473	0.50	30 Nov 09	10 Nov 06	10 Nov 06		1,000,000	100
Executives										
C H Naylor	200,000	5 Feb 07	0.3285	0.50	30 Nov 09	05 Feb 08	05 Feb 08		200,000	100
C H Naylor	200,000	5 Feb 07	0.3616	0.50	30 Nov 09	05 Feb 09	05 Feb 09		-	-
Total	**6,400,000**								**6,200,000**	

Options granted as part of remuneration

	Value of options granted during the year $	Value of options exercised or sold during the year $	Value of options lapsed during the year $	Total value of options granted, exercised and lapsed during the year $	Remuneration consisting of options for year %
J Hendrich	1,618,700	-	-	1,618,700	9.8
W Bisley	-	-	-	-	-
W J Dewé	-	-	-	-	32.4
C R Hart	-	-	-	-	17.2
C H Naylor	-	-	-	-	27.9
J A Newton	-	229,800	-	229,800	-
A J Rigg	-	-	-	-	-
J M D Willis	-	-	-	-	-

Shares issued on the Exercise of Compensation Options

30 June 2008 30 November 2009 options	Share issued No.	Paid per share $	Unpaid per share $
J A Newton	1,000,000	0.50	-
Total	**1,000,000**		

30 June 2007 30 September 2006 options	Share issued No.	Paid per share $	Unpaid per share $
W Bisley	500,000	0.20	-
J M D Willis	500,000	0.20	-
Total	**1,000,000**		

Note: In addition, W Bisley sold 500,000 30 September 2006 options, J M D Willis sold 500,000 30 September 2006 options and A J Rigg sold 1,000,000 30 September 2006 options prior to 30 September 2006 exercise date.

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.

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 terms of the agreement:-

- Mr Hendrich receives a fixed remuneration of $375,000 per annum plus superannuation which is reviewed by the Remuneration Committee at the completion of each twelve months of service.
- Mr Hendrich may resign from his position and thus terminate this contract by giving three months written notice. On resignation any unvested options and performance rights 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.
- The Company may immediately terminate this employment agreement by giving written notice if serious misconduct has occurred. Where termination with cause occurs all options and performance rights which have not been exercised at the date of termination of employment will automatically lapse.

REMUNERATION REPORT (AUDITED) (CONT)

Other Executives (standard contracts)

All executives have standard employment contracts. The Company may terminate the executive's employment agreement by providing three months 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.

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 21 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.

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.

Performance conditions include non market criteria being achievement of operational milestones in the development of the Tassie Shoal Methanol Project and the Tassie Shoal LNG Project and NT/P68 milestones and market criteria, being an increase in the Company's share price.

In February 2008, 250,000 performance rights were granted to C R Hart which will be awarded if the Company achieves a share price level of $1.20 for not less than 50 trading days.

In September 2007, 25,000 performance rights were granted to C R Hart upon attainment of the performance condition relating to Acceptance by the Designated Authority of the information leading to the grant of Infrastructure Licence NT/ISL1 recognising that the grant may not occur until the grant of a Production Licence.

In September 2007, 225,000 performance rights were granted to W J Dewé upon attainment of the performance condition relating to obtaining a commitment to construct the methanol plant with MEO retaining at least a 20% interest in the project. Mr Dewé resigned from the Board in February 2008 and all performance rights lapsed.

At balance date an estimate was made of the likelihood of non market criteria relating to certain performance rights being met, the effect of which was a reduction in the amount expensed for the year.

In the previous financial year 250,000 performance rights were granted to C R Hart and 125,000 performance rights were granted to W J Dewé. The performance rights are market based requiring a share price level of $1.20 for not less than 50 trading days. The share price target was achieved and the performance rights earned during the period.

The amount recognized as remuneration in relation to performance rights in accordance with AASB 2 *Share-based Payment* is shown in the Table 1 on page 18 and Table 2 on page 19.

Movements for the year in holdings of performance rights:

30 June 2008	Opening Balance	Rights Granted	Rights Vested	Expired /Lapsed	Closing Balance
W J Dewé	275,000	225,000	(125,000)	*(375,000)	-
C R Hart	1,975,000	275,000	(250,000)	-	2,000,000
Total	**2,250,000**	**500,000**	**(375,000)**	**(375,000)**	**2,000,000**

*Lapsed due to the resignation of W J Dewé prior to 30 June 2008.

For rights outstanding at 30 June 2008, shares acquired on satisfaction of performance criteria immediately vest.

30 June 2007	Opening Balance	Rights Granted	Rights Vested	Expired /Lapsed	Closing Balance
W J Dewé	600,000	225,000	(200,000)	(350,000)	275,000
C R Hart	2,400,000	750,000	(687,500)	(487,500)	1,975,000
Total	**3,000,000**	**975,000**	**(887,500)**	**(837,500)**	**2,250,000**

For rights outstanding at 30 June 2007, shares acquired on satisfaction of performance criteria immediately vest.

Performance Rights on Issue to Key Management Personnel	C R Hart Rights
1. Performance rights granted on 20 February 2008 and expiring on 31 March 2010 with market criteria: The Company's share price maintaining a price of $1.20 or more for 50 trading days by 31 March 2010	250,000
2. Performance rights granted on 30 June 2005 and expiring on 30 June 2009 with performance criteria: (a) Obtaining a commitment to construct the methanol plant, retaining at least a 20% interest in the project, and	1,000,000
(b) Executing a commercial agreement to develop the LNG project, retaining at least a 25% interest in the project.	400,000
3. Performance rights granted on 1 January 2004, expiring on 31 December 2010, with performance criteria: Acceptance by the Designated Authority of the information leading to the grant of Infrastructure Licence NT/ISL1 recognising that the grant may not occur until the grant of a Production Licence	350,000
Total number of performance rights on issue at balance date	**2,000,000**

Value of Performance Rights outstanding at 30 June 2008		
The Company's share price maintaining a price of $1.20 or more for 50 trading days by 31 March 2010	- $min per right	$0
	- $max per right	$0.0739
Obtaining a commitment to construct the methanol plant, retaining at least a 20% interest in the project	- $min per right	$0
	- $max per right	$0
Executing a commercial agreement to develop the LNG project, retaining at least a 25% interest in the project	- $min per right	$0
	- $max per right	$0.01
Acceptance by the Designated Authority of the information leading to the grant of Infrastructure Licence NT/ISL1 recognising that the grant may not occur until the grant of a Production Licence to the holders of NT/P48	- $min per right	$0
	- $max per right	$0.02

During the year the Board approved a change in the term of performance rights granted on 30 June 2005 and expiring on 31 December 2007 to now expire on 30 June 2009. All other terms remained and conditions remained the same.

The minimum value represents the amount at grant date assuming performance criteria are not met and the maximum value at grant date represents the amount based on the probability that performance criteria are met.

Performance rights that expired during the year unvested, granted with performance based criteria:	W J Dewé Rights
a) Obtaining a commitment to construct the methanol plant, retaining at least a 20% interest in the project, and	225,000
(b) Executing a commercial agreement to develop the LNG project, retaining at least a 25% interest in the project.	100,000
(c) Acceptance by the Designated Authority of the information leading to the grant of Infrastructure Licence NT/ISL1 recognising that the grant may not occur until the grant of a Production Licence	50,000
Total number of performance rights expired during the year	**375,000**

Following the above issues, the Company's total issued capital is 405,931,570 ordinary shares and there are 5,400,000 unissued shares in the capital of the Company subject to outstanding 30 November 2009 options, and 5,300,000 unissued shares in the capital of the company subject to outstanding 30 June 2010, 30 June 2011 and 30 September 2011 options.

EVENTS AFTER BALANCE DATE

Major Strategic Alliance

On 3 July 2008 the Company announced a major strategic alliance with Resource Development International Ltd ("RDI") which involves a staged funding approach for each of MEO's project areas subject to various conditions precedent including a successful Initial Public Offering (IPO) of RDI shares later in 2008. As part of the alliance, Mineralogy Pty Ltd acquired 21.391 million shares at $0.55. MEO has further granted to Mineralogy 14.498 million options to subscribe for ordinary shares in MEO at an exercise price of $0.65 on or before 30 September 2008 and also granted 2.0 million options for ordinary shares in MEO at an exercise price of $0.55 and expiry date of 30 June 2009.

RDI is earning a 35% interest in WA-361-P by funding 80% of the forthcoming Zeus-1 well to a capped well cost of US$31.25m. Costs above this cap are shared on a pro-rata basis between RDI and MEO in proportion to their respective interests in the permit. MEO will fund the balance of the well cost (20% until the cap) to retain a 35% interest.

Upon successfully completing its IPO in 2008, RDI will fund 100% of one additional exploration well in WA-361-P in the event Zeus-1 is a dry hole. In the event that Zeus-1 is a success, RDI will fund MEO' share of costs in relation to two additional appraisal wells.

MEO has granted RDI a similar option over the two adjoining North West Shelf permits – WA-360-P and WA-359-P in which MEO has earned a 60% interest. RDI has until 1 December 2008 to elect whether to commit to funding 80% of the costs of an exploration well in either or both permits and MEO's share of two appraisal wells in the event of a successful exploration well.

In MEO's Timor Sea interests, RDI has until the earlier of 14 days of the closing of its IPO or 31 December 2008 to elect whether to undertake the first stage of a farm-in to the NT/P68 exploration permit and the associated GTL projects. RDI can earn a 25% interest by funding 100% of MEO's share of two appraisal wells Heron-3 and Blackwood-2. Thereafter, RDI has 180 days to determine whether to commit to stage two which involves funding 100% of MEO's share of two further wells to earn an additional 25% interest. The third stage involves the election to fund MEO's share of any further appraisal drilling costs required to achieve 3rd party reserves certification sufficient to underpin one or more of the Gas-to-Liquids projects. In the success case, MEO will be left with a fully funded 20% interest in NT/P68 and the Tassie Shoal GTL projects without having to contribute any further equity capital.

General Meeting of Shareholders – Approval Received for Granting of Director Options

On 21 August 2008, a general meeting of shareholders of MEO Australia passed a resolution to grant Mr Nicholas Heath, Mr Jürgen Hendrich and Mr Gregory Short each 1,000,000 30 November 2009 50 cent share options. For the terms and conditions of these options, please refer to the 2008 Remuneration Report.

Shareholders also approved the appointment of Mr Greg Short and Mr Nick Heath to the Board of Directors and ratified the issue of 21,391,000 shares to Mineralogy Pty Ltd.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors have received the independence declaration from the auditor, Ernst & Young, set out on page 27.

Non Audit Services

During the financial year, no non-audit services were provided by the entity's auditor, Ernst & Young.

J HENDRICH

Managing Director & Chief Executive Officer
Melbourne, 23 September 2008

Auditor’s Independence Declaration

ERNST & YOUNG

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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 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Brett Croft
Partner
Melbourne
23 September 2008

Income Statement

For the year ended 30 June 2008

	Note	Consolidated		Parent	
		2008 **$**	2007 $	**2008** **$**	2007 $
Interest income		2,821,385	878,932	2,821,385	878,932
Other income		29,632	142,560	29,632	142,560
Income		**2,851,017**	**1,021,492**	**2,851,017**	**1,021,492**
Depreciation and amortisation expense		(77,647)	(34,880)	(77,647)	(34,880)
Employees and consultants	4	(1,432,257)	(2,461,610)	(1,432,257)	(2,461,610)
Foreign exchange losses		(1,891,137)	(964,984)	(1,891,137)	(964,984)
Other expenses	4	(705,823)	(721,669)	(705,823)	(721,669)
Profit/(loss) before income tax		**(1,255,847)**	**(3,161,651)**	**(1,255,847)**	**(3,161,651)**
Income tax (expense)	5	(614,789)	(209,000)	-	-
Net profit/(loss) for the period		**(1,870,636)**	**(3,370,651)**	**(1,255,847)**	**(3,161,651)**
Basic (loss) per share (cents per share)	6	(0.51)	(1.58)		
Diluted (loss) per share (cents per share)	6	(0.51)	(1.58)		

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

Balance Sheet

For the year ended 30 June 2008

		Consolidated		Parent	
	Note	**2008 $**	2007 $	**2008 $**	2007 $
CURRENT ASSETS					
Cash and cash equivalents	7	24,343,540	70,929,204	17,652,623	70,929,197
Trade and other receivables	8	1,532,819	518,176	111,397	518,176
TOTAL CURRENT ASSETS		25,876,359	71,447,380	17,764,020	71,447,373
NON-CURRENT ASSETS					
Other financial assets	9	-	-	136,785,896	15,056,341
Property, plant and equipment	10	214,695	72,635	214,695	72,635
Leasehold improvements	11	68,368	99,502	68,368	99,502
Intangible assets	12	94,093	42,591	94,093	42,591
Exploration and evaluation costs	13	139,162,761	15,056,332	-	-
TOTAL NON-CURRENT ASSETS		139,539,917	15,271,060	137,163,052	15,271,069
TOTAL ASSETS		**165,416,276**	**86,718,440**	**154,927,072**	**86,718,442**
CURRENT LIABILITIES					
Trade and other payables	14	11,455,372	1,651,088	1,039,464	1,651,088
Payable to subsidiary		-	-	-	73,297
Provisions	15	53,805	27,956	53,805	27,956
TOTAL CURRENT LIABILITIES		11,509,177	1,679,044	1,093,269	1,752,341
NON-CURRENT LIABILITIES					
Provisions	15	44,376	14,885	44,376	14,885
TOTAL NON-CURRENT LIABILITIES		44,376	14,885	44,376	14,885
TOTAL LIABILITIES		**11,553,553**	**1,693,929**	**1,137,645**	**1,767,226**
NET ASSETS		**153,862,723**	**85,024,511**	**153,789,427**	**84,951,216**
EQUITY					
Contributed equity	16	167,726,255	96,803,600	166,899,653	96,591,788
Share based payments reserve	16	1,047,954	1,261,761	1,047,954	1,261,761
Accumulated losses	16	(14,911,486)	(13,040,850)	(14,158,180)	(12,902,333)
TOTAL EQUITY		**153,862,723**	**85,024,511**	**153,789,427**	**84,951,216**

The above balance sheet should be read in conjunction with the accompanying notes.

Cash Flow Statement

For the year ended 30 June 2008

		Consolidated		Parent	
	Note	**2008 $**	2007 $	**2008 $**	2007 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(1,327,330)	(2,002,241)	(3,572,132)	(2,002,241)
Cost recovery from joint venture partners		306,109	133,980	2,550,911	133,980
Income tax paid		-	(11,992)	-	(11,992)
Interest received		2,953,631	701,485	2,953,631	701,485
Net cash from/(used in) operating activities	(note 17)	1,932,410	(1,178,768)	1,932,410	(1,178,768)
CASH FLOWS FROM INVESTING ACTIVITIES					
Expenditure on plant and equipment		(34,461)	(47,827)	(34,461)	(47,827)
Expenditure on motor vehicle		(132,576)	-	(132,576)	-
Expenditure on leasehold improvements		(5,310)	(105,349)	(5,310)	(105,349)
Expenditure on intangibles		-	(18,454)	-	(18,454)
Expenditure on exploration tenements		(115,004,805)	(14,693,092)	-	-
Investment in subsidiary company		-	-	-	(2)
Net cash (used in) investing activities		(115,177,152)	(14,864,722)	(172,347)	(171,632)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from share issues		73,588,000	79,127,709	73,588,000	79,127,709
Transaction costs on issue of shares		(4,371,804)	(2,268,891)	(4,371,804)	(2,268,891)
Proceeds from share purchase plan prior to allotment		-	7,852,000	-	7,852,000
Purchase of shares on market in settlement of vested performance rights		(665,981)	(321,446)	(665,981)	(321,446)
Proceeds from sale of trustee shares		-	1,093,950	-	1,093,950
Advances (to) subsidiary companies		-	-	(121,695,715)	(14,693,092)
Net cash from/(used in) financing activities		68,550,215	85,483,322	(53,145,500)	70,790,230
Net (decrease)/increase in cash and cash equivalents		(44,694,527)	69,439,832	(51,385,437)	69,439,830
Cash and cash equivalents at beginning of period		70,929,204	2,454,356	70,929,197	2,454,351
Net foreign exchange differences		(1,891,137)	(964,984)	(1,891,137)	(964,984)
Cash and cash equivalents at end of period	(note 7)	**24,343,540**	**70,929,204**	**17,652,623**	**70,929,197**

The above cash flow statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2008

	Issued Capital $	Share Based Payments Reserve $	Accumulated Losses $	Total Equity $
Consolidated				
At 1 July 2007	96,803,600	1,261,761	(13,040,850)	85,024,511
Net profit/(loss) for the period	-	-	(1,870,636)	(1,870,636)
Cost of share based payments	-	434,468	-	434,468
Transfer of cost of exercised equity instruments	648,275	(648,275)	-	-
Share issues	73,588,000	-	-	73,588,000
Costs of issues (net of tax)	(2,647,639)	-	-	(2,647,639)
Purchase of shares on market in settlement of vested performance rights	(665,981)	-	-	(665,981)
At 30 June 2008	167,726,255	1,047,954	(14,911,486)	153,862,723
At 1 July 2006	12,147,239	20,006	(9,670,199)	2,497,046
Net profit/(loss) for the period	-	-	(3,370,651)	(3,370,651)
Cost of share based payments	-	1,312,356	-	1,312,356
Transfer of cost of exercised equity instruments	70,601	(70,601)	-	
Share issues	79,127,709	-	-	79,127,709
Share purchase plan applications received prior to allotment	7,852,000	-	-	7,852,000
Sales of trustee shares	1,093,950	-	-	1,093,950
Costs of issues (net of tax)	(3,166,453)	-	-	(3,166,453)
Purchase of shares on market in settlement of vested performance rights	(321,446)	-	-	(321,446)
At 30 June 2007	96,803,600	1,261,761	(13,040,850)	85,024,511
Parent				
At 1 July 2007	96,591,788	1,261,761	(12,902,333)	84,951,216
Net profit/(loss) for the period	-	-	(1,255,847)	(1,255,847)
Cost of share based payment	-	434,468	-	434,468
Transfer of cost of exercised equity instruments	648,275	(648,275)	-	-
Share issues	73,588,000	-	-	73,588,000
Costs of issues	(3,262,429)	-	-	(3,262,429)
Purchase of shares on market in settlement of vested performance rights	(665,981)	-	-	(665,981)
At 30 June 2008	166,899,653	1,047,954	(14,158,180)	153,789,427
At 1 July 2006	12,147,239	20,006	(9,740,682)	2,426,563
Net profit/(loss) for the period	-	-	(3,161,651)	(3,161,651)
Cost of share based payment	-	1,312,356	-	1,312,356
Transfer of cost of exercised equity instruments	70,601	(70,601)	-	-
Share issues	79,127,709	-	-	79,127,709
Share purchase plan applications received prior to allotment	7,852,000	-	-	7,852,000
Sales of trustee shares	1,093,950	-	-	1,093,950
Costs of issues	(3,378,265)	-	-	(3,378,265)
Purchase of shares on market in settlement of vested performance rights	(321,446)	-	-	(321,446)
At 30 June 2007	96,591,788	1,261,761	(12,902,333)	84,951,216

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

Notes to the Financial Statements

For the year ended 30 June 2008

NOTE 1/ CORPORATE INFORMATION

The financial report of MEO Australia Limited (MEO Australia, or the Company) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 23 September 2008.

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 and Australian Accounting Standards, 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

The relevant Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2008. These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 Segment Reporting, which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. In addition, the amendments may have an impact on the Group's segment disclosures.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The Group may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard. The Group has not yet assessed the impact of early adoption, including which accounting policy to adopt.	1 July 2009

NOTE 2/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009
AASB 2008-5 and 2008-6	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009.	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009

*designates the beginning of the applicable annual reporting period unless otherwise stated.

Other amendments are not expected to have a material impact on the Group.

Adoption of new accounting standard

The Group has adopted AASB 7 *Financial Instruments: Disclosures* and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the entity.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of MEO Australia Limited and its subsidiaries as at 30 June 2008 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, 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.

NOTE 2/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Significant accounting estimates and assumptions

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

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share options is determined by an external valuer using a binomial option pricing model, and using the assumptions detailed in note 22.

Exploration and Evaluation Costs

At each reporting period, the Group assesses indicators of impairment. Exploration and evaluation costs are deferred until exploration and evaluation activities reach a stage which permits reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations are continuing. Where ongoing committed activities cannot be funded by existing financial resources, the Group will either need to raise additional capital or meet its obligations by (partial) farmout or (partial) sale of the company's interests.

The Group may raise capital by any one or a combination of the following: placement of shares, pro-rata issue to shareholders, the exercise of outstanding share options, and/or a further issue of shares to the public. Should these methods not be considered to be in the best interests of shareholders, then the Group would seek to meet its obligations by either partial sale of the Group's interests or farmout.

(f) Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

(g) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of MEO Australia Limited and its Australian subsidiaries 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.

(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 sheet date.

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

(h) Cash and cash equivalents

Cash and cash equivalents in the balance sheet 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 Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(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 the profit and 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 and 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 – 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, unless the assets value in use can be estimated to be close to its fair value. An impairment exists when the carrying value of an asset exceeds its estimated recoverable amount.
The asset is written down to its recoverable amount.

NOTE 2/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income statement 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.

(l) 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.

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 and net assets will be reduced in the period in which this determination is made.

(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) Investments and other financial assets

Investments in subsidiary companies are accounted for at cost less accumulated impairment losses in the parent entity financial statements.

(o) 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 sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

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.

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.

(p) 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.

NOTE 2/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Leases

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 income statement in a straight-line basis over the lease term.

(r) Trade and other payables

Trade and other payables are carried at amortised costs 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.

(s) 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 income statement 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 sheet 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.

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 other payables 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.

(t) 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 become 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.

NOTE 2/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

(u) 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.

(v) 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.

(w) 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 be met:

Interest income

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

(x) 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 balance date.

Deferred income tax is provided on all temporary differences at the balance sheet 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.

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 sheet 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.

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 sheet date.

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

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

NOTE 2/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(y) 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 balance sheet.

Cash flows are included in the Cash Flow Statement 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.

(z) 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.

NOTE 3/ SEGMENT INFORMATION

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

The following tables represent revenue, profit information and certain asset and liability information regarding business segments for the years ended 30 June 2008 and 30 June 2007.

	Methanol & LNG Development		**Petroleum Exploration**		**Consolidated**	
BUSINESS SEGMENTS	**2008 $**	2007 $	**2008 $**	2007 $	**2008 $**	2007 $
Revenue:						
Segment revenue	-	-	-	-	-	-
Non-segment revenue					2,851,017	1,021,492
Total consolidated revenue					2,851,017	1,021,492
Result:						
Segment (loss)	(185,709)	(97,556)	-	(16,935)	(185,709)	(114,491)
Non-segment expenses					(1,070,138)	(3,047,160)
(Loss) before income tax					(1,255,847)	(3,161,651)
Income tax benefit/(expense)					(614,789)	(209,000)
Net (loss) for the year					(1,870,636)	(3,370,651)
Assets:						
Segment assets	-	-	147,380,718	15,098,923	147,380,718	15,098,923
Non-segment assets					18,035,558	71,619,517
Total Assets					165,416,276	86,718,440
Liabilities:						
Segment liabilities	-	-	10,537,532	205,212	10,537,532	205,212
Non-segment liabilities					1,016,021	1,488,717
Total Liabilities					11,553,553	1,693,929
Other Segment Information:						
Acquisition of plant and equipment, and other non-current assets						
Segment	-	-	124,106,429	14,898,642	124,106,429	14,898,642
Non-segment	-	-	-	-	240,075	153,885
Depreciation and amortisation						
Segment depreciation	-	-	-	16,935	-	16,935
Non-segment depreciation					77,647	17,945
Cash Flow Information:						
Operating Activities						
Segment net cash flow (used)	(185,709)	(100,954)	-	-	(185,709)	(100,954)
Non-segment net cash flow (used)			-	-	2,118,119	(1,077,814
Investing Activities						
Segment net cash flow (used)	-	-	(115,004,805)	(14,711,546)	(115,004,805)	(14,711,546)
Non-segment net cash flow (used)					(172,347)	(153,176)
Financing Activities						
Non-segment net cash flow					68,550,215	85,483,322

	Consolidated		Parent	
	2008 $	2007 $	**2008 $**	2007 $
NOTE 4/ EXPENSES				
Directors, Employees and Consultants				
Consultants fees and expenses	187,097	600,342	187,097	600,342
Directors remuneration (non-executive)	115,337	86,813	115,337	86,813
Directors superannuation	49,129	64,544	49,129	64,544
Directors insurance	47,175	1,278	47,175	1,278
Fringe benefits tax	16,870	3,262	16,870	3,262
Payroll tax and workcover	35,172	36,040	35,172	36,040
Provision for annual and long service leave	55,340	17,088	55,340	17,088
Salaries (including executive directors)	585,187	264,195	585,187	264,195
Share based payments	274,687	1,312,356	274,687	1,312,356
Superannuation	66,263	75,692	66,263	75,692
	1,432,257	2,461,610	1,432,257	2,461,610
Other Expenses				
Administration and other expenses	21,258	202,196	21,258	202,196
Audit costs	96,614	60,435	96,614	60,435
Operating lease expenses	99,316	28,822	99,316	28,822
Stock exchange registry and reporting costs	257,295	173,188	257,295	173,188
Travel and corporate promotion costs	221,340	257,028	221,340	257,028
Trustee stock scheme costs	10,000	-	10,000	-
	705,823	721,669	705,823	721,669
NOTE 5/ INCOME TAX				
Income Statement				
Current income tax				
Current income tax credit	35,813,909	5,038,001	337,479	573,945
Adjustment in respect of current income tax of previous years	123,322	(2,812)	-	-
Tax losses not recognised as not probable	(35,937,231)	(5,038,001)	(337,479)	(573,945)
	-	(2,812)	-	
Deferred income tax				
Relating to origination and reversal of temporary differences	(35,322,332)	(4,483,213)	(154,097)	(19,156)
Tax losses brought to account to offset net deferred tax liability	34,707,543	4,271,401	154,097	19,156
	(614,789)	(211,812)	-	-
Income tax (expense) reported in the Income Statement	(614,789)	(209,000)	-	-

	Consolidated		Parent	
	2008 $	2007 $	**2008 $**	2007 $
NOTE 5/ INCOME TAX (continued)				
Statement of Changes in Equity				
Deferred income tax related to items charged or credited directly to equity				
Share issue costs	978,729	1,013,588	1,901,153	1,013,588
Not recognised as not probable	(363,940)	(801,776)	(1,901,153)	(1,013,588)
Income tax benefit reported in Equity	614,789	211,812	-	-
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	(1,255,847)	(3,161,651)	(1,255,847)	(3,161,651)
At the Group's statutory 30% tax rate (2007: 30%)	376,754	948,495	376,754	948,495
Adjustment in respect of current income tax of previous years	123,322	2,812	-	-
Share based payment expense	(82,406)	(393,707)	(82,406)	(393,707)
Non-deductible expenses	(2,565)	-	(2,565)	-
Deductible share purchases for cash settled share based payments	199,794	-	199,794	-
Tax losses not brought to account	(1,229,688)	(766,600)	(491,577)	(554,788)
Income tax (expense) reported in the Income Statement	(614,789)	(209,000)	-	-

	Balance Sheet		Income Statement	
	2008 $	2007 $	**2008 $**	2007 $
Deferred Income Tax				
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED				
Deferred tax liabilities				
Prepayments	-	(3,000)	3,000	(3,000)
Interest receivable	(47,790)	(53,234)	5,444	(53,234)
Exploration and evaluation costs	(41,748,829)	(4,516,900)	(37,231,929)	(4,464,057)
Gross deferred income tax liabilities	(41,796,619)	(4,573,134)		
Deferred tax assets				
Accruals	1,927,738	43,187	1,884,551	29,551
Provisions	29,454	12,853	16,601	7,527
Share issue costs	1,411,419	825,316	-	-
Temporary differences not recognised as not probable	(1,000,226)	(588,903)	-	-
Tax losses brought to account to offset net deferred tax liability	39,428,234	4,280,681	34,707,544	4,271,401
Gross deferred income tax assets	41,796,619	4,573,134		
Net Deferred Tax Asset	-	-		
Deferred tax (expense)			(614,789)	(211,812)

	Balance Sheet		Income Statement	
	2008 $	2007 $	**2008 $**	2007 $
NOTE 5/ INCOME TAX (continued)				
PARENT				
Deferred tax liabilities				
Prepayments	-	(3,000)	3,000	(3,000)
Interest receivable	(13,561)	(53,234)	39,673	(53,234)
Gross deferred income tax liabilities	(13,561)	(56,234)		
Deferred tax assets				
Accruals	138,010	43,187	94,823	43,187
Provisions	29,454	12,853	16,601	12,853
Share issue costs	1,411,419	825,316	-	-
Temporary differences not recognised as not probable	(1,565,322)	(825,316)	(154,097)	-
Tax losses brought to account to offset net deferred tax liability	-	194	-	194
Gross deferred income tax assets	13,561	56,234		
Net Deferred Tax Asset / (Liability)	-	-		
Deferred tax (expense)			-	-

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 $140,930,000 (2007 $19,723,000) 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 2008 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 loss per share:

	Consolidated	
	2008 $	2007 $
Net loss	(1,870,636)	(3,370,651)
	Shares	**Shares**
Weighted average number of ordinary shares used in calculation of basic loss per share	364,402,703	212,704,396

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 25. No dividends were paid during the year and no dividends are proposed. No franking credits are held by the Group.

	Consolidated		Parent	
	2008 $	2007 $	**2008 $**	2007 $
NOTE 7/ CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	11,287,138	8,251,437	4,596,221	8,251,430
Short term deposits	13,056,402	54,825,767	13,056,402	54,825,767
Cash received from Share Purchase Plan applications – held prior to allotment of shares	-	7,852,000	-	7,852,000
	24,343,540	70,929,204	17,652,623	70,929,197

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

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

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$	$	**$**	$
NOTE 8/ TRADE AND OTHER RECEIVABLES				
Goods and services tax refund	352,896	322,148	54,755	322,148
Interest receivable	159,302	177,448	45,202	177,448
Rig mobilisation escrow account	802,774	-	-	-
Other	217,847	18,580	11,440	18,580
	1,532,819	518,176	111,397	518,176

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 18.

	Consolidated		Parent	
	2008	2007	**2008**	2007
	$	$	**$**	$
NOTE 9/ OTHER FINANCIAL ASSETS				
Loans to subsidiary companies (note 20)			136,785,887	15,056,332
Investment in controlled entities at cost (note 20)			9	9
			136,785,896	15,056,341

Refer to note 20 for terms and conditions.

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
NOTE 10/ PROPERTY, PLANT AND EQUIPMENT				
Plant and Equipment				
At cost	123,628	89,876	123,628	89,876
Accumulated depreciation	(35,083)	(17,241)	(35,083)	(17,241)
	88,545	72,635	88,545	72,635
Movement in Plant and Equipment				
Net carrying amount at beginning of year	72,635	34,537	72,635	34,537
Additions	33,752	48,536	33,752	48,536
Asset scrapped – cost	-	(165)	-	(165)
Depreciation	(17,842)	(10,438)	(17,842)	(10,438)
Asset scrapped – accumulated depreciation	-	165	-	165
Net carrying amount at end of year	88,545	72,635	88,545	72,635
The useful life of the plant and equipment is estimated for 2008 and 2007 as 5 to 15 years.				
Motor Vehicle				
At cost	132,576	-	132,576	-
Accumulated depreciation	(6,426)		(6,426)	-
	126,150	-	126,150	-
Movement in Motor Vehicles				
Net carrying amount at beginning of year	-	-	-	-
Additions	132,576	-	132,576	-
Depreciation	(6,426)	-	(6,426)	-
Net carrying amount at end of year	126,150	-	126,150	-
The useful life of the motor vehicle is estimated for 2008 is 4 years.				
Total Property, Plant & Equipment	**214,695**	**72,635**	**214,695**	**72,635**
NOTE 11/ LEASEHOLD IMPROVEMENTS				
At cost	112,734	107,424	112,734	107,424
Accumulated depreciation	(44,366)	(7,922)	(44,366)	(7,922)
	68,368	99,502	68,368	99,502
Movement in Leasehold Improvements				
Net carrying amount at beginning of year	99,502	1,660	99,502	1,660
Additions	5,310	105,349	5,310	105,349
Depreciation	(36,444)	(7,507)	(36,444)	(7,507)
Net carrying amount at end of year	68,368	99,502	68,368	99,502

The useful life of the Leasehold Improvements is estimated for 2008 and 2007 as 3 years.

	Consolidated		Parent	
	2008 $	2007 $	**2008 $**	2007 $
NOTE 12/ INTANGIBLE ASSETS				
Software licences at cost	136,177	67,740	136,177	67,740
Accumulated amortisation	(42,084)	(25,149)	(42,084)	(25,149)
	94,093	42,591	94,093	42,591
Movement in Intangibles				
Net carrying amounts at beginning of year	42,591	41,072	42,591	41,072
Additions	68,437	18,454	68,437	18,454
Amortisation	(16,935)	(16,935)	(16,935)	(16,935)
Net carrying amount at end of year	94,093	42,591	94,093	42,591
The useful life of the intangibles is estimated as 4 years.				
NOTE 13/ EXPLORATION AND EVALUATION COSTS				
Balance at beginning of year	15,056,332	176,144		
Expenditure for the year	124,106,429	14,880,188		
	139,162,761	15,056,332		

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 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.

	Consolidated		Parent	
	2008 $	2007 $	**2008 $**	2007 $
NOTE 14/ TRADE AND OTHER PAYABLES				
Trade payables	11,455,372	1,543,008	1,039,464	1,543,008
Director-related entities (note 21)	-	108,080	-	108,080
	11,455,372	1,651,088	1,039,464	1,651,088

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value. Trade payables are non-interest bearing and are normally settled on 30 day terms. No assets were pledged as collateral or security in relation to financial liabilities.

	Consolidated		Parent	
	2008 **$**	2007 $	**2008** **$**	2007 $
NOTE 15/ PROVISIONS				
CURRENT				
Employee benefit				
Annual leave entitlement	53,805	27,956	53,805	27,956
NON-CURRENT				
Employee benefit				
Long service leave entitlement	44,376	14,885	44,376	14,885

	Consolidated		Consolidated	
	2008 **Shares**	**2008** **$**	2007 Shares	2007 $
NOTE 16/ CONTRIBUTED EQUITY AND RESERVES				
ISSUED AND PAID UP CAPITAL				
Ordinary shares	385,808,652	167,726,255	316,168,652	96,803,600
Ordinary shares issued pursuant to trustee stock scheme	20,122,918	-	122,918	-
	405,931,570	167,726,255	316,291,570	96,803,600
Movements in Ordinary Shares				
Balance at beginning of year	316,168,652	88,951,600	134,927,187	12,147,239
Share Issues:				
Exercise of 30 Sept 2006 options at 20 cents	-	-	4,050,000	810,000
Placement of shares at 22.5 cents	-	-	14,055,010	3,162,377
Entitlement of shares at 22.5 cents	-	-	38,651,278	8,696,538
Placement of shares at 48 cents	-	-	25,000,000	12,000,000
Placement of shares at $1.00	-	-	41,250,000	41,250,000
Placement of shares at $1.25	50,000,000	62,500,000	-	-
Exercise of 30 April 2007 options at 25 cents	-	-	52,635,177	13,158,794
Exercise of 30 Nov 2009 options at 50 cents	1,400,000	700,000	100,000	50,000
Transaction costs (net of tax)	-	(2,647,640)	-	(3,166,453)
Allotment of shares at $1.00 per share in accordance with Share Purchase Plan	18,240,000	18,240,000	-	-
Shares sold by Trustee of Trustee Stock Scheme	-	-	5,500,000	1,093,950
Transfer of costs of exercised equity instruments	-	648,275	-	70,601
Purchase of shares on market in settlement of vested performance rights	-	(665,980)	-	(321,446)
Balance at end of year	385,808,652	167,726,255	316,168,652	88,951,600

	Consolidated		Consolidated	
	2008 Shares	**2008 $**	2007 Shares	2007 $
NOTE 16/ CONTRIBUTED EQUITY AND RESERVES (continued)				
Movements in Ordinary Shares Issued Pursuant to Trustee Stock Scheme				
Balance at beginning of year	122,918	-	5,622,918	-
Shares placed with Trustee during the year	20,000,000	-	-	-
Shares sold by Trustee during the year	-	-	(5,500,000)	-
Balance at end of year	20,122,918	-	122,918	-
Share Purchase Plan				
Applications for shares in share purchase plan received prior to allotment of shares				7,852,000

	Parent		Parent	
	2008 Shares	**2008 $**	2007 Shares	2007 $
ISSUED AND PAID UP CAPITAL				
Ordinary shares	385,808,652	166,899,653	316,168,652	96,591,788
Ordinary shares issued pursuant to trustee stock scheme	20,122,918	-	122,918	-
	405,931,570	166,899,653	316,291,570	96,591,788
Movements in Ordinary Shares				
Balance at beginning of year	316,168,652	88,739,788	134,927,187	12,147,239
Share Issues:				
Exercise of 30 Sept 2006 options at 20 cents	-	-	4,050,000	810,000
Placement of shares at 22.5 cents	-	-	14,055,010	3,162,377
Entitlement of shares at 22.5 cents	-	-	38,651,278	8,696,538
Placement of shares at 48 cents	-	-	25,000,000	12,000,000
Placement of shares at $1.00	-	-	41,250,000	41,250,000
Placement of shares at $1.25	50,000,000	62,500,000	-	-
Exercise of 30 April 2007 options at 25 cents	-	-	52,635,177	13,158,794
Exercise of 30 Nov 2009 options at 50 cents	1,400,000	700,000	100,000	50,000
Transaction costs	-	(3,262,430)	-	(3,378,265)
Allotment of shares at $1.00 per share in accordance with Share Purchase Plan	18,240,000	18,240,000	-	-
Shares sold by Trustee of Trustee Stock Scheme	-	-	5,500,000	1,093,950
Transfer of costs of exercised equity instruments	-	648,275	-	70,601
Purchase of shares on market in settlement of vested performance rights	-	(665,980)	-	(321,446)
Balance at end of year	385,808,652	166,899,653	316,168,652	88,739,788

NOTE 16/ CONTRIBUTED EQUITY AND RESERVES (continued)

(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.

(c) Share Purchase Plan

In June 2007 the Company announced a Share Purchase Plan (SPP) entitling shareholders to participate in the purchase of up to 5,000 MEO shares at $1.00 per share. At 30 June 2007 applications for shares totalled 7,852,000 with cash received of $7,852,000. At the close of the SPP there was 18,240,000 shares allotted and cash received of $18,240,000.

(d) Share Options

At 30 June 2008 10,700,000 options over unissued shares granted to directors/ex-directors and executives were outstanding. The options are granted pursuant to the Senior Executives and Officers Option Plan, details of which are set out in note 22.

(e) 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 its balance sheet 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 to excluded offerees, 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.

	Consolidated		Parent	
	2008 $	2007 $	**2008 $**	2007 $
NOTE 16/ CONTRIBUTED EQUITY AND RESERVES (continued)				
OTHER RESERVES				
Employee Equity Benefits Reserve				
The employee equity benefits reserve records the value of benefits provided as equity instruments to directors, employees and consultants under share-based payment plans (note 22).				
Balance at beginning of year	1,261,761	20,006	1,261,761	20,006
Cost of share based payments	434,468	1,312,356	434,468	1,312,356
Cost of exercised equity instruments				
transferred to contributed equity	(648,275)	(70,601)	(648,275)	(70,601)
Balance at end of year	1,047,954	1,261,761	1,047,954	1,261,761
ACCUMULATED LOSSES				
Balance at beginning of year	(13,040,850)	(9,670,199)	(12,902,333)	(9,740,682)
Net loss for the year	(1,870,636)	(3,370,651)	(1,255,847)	(3,161,651)
Balance at end of year	(14,911,486)	(13,040,850)	(14,158,180)	(12,902,333)
NOTE 17/ CASH FLOW STATEMENT RECONCILIATION				
Reconciliation of net loss after tax to net cash flows used in operating activities				
Net loss	(1,870,636)	(3,370,651)	(1,255,847)	(3,161,651)
Adjustments for:				
Depreciation and amortisation	77,647	34,880	77,647	34,880
Share based payments	274,687	1,312,356	274,687	1,312,356
Exchange rate adjustments	1,891,137	964,984	1,891,137	964,984
Deferred income tax expense	614,789	211,812	-	-
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	406,779	(505,151)	406,779	(505,151)
(Decrease)/increase in payable to subsidiary	-	-	-	(15,188)
(Decrease)/increase in trade and other payables	482,667	173,915	482,667	173,915
(Decrease)/increase in provisions	55,340	17,087	55,340	17,087
(Decrease)/increase in current tax payable	-	(18,000)	-	-
Net cash flows from/(used in) operating activities	1,932,410	(1,178,768)	1,932,410	(1,178,768)

NOTE 18/ 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 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 2008 (2007: $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 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		Parent Company	
	2008 $	2007 $	**2008**	2007
Cash and cash equivalents	24,343,540	70,929,204	17,652,623	70,929,197
Weighted average effective floating interest rate	7%	6%	7%	6%

Short term deposits are made for varying periods of between one 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 performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, the Group and parent believes that -/+1.0% from the year-end rates of 7% represents the 'reasonably possible' movement in 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 and Parent Company Net Profit	
	2008 $	2007 $
+1.0% (100 basis points) increase/decrease in interest rates with all other variables held constant	177,000	709,000
-1.0% (100 basis points) increase/decrease in interest rates with all other variables held constant	(177,000)	(709,000)

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

NOTE 18/ FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2007, all the contracts were closed.

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

	Consolidated		Parent Company	
USD	**2008 AUD $**	2007 AUD $	**2008 AUD $**	2007 AUD $
Cash	11,733,065	14,059,441	9,607,905	14,059,441
Total Financial Assets	**11,733,065**	**14,059,441**	**9,607,905**	**14,059,441**
Trade Creditors	711,848	-	92,768	-
Total Financial Liabilities	**711,848**	**-**	**92,768**	**-**

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

	Consolidated and Parent Company Net Profit	
	2008 $	2007 $
10% strengthening in AUD/USD rate (for 2008 from 0.96 to 1.06 and for 2007 from 0.84 to 0.93) with all other variables held constant	(865,000)	(1,278,000)
10% weakening in AUD/USD rate (for 2008 from 0.96 to 0.87 and for 2007 from 0.84 to 0.76) with all other variables held constant	1,057,000	1,562,000

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.

NOTE 18/ FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity Risk (continued)

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 to excluded offerees, 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 $11,455,372 worth of financial liabilities. All financial liabilities have a contractual maturity of 30 days except for the demobilization of the West Atlas Drill Rig. It is expected that this liability will be settled in 2009.

Fair Values

The aggregate net fair values of the financial assets and liabilities are the same as balance sheet carrying values.

NOTE 19/ COMMITMENTS AND CONTINGENCIES

	Consolidated		Parent	
	2008 $	2007 $	**2008 $**	2007 $
Operating Lease				
Future minimum rentals payable under operating lease for office premises at balance date:				
Payable not later than one year	173,853	167,167	173,853	167,167
Payable later than one year but not later than five years	149,676	323,529	149,676	323,529
	323,529	490,696	323,529	490,696
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	250,000		
Payable later than one year but not later than five years	-	15,200,000		
	200,000	15,450,000		

In respect of NT/P68, the Group has permit year 6 geotechnical studies as the remaining permit commitment.

Exploration Commitments – WA-359-P, WA-360-P, WA-361-P

MEO has met its obligations in respect of the farm-in to the WA Permits (WA-361-P, WA-360-P & WA-359-P) with the acquisition of 2D and 3D seismic surveys. The remaining permit obligations for the WA permits involve year 4 – seismic interpretation ($0.25m for each permit), year five – exploration well ($15.0m for each permit) and year – 6 geotechnical studies ($0.2m for each permit). MEO has the option to elect to drill a well in each permit or drop its interest in the permit – this election must be made by 1 January 2009. Subsequent to year-end MEO has committed to drill the Zeus-1 well in WA-361-P.

(b) Contingent liabilities relating to joint ventures

There were no contingent liabilities relating to interests in joint ventures.

NOTE 20/ RELATED PARTY DISCLOSURE

(a) 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		Consolidated Investment	
	2008 %	2007 %	**2008 $**	2007 $
North West Shelf Exploration Pty Ltd (previously Bonaparte Petroleum Pty Ltd)	100	100	1	1
Methanol Australia Pty Ltd	100	100	1	1
LNG Australia Pty Ltd	100	100	1	1
TSP Arafura Petroleum Pty Ltd	100	100	1	1
Oz-Exoil Pty Ltd	100	100	1	1
Offshore Methanol Pty Ltd	100	100	1	1
Offshore LNG Pty Ltd	100	100	1	1
Gastech Systems Pty Ltd	100	100	2	2
			9	9

North West Shelf Exploration Pty Ltd (formerly Bonaparte Petroleum Pty Ltd) holds a 60% right to an interest in WA-361P, WA-360P and WA-359P.

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

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

TSP Arafura Petroleum Pty Ltd and *Oz-Exoil Pty Ltd* are holders of 45% each in petroleum exploration permit NT/P68. MEO Australia Limited operates the permit. MEO Australia announced in June 2007 that TSP Arafura Petroleum Pty Ltd and Oz-Exoil Pty Ltd had each farmed-out a 5% interest in NT/P68 to Petrofac Resources Limited. The NT/P68 Operating Agreement was signed by all parties on 28 June 2007 and accounting for the respective parties joint venture interests in the Permit commenced post June 2007.

(b) Loans to related parties

MEO Australia Limited has advanced funds in the current financial year totalling $114,477,271 (2007: $14,693,092) to TSP Arafura Petroleum Pty Ltd and Oz-Exoil Pty Ltd to meet their share of exploration commitments in exploration permit NT/P68. As at 30 June 2008 the balance of the loan to TSP Arafura Petroleum Pty Ltd and Oz-Exoil Pty Ltd was $129,624,740. The loans are non interest bearing and repayable at call.

MEO Australia Limited has advanced funds to North West Shelf Exploration Pty Ltd (formerly Bonaparte Petroleum Pty Ltd) in the current financial year totalling $7,218,444 to meet its share of exploration commitments in exploration permits WA-361-P, WA-360-P & WA-359-P. As at 30 June 2008 the balance of the loan to North West Shelf Exploration Pty Ltd was $7,161,147. The loan is non interest bearing and repayable at call.

NOTE 21/ KEY MANAGEMENT PERSONNEL

Directors

W Bisley	Chairman (non-executive)
C R Hart	Managing Director
A J Rigg	Director (non-executive)
N M Heath	Director (non-executive) – appointed 12 May 2008
J M D Willis	Director (non-executive) – resigned 11 July 2008
W J Dewé	Director – resigned 21 February 2008
J A Newton	Director (non-executive) – resigned 28 September 2007

Executive

J Hendrich	Chief Executive Officer – appointed 16 June 2008
C H Naylor	Chief Financial Officer and Company Secretary

Subsequent to 30 June 2008, Mr J Hendrich was appointed to the position of Managing Director and Chief Executive Officer, Mr G A Short was appointed to the Board on 14 July 2008 as a non-executive director and Mr J M D Willis resigned from the Board on 11 July 2008. There were no other changes to the directors and executive after the reporting date and before the date the financial report was authorised for issue.

	Consolidated		Parent	
	2008 $	2007 $	**2008 $**	2007 $
Compensation of key management personnel by category:				
Short term employee benefits	897,861	588,976	897,861	588,976
Post employment benefits	166,224	70,140	166,224	70,140
Share-based payments	237,527	1,174,105	237,527	1,174,105
	1,301,612	1,833,221	1,301,612	1,833,221

Details of compensation of individual key management personnel are set out in the Remuneration Report.

During the year executive and other fees were paid by the Group to entities controlled by directors as follows:-

		Executive and Other Fees Paid		Outstanding at Balance Date	
Directors	**Entity**	**2008 $**	2007 $	**2008 $**	2007 $
J Hendrich	BTN Investments Pty Ltd	250,000	-	250,000	-
W J Dewé	Fourties Pty Ltd	64,650	96,825	-	4,400
C R Hart	PetroEx Pty Ltd	-	343,153	-	103,680
		314,650	439,978	250,000	108,080

Equity instruments of key management personnel issued by MEO Australia Limited

The disclosures relating to interests in equity instruments of key management personnel includes equity instruments held by personally related entities, relatives and the spouses of relatives and any entity under the joint or several control or significant influence of the person. Details of remuneration options and remuneration rights are set out in the Remuneration Report.

All other equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

NOTE 21/ KEY MANAGEMENT PERSONNEL (continued)

30 June 2008	Opening Balance	Granted as Remuneration	Options Exercised	Net Change Other	Closing Balance
Shares held in MEO Australia Limited (number)					
Directors					
W Bisley	1,511,894	-	-	15,898	1,527,792
W J Dewé	1,714,602	225,000	-	(239,029)	*1,700,573
C R Hart	9,720,887	437,500	-	(422,500)	9,735,887
N M Heath**	-	-	-	50,000	50,000
J A Newton	621,779	-	-	6,408	*628,187
A J Rigg	640,125	-	-	(89,550)	550,575
J M D Willis	2,599,725	-	-	(637,123)	*1,962,602
Executives					
J Hendrich	-	-	-	761,000	761,000
Total	16,809,012	662,500	-	(554,896)	16,916,616

* shares held at the time of resignation.

** N M Heath initial interest was 50,000 shares.

Net Change Other during the year ended 30 June 2008 includes purchases of shares on market pursuant to Directors' Share Savings Plan, entitlement under share rights issue and exercise of options associated with the share rights issue, on market trades and other off-market transactions.

	Opening Balance	Received as Remuneration	Options Exercised	Options Sold	Closing Balance
Options (number)					
Directors					
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
J A Newton	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
Executives					
J Hendrich	-	5,300,000	-	-	5,300,000
C H Naylor	400,000	-	-	-	400,000
Total	6,400,000	5,300,000	(1,000,000)	-	10,700,000

At 30 June 2008 all options are vested and exercisable except for the 200,000 options granted to C H Naylor which vest in February 2009 and 5,300,000 options granted to J Hendrich (details are set out below).

NOTE 21/ KEY MANAGEMENT PERSONNEL (continued)

Managing Director and Chief Executive Officer Options

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. The Board of Directors agreed to the granting of share options as the basis for the "At Risk" component of the salary package for Mr 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.
- 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.

30 June 2007	Opening Balance	Received as Remuneration	Options Exercised	Options Sold	Closing Balance
Shares held in MEO Australia Limited (number)					
Directors					
W Bisley	720,200	-	500,000	291,694	1,511,894
W J Dewé	1,167,057	100,000	-	447,545	1,714,602
C R Hart	10,349,929	500,000	-	(1,129,042)	9,720,887
J A Newton	-	-	-	*621,779	621,779
A J Rigg	622,281	-	-	17,844	640,125
J M D Willis	2,049,437	-	500,000	50,288	2,599,725
Executives					
C H Naylor	-	-	-	-	-
Total	14,908,904	600,000	1,000,000	300,108	16,809,012

Net Change Other during the year ended 30 June 2007 includes purchases of shares on market pursuant to Directors' Share Savings Plan, entitlement under share rights issue and exercise of options associated with the share rights issue, on market trades and other off-market transactions.

* J A Newton initial interest was 495,000 shares.

NOTE 21/ KEY MANAGEMENT PERSONNEL (continued)

30 June 2007	Opening Balance	Received as Remuneration	Options Exercised	Options Sold	Closing Balance
Options (number)					
Directors					
W Bisley	1,000,000	1,000,000	(500,000)	(500,000)	1,000,000
W J Dewé	-	1,000,000	-	-	1,000,000
C R Hart	-	1,000,000	-	-	1,000,000
J A Newton	-	1,000,000	-	-	1,000,000
A J Rigg	1,000,000	1,000,000	-	(1,000,000)	1,000,000
J M D Willis	1,000,000	1,000,000	(500,000)	(500,000)	1,000,000
Executives					
C H Naylor	-	400,000	-	-	400,000
Total	3,000,000	6,400,000	(1,000,000)	(2,000,000)	6,400,000

At 30 June 2007 all options are vested and exercisable except for the 400,000 options granted to C H Naylor which vest 50% in February 2008 and 50% in February 2009.

NOTE 22/ SHARE BASED PAYMENT PLANS

Senior Executives and Officers Option Plan

Share options are granted to senior executives and non-executive directors. During the financial year 5,300,000 options (2007: 6,900,000 options) were granted to the Chief Executive Officer, Mr J Hendrich – details are set out below.

	2008 Options	2007 Options
Movements in share options on issue during the year:		
Outstanding at the beginning of the year	6,800,000	4,050,000
Granted during the year	5,300,000	6,900,000
Forfeited during the year	-	-
Exercised during the year	(1,400,000)	(4,150,000)
Outstanding at the end of the year	10,700,000	6,800,000

On 16 June 2008, 5,300,000 share options were granted to the Chief Executive Officer, Mr J Hendrich, details are set out in Note 21. The market value of the Company's shares at date of grant was 58.5 cents.

NOTE 22/ SHARE BASED PAYMENT PLANS (continued)

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 and 28.5 cents for the tranche of $1.20 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:

Expected volatility	95%	Contractual life (years)	4
Risk-free interest rate	6.805%	Dividend yield	0%
Early exercise multiple/estimated life	1.80	Estimated life – 85 cent options	2.8
Estimated life – 120 cent options	3.1		

The total amount expensed in the year relating to these share options was $16,187.

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.

The fair value of the 1,000,000 options granted at an option price of $1.00 at date of grant is estimated to be 30.5 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 (years)	4
Risk-free interest rate	6.805%	Dividend yield	0%
Estimated life – 100 cent options	32		

The total amount expensed in the year relating to these share options was $7,721.

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.

In November 2006, 5,500,000 share options were granted to directors and an executive, exercisable between 10 November 2006 and 30 November 2009 at an exercise price of 50 cents. The market value of the Company's shares at date of grant was 45 cents. The share options vest immediately.

The fair value of the options at date of grant is estimated to be 14.73 cents using a binomial model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	75%	Contractual life (years)	3
Risk-free interest rate	5.9%	Dividend yield	0%
Estimated life – 100 cent options	2		

The total amount expensed in the previous financial year relating to these share options was $810,150.

On 17 January 2007, 1,000,000 share options were granted to a director, exercisable between 17 January 2007 and 30 November 2009 at an exercise price of 50 cents. The market value of the Company's shares at date of grant was 54 cents. The share options vest immediately.

The fair value of the options at date of grant is estimated to be 22.9833 cents using a binomial model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	75%	Contractual life (years)	3
Risk-free interest rate	6.2%	Dividend yield	0%
Early exercise multiple/estimated life	1.9		

The total amount expensed in the previous financial year relating to these share options was $229,833.

NOTE 22/ SHARE BASED PAYMENT PLANS (continued)

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.

In February 2007, 400,000 share options were granted to a senior executive, which vest 50% in February 2008 and 50% in February 2009. The expiry date of the options is 30 November 2009 and the exercise price is 50 cents. The market value of the Company's shares at date of grant was 62 cents.

The fair value of the options at date of grant is estimated to be 32.85 cents for the tranche vesting in February 2008 and 36.16 cents for the tranche vesting in February 2009. The fair value was determined using a binomial model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	82%	Contractual life (years)	3
Risk-free interest rate	6.1%	Dividend yield	0%
Estimated life – Tranche 1	2.1	Estimated life – Tranche 2	2.6

The total amount expensed in the year relating to these share options was $74,489 (2007: $42,445).

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.

Performance conditions include non market criteria being achievement of operational milestones in the development of the TSMP Methanol project and the TSLNG LNG project and NT/P68 and market criteria, being an increase in the Company's share price. Shares acquired on satisfaction of performance criteria may be subject to vesting periods based on cumulative vesting timetables for each holder of performance rights.

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.

	2008 Rights	2007 Rights
Movements in performance rights on issue during the year:		
Outstanding at the beginning of the year	3,695,000	4,200,000
Granted during the year	625,000	1,220,000
Vested during the year	(570,000)	(887,500)
Expired during the year	(1,575,000)	(837,500)
Unvested outstanding at the end of the year	2,175,000	3,695,000

Rights outstanding at the end of the year are exercisable upon meeting performance conditions until:

31 December 2010 for 350,000 rights

31 March 2010 for 250,000 rights

30 June 2009 for 1,400,000 rights

30 September 2008 for 175,000 rights

NOTE 22/ SHARE BASED PAYMENT PLANS (continued)

In February 2008, 250,000 performance rights with market criteria were granted. The fair value of 250,000 performance rights with market criteria granted is estimated using a Barrier Option pricing model taking into account the terms and conditions upon which the rights were granted and using the following inputs:

Dividend yield	0%	Expected life of right	Exercised as soon as vested
Expected volatility	73%	Share price at grant date	27 cents
Risk-free interest rate	6.23%	Expiry date	31 March 2010

The fair value of the rights at grant date was 7.39 cents per right. There was no amount expensed as the retirement of the managing director has resulted in a zero probability of this performance right being achieved.

In September 2007, 25,000 performance rights were granted to C R Hart upon attainment of the performance condition relating to Acceptance by the Designated Authority of the information leading to the grant of Infrastructure Licence NT/ISL1 recognising that the grant may not occur until the grant of a Production Licence. There was no amount expensed as the retirement of the managing director has resulted in a zero probability of this performance right being achieved.

In September 2007, 225,000 performance rights were granted to Mr W J Dewé upon attainment of the performance condition relating to obtaining a commitment to construct the methanol plant with MEO retaining at least a 20% interest in the project. There is no amount expensed as Mr Dewé resigned from the Board in February 2008 and all performance rights lapsed.

In February 2007, 545,000 performance rights with market criteria were granted. The fair value of 545,000 performance rights is estimated using a binomial option pricing model taking into account the terms and conditions upon which the rights were granted and using the following inputs:

Dividend yield	0%	Expected life of right	Exercised as soon as vested
Expected volatility	82%	Share price at grant date	71 cents
Risk-free interest rate	6.0%	Expiry date	31 March 2009

The fair value of the rights granted amounted to 58.31 cents per right. The total amount expensed in the year relating to these share rights was $184,318 (2007: $133,472). The criteria for these performance rights were achieved during this financial year

During financial year a total of 125,000 performance rights with non-market criteria relating to the drilling program in NT/P68 were granted to contractors making a total of 200,000 performance rights issued to contractors. The fair value of 125,000 performance rights was estimated based on the market value of the services to be provided. At 30 June 2008, 25,000 of these rights had vested.

NOTE 23/ AUDITORS' REMUNERATION

	Consolidated		Parent	
	2008 $	2007 $	**2008 $**	2007 $
Amounts received or due and receivable by the auditor for:				
Audit or review of the financial reports	96,614	60,000	96,614	60,000
Non-audit services:				
Tax compliance	-	6,125	-	6,125
	96,614	66,125	96,614	66,125

NOTE 24/ INTERESTS IN JOINTLY CONTROLLED ASSETS

MEO Australia, thorough its wholly-owned subsidiaries, TSP Arafura Petroleum Pty Ltd and Oz-Exoil Pty Ltd, holds a 90% interest in the NT/P68 Joint Venture. The principle activity of the joint venture is the exploration, development and production of hydrocarbons. MEO, through the same wholly owned subsidiaries, has a 100% interest in the area covered by the sole risk (100% MEO interest) drilling of the Blackwood-1 well.

MEO Australia, thorough its wholly-owned subsidiary - North West Shelf Exploration Pty Ltd, holds a 60% interest in WA-361-P, WA-360-P and WA-359-P. 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 19 to the accounts.

Contingent liabilities

As at 30 June 2008, there are no contingent liabilities relating to NT/P68 joint venture or WA-361-P, WA-360-P and WA 359-P joint ventures.

NOTE 25/ EVENTS AFTER BALANCE DATE

Major Strategic Alliance

On 3 July 2008 the Company announced a major strategic alliance with Resource Development International Ltd (“RDI”) which involves a staged funding approach for each of MEO’s project areas subject to various conditions precedent including a successful Initial Public Offering (IPO) of RDI shares later in 2008. As part of the alliance, Mineralogy Pty Ltd acquired 21.391 million shares at $0.55. MEO has further granted to Mineralogy 14.498 million options to subscribe for ordinary shares in MEO at an exercise price of $0.65 on or before 30 September 2008 and also granted 2.0 million options for ordinary shares in MEO at an exercise price of $0.55 and expiry date of 30 June 2009.

RDI is earning a 35% interest in WA-361-P by funding 80% of the forthcoming Zeus-1 well to a capped well cost of US$31.25m. Costs above this cap are shared on a pro-rata basis between RDI and MEO in proportion to their respective interests in the permit. MEO will fund the balance of the well cost (20% until the cap) to retain a 35% interest.

Upon successfully completing its IPO in 2008, RDI will fund 100% of one additional exploration well in WA-361-P in the event Zeus-1 is a dry hole. In the event that Zeus-1 is a success, RDI will fund MEO’ share of costs in relation to two additional appraisal wells.

MEO has granted RDI a similar option over the two adjoining North West Shelf permits – WA-360-P and WA-359-P in which MEO has earned a 60% interest. RDI has until 1 December 2008 to elect whether to commit to funding 80% of the costs of an exploration well in either or both permits and MEO’s share of two appraisal wells in the event of a successful exploration well.

In MEO’s Timor Sea interests, RDI has until the earlier of 14 days of the closing of its IPO or 31 December 2008 to elect whether to undertake the first stage of a farm-in to the NT/P68 exploration permit and the associated GTL projects. RDI can earn a 25% interest by funding 100% of MEO’s share of two appraisal wells Heron-3 and Blackwood-2. Thereafter, RDI has 180 days to determine whether to commit to stage two which involves funding 100% of MEO’s share of two further wells to earn an additional 25% interest. The third stage involves the election to fund MEO’s share of any further appraisal drilling costs required to achieve 3rd party reserves certification sufficient to underpin one or more of the Gas-to-Liquids projects. In the success case, MEO will be left with a fully funded 20% interest in NT/P68 and the GTL projects without having to contribute any further equity capital.

General Meeting of Shareholders – Approval Received for Granting of Director Options

On 21 August 2008, a general meeting of shareholders of MEO Australia passed a resolution to grant Mr Nicholas Heath, Mr Jürgen Hendrich and Mr Gregory Short each 1,000,000 30 November 2009 50 cent share options. For the terms and conditions of these options, please refer to the 2008 Remuneration Report. Shareholders also approved the appointment of Mr Greg Short and Mr Nick Heath to the Board of Directors and ratified the issue of 21,391,000 shares to Mineralogy Pty Ltd.

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 report 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 2008 and of their performance for the year ended on that date; and

   (ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) the audited remuneration disclosures set out in the Directors' Report comply with Accounting Standard AASB124 Related Party Disclosures and the Corporations Regulations 2001.

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 period ended 30 June 2008.

On behalf of the Board

J HENDRICH

Managing Director & Chief Executive Officer
Melbourne, 23 September 2008

Ernst & Young

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Independent Auditor's Report to the Members of MEO Australia Limited

Report on the Financial Report

We have audited the accompanying financial report MEO Australia Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement 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.

ERNST & YOUNG

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 financial position of MEO Australia Limited and the consolidated entity at 30 June 2008 and of their 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 pages 17 to 25 of the directors' report for the year ended 30 June 2008. 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 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Brett Croft
Partner
Melbourne
23 September 2008

Shareholder and Other Information

Compiled as at 30 September 2008

SUBSTANTIAL SHAREHOLDERS

As disclosed in notices given to the Company.

Name of Substantial Shareholder	Interest in Number of Shares *Beneficial and non-beneficial*	% of Shares
Xtract International (Cambrian Oil and Gas PLC)	59,147,814	14.17%
Lehman Brothers Inc	24,506,763	5.87%
Mineralogy Pty Ltd	21,986,715	5.27%

VOTING RIGHTS

At meetings of members or classes of members:

(a) each member entitled to vote may vote in person or by proxy, attorney or representative;

(b) on a show of hands, every person present who is a member or a proxy, attorney or representative of a member has one vote; and

(c) on a poll, every person present who is a member or a proxy, attorney or representative of a member has:

  (i) for each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, one vote for the share;

  (ii) for each partly paid share, only the fraction of one vote which the\ amount paid (not credited) on the share bears to the total amounts paid and payable on the share (excluding amounts credited), subject to any rights or restrictions attached to any shares or class or classes of shares.

DISTRIBUTION OF ORDINARY SHARES

Numbers of share holders by size of holding and the total number of shares on issue:

Ordinary Shares	No. of Holders	No. of Shares
1 – 1,000	663	300,661
1,001 – 5,000	1,711	5,481,424
5,001 – 10,000	1,617	12,859,602
10,001 – 100,000	3,048	103,198,242
100,001 and over	386	295,482,641
TOTAL ON ISSUE	**7,425**	**417,322,570**

1,230 holders holding 1,285,204 shares held less than a marketable parcel of ordinary shares.
There is no current on-market buy-back.

THE 20 LARGEST HOLDERS OF ORDINARY SHARES

Holder	Ordinary Shares	% of total on issue
Xtract International (Cambrian Oil & Gas PLC)	59,147,814	14.17%
Citicorp Nominees Pty Limited	24,506,763	5.87%
Mineralogy Pty Ltd	21,986,715	5.27%
HSBC Custody Nominees (Australia) Limited	17,560,801	4.21%
Pan Australian Nominees Pty Ltd	11,394,395	2.73%
Doravale Enterprises Pty Ltd	10,122,918	2.43%
National Nominees Limited	7,562,338	1.81%
E & P Investments Australia Pty Ltd	7,194,308	1.72%
J P Morgan Nominees Australia Limited	6,483,609	1.55%
Aurisch Investments Pty Ltd	5,550,000	1.33%
ANZ Nominees Pty Limited	4,064,575	0.97%
Nelson River International Pty Ltd	3,317,437	0.80%
John Ernest Lynch	2,920,000	0.70%
HSBC Custody Nominees (Australia) Limited – A/C 3	2,759,824	0.66%
Bainpro Nominees Pty Limited	2,002,500	0.48%
O'Mara Management Pty Ltd	2,000,000	0.48%
Colin Charles Mackinnon	1,700,000	0.41%
Stebur Investments Pty Ltd	1,685,000	0.40%
Fitel Nominees Limited	1,649,704	0.40%
Christopher Robert Hart	1,634,050	0.39%

The 20 largest shareholders hold 195,242,751 shares representing 46.78% of the shares on issue.

Corporate Governance

This statement reviews the Company's corporate governance practices against the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations. As at 30 June 2008, the Company was in substantial compliance with the ten corporate governance principles established by the ASX Corporate Governance Council.

Specific instances where the Company had, during the year, followed alternative corporate governance practices, and details of current practices, are set out below. Further information on the Company's corporate governance practices and policies is contained in the Corporate Governance section of the Company's website.

Principle 1: Lay solid foundations for management and oversight

The Board's primary role is the stewardship of shareholders' funds with the objective of creating long term shareholder value. In fulfilling this role, the Board accepts overall responsibility for corporate governance.

The Board has adopted a Board charter which outlines a framework for its operation and of those functions delegated to management. The charter is posted on the Company's website. The Board formally reviews all corporate governance policies and guidelines once a year to ensure they remain appropriate and relevant to the governance of the company's activities.

Principle 2: Structure the board to add value

Board composition

At the date of this report, the Board comprises 6 directors, 1 of whom is an executive director:

Mr J Hendrich - Managing Director (from 25 July 2008) & Chief Executive Officer (from 16 June 2008)

The independent non-executive directors are:

Mr W Bisley - Chairman

Mr C R Hart – previously Managing Director to 25 July 2008

Mr A J Rigg

Mr G A Short

Mr N M Heath

The Directors' Report sets out the attendance of directors at meetings of the Board and its committees during the year, and the skills, expertise and term of appointment of each Board member.

Two committees assist the Board to discharge its responsibilities, the Audit Committee, details of which are set under Principle 4, and the Remuneration and Nomination Committee, details of which are set out below. The committees' membership consists of non-executive (independent) or executive directors with the appropriate skills for the responsibilities of the committees, as set out in the Director's Report.

The procedure for directors to seek independent professional advice, at the Company's expense, to assist them to fulfil their obligations is administered by the Chairman.

Independence

The Board has an assessment procedure to establish the independence of directors and has determined that during the year all non-executive directors were independent.

The staff resources available to the Board are limited at the present stage of the Company's development. Accordingly, the Board has determined that the specific skills of Board members may be called upon to assist management.

Chairman of the board

On 1 July 2005, Mr W Bisley, an independent non-executive director, was appointed Chairman.

Remuneration and nomination committee

The Board has adopted a charter for the role and responsibilities of the Remuneration and Nomination Committee, which is posted on the Company's website. The committee comprised 2 non-executive and independent directors for the year with a third non-executive director for part of the year:

Mr J M D Willis – Chairman (full year, resigned 11 July 2008)

Mr W Bisley

Mr J A Newton (part year, resigned 28 September 2007)

Health, safety and environment

The Board has approved the establishment of a management committee to undertake responsibility for health, safety and environment activities. The establishment of the management committee acknowledges the increased exploration activity in the year with seismic acquisition and exploration/appraisal drilling. The Board receives monthly reports from the Managing Director on health, safety and environment activities.

The Board will adopt as required, project and activity specific Safety, Health and Environment Policies and related procedures and ensure compliance with these policies.

Principle 3: Promote ethical and responsible decision-making

The corporate goal of the Company is to build an energy business providing lasting growth in shareholder value while at the same time maintaining a reputation for integrity and fairness. The Company has posted on its website:

- A Code of Conduct that clarifies the standards of ethical behaviour required of directors, officers and employees, and
- A Trading Policy that affirms the position of the Company concerning the trading by directors and employees in Company securities.

Principle 4: Safeguard integrity in financial reporting

Audit Committee

The Board has established an Audit Committee. The charter for the role and responsibilities of the Committee is posted on the Company's website.

During the year the Audit Committee comprised 1 executive director and 1 non-executive and independent director — the number of meetings attended by members is set out in the Directors' Report:

Mr A J Rigg - Chairman

Mr W J Dewé (part year, resigned 21 February 2008)

Mr N M Heath - appointed to Audit Committee post 30 June 2008

While the Committee does not include a member with an accounting or financial background, both members have, over many years, held senior management and corporate positions, including public company board positions.

Principle 5: Make timely and balanced disclosure

The Company has established policies and procedures designed to ensure compliance with the ASX Listing Rule requirements such that:

- all investors have equal and timely access to material information concerning the Company, including its financial position, performance, ownership and governance; and
- Company announcements are factual and presented in a clear and balanced way.

During the year the Chairman, Managing Director and Company Secretary authorised all disclosures necessary for compliance with ASX Listing Rule disclosure requirements.

Principle 6: Respect the rights of shareholders

The Company has established a process for communicating with shareholders:

- using the Company's website to promote and to facilitate shareholder communications;
- ensuring shareholder participation in meetings by use of Corporate Governance Council guidelines for meetings and notices, and placing all shareholder related information and Company ASX announcements promptly onto the website in an accessible manner;
- encouraging shareholders at annual and other general meetings to ask questions of the directors regarding the Company's governance and business, and of the auditor regarding the conduct of the audit and the contents of the audit report.

Principle 7: Recognise and manage risk

The Board is responsible for overseeing the effectiveness of risk management systems. The Board has adopted the enterprise risk management - integrated framework from the Committee of Sponsoring Organisations of the Treadway Commission (COSO) which is widely recognised as the global standard on enterprise risk management.

The Company's activities are currently centred on progressing the commercialisation of its upstream assets and advancement of its projects to the financial commitment stage, processes, which for the Company have both uncertainty and moderate to high risk. Existing policies and procedures are appropriate for the business at this stage of its development. At each major milestone of these processes, specific risk oversight and management policies will be developed consistent with activities at that time.

The systems of internal financial control have been determined by the Board as adequate to provide appropriate, but not absolute, protection against fraud, material misstatement or loss.

Principle 8: Encourage enhanced performance

The size of the Company and the restricted resources available to the Board has meant that the development of formal processes of performance evaluation has not been yet been fully completed, however formal performance reviews are carried out of the CEO, Board and Board committees, at least once per year.

Principle 9: Remunerate fairly and responsibly

The Remuneration and Nomination Committee reviews the remuneration packages of all directors and executive officers on an annual basis and makes recommendations to the Board. Particulars of remuneration of the directors during the year and the Company's employee option and incentive plans are set out in the Remuneration Report.

Principle 10: Recognise the legitimate interests of stakeholders

The Company has established a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders in the Company. The code of conduct gives guidance to the directors and other key executives about:

- the practices necessary to maintain confidence in the integrity of the Company; and
- the right of employees to alert management and the Board, in good faith, to potential misconduct without fear of retribution, and, where necessary, the recording and investigation of such alerts

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