



**MEO Australia Limited**

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**REPORT ON ACTIVITIES**  
**FOR THE QUARTER ENDED**  
**30 JUNE 2007**

**COMPANY'S ACTIVITIES DURING THE QUARTER**

During the quarter, the Company farmed out a 10% interest in the Company's Exploration Permit, NT/P68 to Petrofac Limited. Petrofac will meet 25% of the well costs associated with the 2007 appraisal drilling program to earn a 10% interest and has an option to increase this farm-in interest to 15% by funding 37.5% of the well costs.

The Company received pre-stack depth migrated (PSDM) volumes from the seismic processing contractors for the 2006 2D and 3D seismic data and further interpretation/ mapping was undertaken to better delineate the prospects and confirm optimum well locations for the 2007 drilling campaign.

The Company commissioned and managed a LNG load-out optimisation study to improve operational availability and reduce costs. A cost review for the utilities section of the proposed methanol plant on Tassie Shoal was also initiated.

The Company completed a number of capital raising activities during the quarter. 52,635,177 April 30, 2007 25 cent options were exercised raising approximately \$13.2 million. In early June, 2007, the Company made a placement of 41.25 million shares at A\$1.00 per share to Australian and European professional and sophisticated investors raising approximately \$39.2 million in net funds. At the same time as the placement, the Company initiated a Share Purchase Plan (SPP) where Australian and New Zealand Shareholders on MEO's register at the Record date of June 13, 2007 could apply for up to 5000 shares at A\$1.00 per share. To the end of the quarter, \$7,852,000 in SPP application funds had been received.

**PETROLEUM EXPLORATION PERMIT NT/P68 (MEO 90%)**

NT/P68 is a 12,070 square km petroleum exploration permit located in the Australian waters of the Timor Sea immediately to the west of Tassie Shoal (25 km) and approximately 200 km northwest of Darwin. The Company believes that the permit offers considerable scope for the confirmation and discovery of commercial gas accumulations that may support the future gas demands of the TSMP and the TSLNGP.

Epenarra, along with the other identified prospects in the permit, Heron North, Heron South, Blackwood and Seahawk, collectively, are estimated to have a potential mean gas in place resource that could exceed 14 Tcf. The Epenarra and the deeper Heron structures were intersected by the Heron-1 well drilled by Arco in 1972.

3D seismic data was acquired in late 2006 to improve structural mapping and identify the density, distribution and orientation of faults and fracturing within the 50m gas bearing zone of Epenarra intersected by the Heron-1 well to determine the optimum location for appraisal wells and production testing.

Fugro Jason Australia was engaged to conduct reservoir characterization studies of Epenarra utilizing Heron-1 well data and the new 3D seismic. The study demonstrated that areas of low impedance were likely to correlate with better reservoir quality. Additionally, the study identified zones of increased fracture density and the orientation of the open fracture sets. Fugro integrated all available data into a single model through a pre-stack inversion process to enhance understanding of the Epenarra gas bearing reservoir within the Darwin Formation so that zones of increased porosity/permeability and fracturing could be identified, with sweet spots targeted by the planned drilling program. This model was used to confirm the optimum location for the appraisal wells, to be drilled later in the year.

Fugro Surveys Pty Ltd has recently completed a survey in NT/P68 acquiring geophysical data (bathymetry, side scan sonar and shallow seismic) over each of the identified well locations. Fugro will also undertake a shallow coring program in August to sample the subsoil at each well location. The wells are located in seawater depths between 35 and 70 metres. The surveys are required when using a jack-up drilling rig to confirm the seafloor stability and confirm that the jack-up rig legs will not penetrate excessively into the seafloor while operating.

New 2D seismic data was also acquired in 2006 as infill data to better define the Blackwood prospect. The new 2D data has been fully processed to PSDM with interpretation and mapping well underway. Final mapping of Blackwood is expected to confirm the optimum well location to test the Blackwood structure.

The Company previously advised that CSIRO Petroleum was engaged to conduct hydrocarbon inclusion and Raman Laser microprobe testing on cutting and core samples obtained through the gas charged zones identified in the Heron-1 well. The first stage of the study focused on the gas charged zone within the Darwin Formation (Epenarra) and confirmed that the hydrocarbon inventory in Epenarra would most likely have a high condensate gas ratio (CGR) (~100bbls/MMscf) and contain low levels of CO<sub>2</sub> (1 to 3%), a gas quality regarded as suitable for LNG conversion.

The second stage of the study reviewed the bottom hole core and cutting samples where the deeper Top Elang/Plover Formation sandstones were also gas charged. Hydrocarbon inclusion and Raman Laser microprobe testing on these deeper samples indicated that the initial charge into the Elang-Plover system was a wet gas which also contained magmatic CO<sub>2</sub>. Progressive burial of the reservoir and increasing temperatures appears to have thermally “cracked” the longer chain hydrocarbons, producing a dry, methane-rich (low CGR) gas. This dry gas contains less than 30% CO<sub>2</sub>, with a value between 15-25% appearing likely, which would be suitable for methanol production.

As previously advised, the Company secured a new jack-up rig to drill up to three wells in NT/P68. The West Atlas is expected to arrive in September 2007, with a nominal spud date for the Heron-2 well of October 4, 2007. The Company has secured the necessary well casing, wellhead equipment and third party services for the drilling program and is well advanced with detailed well design and engineering.

The 3 Mtpa LNG plant requires approximately 3 Tcf of gas to operate for 20 years. The methanol production project would utilize the poorer quality (high CO<sub>2</sub>) gas that is likely to be confirmed in the deeper Elang/Plover Formations. The first methanol plant requires approximately 1.3 Tcf of gas to operate for 20 years.

### **TIMOR SEA LNG PROJECT (MEO 90%)**

The proposed Timor Sea LNG Project (TSLNGP) has been designed to be located in the shallow waters of Tassie Shoal. The TSLNGP received its Commonwealth environmental approval to construct, install and operate adjacent to the TSMP on May 5, 2004. The methanol and LNG projects will be able to share infrastructure, logistic support systems and benefit from significant production process advantages. As part of the NT/P68 farm-in agreement, Petrofac Limited has the right to take a 10% participating interest in the TSLNGP, reducing the MEO interest to 90%.

Torp Technology has been engaged to design a dedicated loading system for Tassie Shoal facilities based on the Torp HiLoad LNG technology. The preliminary results of the study are currently being reviewed by the Company. This technology utilizes flexible LNG hoses that have recently been fully certified for commercial use. The loading system would significantly improve loading availability and avoid the higher operating costs associated with jetty docking and tug boat assistance.


In targeting the rapidly expanding markets in northeast Asia, the LNG project could provide a highly competitive LNG supply option to the buyers with clear shipping time and sovereign risk advantages. The world LNG market continues to demonstrate strong demand, particularly from Northeast Asia, Europe and the USA.

### **TASSIE SHOAL METHANOL PROJECT (MEO 50%)**

The Company and Air Products and Chemicals, Inc. (APCI) continue to develop the Tassie Shoal Methanol Project (TSMP) under the terms of the joint development agreement (JDA). As part of the NT/P68 farm-in agreement, Petrofac Limited has the right to take a 10% participating interest in the TSMP, reducing the APCI interest to 40%.

The project proposes to construct two large natural gas reforming and methanol production plants on concrete gravity structures in southeast Asia, tow these plants to Tassie Shoal in the Australian waters of the Timor Sea and ground the structures in the shallow waters of the shoal for operation.

The Company continues to focus on the resolution of gas supply arrangements to allow the projects to proceed to front-end engineering and design (FEED) studies and EPC selection. While discussions continue for third party gas supply, at this time, the Company is focusing on the establishment of commercial gas reserves in its own permit, NT/P68.



**Christopher Hart**  
Managing Director  
Melbourne, Australia  
July 30, 2007

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

MEO AUSTRALIA LIMITED

ABN

43 066 447 952

Quarter ended ("current quarter")

30 June 2007

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration and evaluation	(2,963)	(14,742)
(b) development	(121)	(518)
(c) production		
(d) administration	(514)	(1,498)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	356	701
1.5 Interest and other costs of finance paid		(3)
1.6 Income taxes paid		(12)
1.7 Other expense recoveries	6	134
<b>Net Operating Cash Flows</b>	<b>(3,236)</b>	<b>(15,938)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a)prospects		
(b)equity investments		
(c)other fixed assets	(116)	(171)
1.9 Proceeds from sale of: (a)prospects		
(b)equity investments		
(c)other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
<b>Net investing cash flows</b>	<b>(116)</b>	<b>(171)</b>
1.13 Total operating and investing cash flows (carried forward)	(3,352)	(16,109)

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	53,866	80,221
	Proceeds from Share Purchase Plan received prior to allotment	7,852	7,852
1.15	Purchase of shares on market in settlement of vested performance rights		(321)
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other – share issue costs	(980)	(2,269)
	<b>Net financing cash flows</b>	<b>60,738</b>	<b>85,483</b>
<b>Net increase (decrease) in cash held</b>		<b>57,386</b>	<b>69,374</b>
1.20	Cash at beginning of quarter/year to date	14,249	2,454
1.21	Exchange rate adjustments to item 1.20	(772)	(965)
1.22	<b>Cash at end of quarter</b>	<b>70,863</b>	<b>70,863</b>

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	131
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	15,000
4.2 Development	250
<b>Total</b>	<b>15,250</b>

### Estimated cash inflows for next quarter

Share Purchase Plan	<b>11,500</b>
<b>Total</b>	<b>11,500</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,661	965
5.2 Deposits at call	69,202	13,284
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter</b> (item 1.22)	<b>70,863</b>	<b>14,249</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	316,291,570	316,291,570		
7.4 Changes during quarter (a) Increases through issues 50,266,911 41,250,000 100,000 (b) Decreases through returns of capital, buy-backs				
		50,266,911 41,250,000 100,000	25 100 50	25 100 50
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>				
7.8 Issued during quarter				
7.9 Exercised during quarter	50,266,911	50,266,911	25	25
7.10 Expired during quarter	71,111	71,111		
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: July 30, 2007  
Company Secretary

Print name: Colin H Naylor

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Cash Flow Statement* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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