



MEO Australia Limited
ABN 43 066 447 952

Level 20
500 Collins Street
Melbourne Victoria 3000 Australia

Tel: +61 3 8625 6000
Fax: +61 3 9614 0660
Email: admin@meoaustralia.com.au
Website: www.meoaustralia.com.au

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Chairman's letter to Shareholders

MEO Directors recommend you **REJECT** Revised Mosman Proposal

Dear Shareholder,

For some time your board has been considering strategic options for the company, with the objective of growing value for MEO shareholders by building a well-capitalised junior exploration and production company able to pursue MEO's existing as well as new opportunities.

As you would be aware, on 5 November 2014, MEO Australia Limited (**MEO**) announced a proposed merger of equals and entered into a merger implementation agreement (**MIA**) with Neon Energy Limited (**Neon**). The proposed merger was a good fit with MEO's strategic objectives for a corporate transaction.

Unfortunately, subsequent to MEO lodging the Scheme Booklet on 19 December 2014, Neon announced that its Board had resolved to recommend an alternative proposal. Accordingly, Neon terminated the merger implementation agreement with MEO and paid MEO a reimbursement fee of A\$400,000 (plus GST).

On 11 December 2014, MEO received a notice from Mosman Oil and Gas Limited (**Mosman**), indicating that Mosman intends to make an unsolicited off-market takeover offer to acquire 100% of outstanding MEO shares (**Mosman Proposal**) on the basis of one AIM-listed Mosman share for every 20 MEO shares on issue.

The MEO Directors responded to the Mosman Proposal, noting that they were concerned about a number of aspects of the highly conditional proposal, including the cash resources of Mosman and the low implied value of the Mosman Proposal.

On 19 January 2015, MEO received a revised notice from Mosman, indicating that Mosman intended to vary its offer to one AIM-listed Mosman share for every 10 MEO shares on issue (**Mosman Revised Proposal**).

On 28 January 2015, the MEO Directors received the Mosman bidder's statement, which includes details of the Mosman Revised Proposal.

Based on information to date, MEO shareholders are advised to REJECT the Mosman Revised Proposal and take NO ACTION in relation to the Mosman Revised Proposal or any document received from Mosman

In forming this view, the MEO Directors have considered matters including those set out on the next page.

Reasons to **REJECT** the Mosman Revised Proposal:

- **(Limited capital):** The Mosman Revised Proposal does not address the most important strategic aspect of any merger or takeover from MEO's perspective - substantially improving access to funding to support MEO's exploration projects and business development opportunities.

Mosman states in its bidder's statement that it has cash reserves of only approximately A\$2.26 million, which Mosman considers only sufficient for its estimated operational and expenditure requirements for 2015 and estimated corporate and administration expenses to 30 September 2015. The condensed notes to Mosman's financial statements for the half-year ended 31 December 2014 (released by Mosman 27 January 2015, being the day before the date of its bidder's statement) note that, should Mosman be unable to obtain sufficient further funding, Mosman may be unable to continue as a going concern. Mosman notes it is evaluating other potential acquisitions for which it may not be able to secure funding.

- **(Heavy discount to MEO trading price)** The Mosman Revised Proposal does not offer any premium to MEO shareholders. Instead, it represents a material discount of approximately 42.4% to the last traded price of MEO shares on 28 January 2015¹.
- **(Dilution):** Mosman also intends to raise additional equity during the offer for operational and expenditure requirements. There is a significant risk Mosman will not be able to raise capital and there is no information as to how dilutive these raisings might be to MEO shareholders. MEO shareholders can have no idea what percentage of Mosman they will own at the conclusion of the Mosman Revised Proposal, should they choose to accept the offer.
- **(Highly conditional):** The Mosman Revised Proposal is highly conditional, being subject to, among other conditions, approval of Mosman's shareholders (for which Mosman has not yet scheduled any meeting, and which Mosman does not intend to seek until it is clear such approval will be required by the Aim Rules) and 90% minimum acceptance by MEO shareholders. MEO shareholders that accept Mosman's offer under the Mosman Revised Proposal will be unable to revoke their acceptances (except in limited circumstances).

The MEO Directors will provide further information regarding their recommendation in respect of the Mosman Revised Proposal in MEO's target statement which is currently expected to be dispatched to MEO shareholders on or before 25 February 2015. The MEO Directors believe consolidation among emerging E&P companies is long overdue and a strategic merger for MEO to form a well capitalised junior E&P company continues to make sense. However any merger must be subject to delivering an appropriate outcome for MEO shareholders.

The MEO Directors will keep MEO shareholders fully informed of further developments as they occur.

Yours sincerely,



Greg Short
Chairman (on behalf of MEO's Board of Directors)

¹ Based on the last traded price of MEO shares of 1.5 cents, the last traded price of Mosman shares of 4.5 pence and a AUDGBP exchange rate of 0.5212 as at 28 January 2015