



## MEO Australia Limited

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18<sup>th</sup> March, 2013

Dear Shareholders,

The last quarter of 2012 was a very disappointing time for MEO shareholders, the Board, management and staff. The lack of commercial success from our drilling campaign was compounded by MEO funding 100% of the Gurame SE-1X well, offshore North Sumatra.

With this in mind, the Board of Directors initiated a strategic review including a critical examination of the business model, business processes and investment policy underpinning MEO's activities.

The purpose of this correspondence is to share the findings of this review with you as owners of the company and to advise of the changes being implemented.

The Board's vision for your company remains for MEO to grow into a high quality energy company capable of delivering sustainable top quartile shareholder returns through the acquisition of attractive upstream oil and gas growth opportunities and the application of innovative commercialisation strategies, primarily in the Australia/ Asia-Pacific region.

The strategic review identified two main weaknesses:

1. MEO's business risk management systems and investment decision processes need to be strengthened in light of its rapid expansion both in Australia and South East Asia between late 2010 through early 2012. The attraction of drilling on a prospect within a known hydrocarbon system and close to market were factors that supported the Company's investment in, and business plan for, the Seruway PSC in Indonesia which led to MEO committing to and drilling the Gurame SE-1X well at 100%. The range and nature of the project's risks were insufficiently appreciated. With the clarity of hindsight and critical introspection, the decision to fund the Gurame SE-1X well on a 100% basis was regrettable.
2. In an effort to provide shareholders with a greater exposure to potential value creation through drilling, MEO dramatically increased its acreage portfolio and became increasingly reliant on partial sales and near term drilling success to replenish invested capital. MEO had previously achieved some outstanding exploration partial sales, notably WA-361-P in 2008, WA-360-P in 2010 and NT/P68 in 2011. While the larger portfolio provided greater opportunities, the increased upfront investment and ongoing costs associated with managing and developing the larger portfolio increased the capital required to sustain the portfolio.

The strategic review also affirmed that MEO has a number of key strengths:

1. A regionally focussed portfolio of appraisal and exploration projects providing both risk diversification and the potential for significant hydrocarbon resources. The quality of the projects in MEO's portfolio was recently highlighted by Eni's decision to commit to drilling a well in the Blackwood area of NT/P68, carrying MEO's 50% interest.
2. The Tassie Shoal projects which offer a unique opportunity to create value in an area where a new phase of appraisal drilling this year by a number of Joint Ventures is likely to mature a number of regional gas resources seeking an attractive commercial development path. The Tassie Shoal projects are well positioned to provide an attractive pathway towards development of resources following this phase of resource definition.
3. A talented geoscience team, particularly skilled at New Venture identification and capture. No geoscience team can ever *guarantee* exploration success. In an industry where the historical drilling success rate is between 10 – 20%, thorough and highly skilled technical work coupled with a healthy dose of good fortune is required to deliver commercial success. We have recruited highly skilled, experienced technical professionals together with enthusiastic, talented younger professionals to lead our technical efforts. Our aim is to capture the best available opportunities at a sensible price where we believe we can add value.
4. Commercial skills to complement the geoscience team as evidenced by the calibre and value of previously completed transactions.

Having considered the findings and recommendations of the strategic review, the Board of Directors has adopted the following measures to enable the value in the Company's portfolio to be realised for shareholders.

1. Increase emphasis on the need to reduce upfront and early exploration costs.
2. Minimise exposure to exploration drilling costs borne by MEO.
3. Strengthen MEO's balance sheet through an orderly sale of interests in projects.
4. Expand the role of the Audit Committee to an *Audit and Risk Committee* of the Board. The terms of reference of this Committee have been expanded to include both Enterprise and specific project risks to the Company.
5. Establish an executive level Investment Committee, to be chaired by the Chief Financial Officer, to ensure consistent and robust assessment, and to review and challenge the risk-reward characteristics and strategic fit of all investment opportunities.

The Board of Directors believes that the adoption of these measures, coupled with the existing strengths of the Company, will enable significant value to be realised for shareholders.

The strategy for delivering that value for shareholders includes:

1. Tassie Shoal Projects: MEO will endeavour to secure a strategic investment partner into the projects and seek to acquire sources of gas supply to underpin development of the first of these projects. This will realise tangible value in the project and enable the project to proceed to detailed engineering and design.
2. Existing Upstream Projects: MEO will continue to progress the existing projects and seek to test the prospectivity at minimum cost to MEO shareholders. The high equity MEO has in all of its projects and the significant investment in 3D seismic data acquisition during 2011 and 2012 is starting to bear fruit. During the course of 2013 MEO will offer several projects in its portfolio for partial sale, with the dual objective of recovering its invested capital and achieving a financial carry through future drilling activities. Building a portfolio of carried drilling opportunities increases the probability of MEO delivering a commercial project.
3. New Upstream Projects: MEO is seeking to participate in at least two high quality drilling opportunities each year. To sustain this objective, MEO will continue to pursue quality exploration opportunities predominantly in the Australia / South East Asia region where the Company considers it can add value through a moderate exposure of shareholders' funds.

I trust that this letter provides greater clarity regarding our plans for your Company. The Board considers MEO's portfolio of projects to have tremendous potential value and that the MEO team has the enthusiasm and capability to unlock this potential value for shareholders.



Nicholas Heath  
Chairman