Meridian Petroleum plc

Interim Report & Financial Statements 2009

Chairman's Statement

During the first half of 2009, Meridian Petroleum continued its three-pronged strategy to develop the business – investment in exploration in Australia: sustaining production and undertaking development drilling in the USA; and the pursuit of acquisition opportunities in North America and Europe.

Expenditure on exploration activity, funded from the Company's cash reserves, was US$3 million, a significant increase on previous years. The majority of this was invested in the 3D seismic survey covering 88 square kms of the PEL 82 licence in South Australia. The results of that survey confirmed significant prospectivity of around 430 million bbls of oil or 630 bcf of natural gas. Prospectivity on this scale represents a transformational opportunity and we have now moved on to the next stage of development, planning a two well drilling programme.

Operating performance in the first half of 2009 was good, with consistent production from the East Lake Verret field in Louisiana, minimal downtime with no significant environmental or safety issues, and positive cash-flow. This was achieved against the background of very challenging overall market conditions, with average US natural gas prices under US$5 per mcf, around 40% of the prices seen in the first half of 2008.

Average daily production in the first half was 430 barrels of oil equivalent per day (boepd), down from 660 boepd in the same period last year. This was entirely due to the expected decline in production at the Orion field in Michigan, USA, and in June 2009, we sold our interest in that field. In contrast, the East Lake Verret field, which we acquired with effect from March 2008, maintained better than expected levels of output throughout the first half, producing an average of 219 boepd, virtually unchanged from a year ago.

The combination of lower production from Orion and lower natural gas prices reduced revenues from US$8.7 million in the first half of 2008 to US$3.1 million in 2009. However, US$1.2 million of cash gains from hedging contracts, combined with tight cost control, enabled the Company to continue to generate cash from operations.

In terms of drilling activity, the Pontiac well in Michigan, a 50/50 prospect targeted at further sour gas potential was, disappointingly, a dry-hole. Subsequent to the half-year period, we drilled and suspended the McKerall 3 well in East Lake Verret. We are currently reviewing this well with a view to planning for re-entry when US natural gas prices improve.

Acquisition activity has continued to focus on adding proved reserves and incremental production in politically stable areas such as North America and Europe. A number of opportunities to acquire either assets or companies remain under discussion.

Outlook

There has been further development in all three aspects of our strategy in the second half of 2009 and this will continue into 2010.

On the exploration front, the PEL 82 licence has been renewed for a further five year period. Our next objective is to firm up drilling plans and finances as quickly as possible and we are currently in discussion with a number of potential farm-in partners. With 100% of the licence we have ample scope for an attractive farm-out deal, but we would also not rule out alternative funding options which would enable us to retain all of the prospectivity. In addition we are reviewing our work programme on the PEL 132 licence, also in South Australia.

There will be further developments at East Lake Verret as we take steps to sustain production at existing wells and add new production at low cost. We are already implementing plans to work-over the Kafoury 2 and McKerall 1 wells. We also anticipate bringing in new partners to exploit deeper zone opportunities in the field. These are potentially sizeable but, in-line with our low-risk approach, we will look to these partners to provide the funding for drilling.

Acquisitions remain high on our agenda, and with lower energy prices we are seeing improved value for money in US natural gas opportunities. We are also beginning to evaluate larger deal opportunities, possibly in partnership with another buyer. We expect the business environment to remain challenging, and we are therefore adopting a cautious approach, but we have funding available and we remain confident that an attractive deal can be delivered.

Consolidated Statement of Comprehensive Income

	Note	6 months to 30 June 2009 (Unaudited) US$000	6 months to 30 June 2008 (Unaudited) US$000	Year ended 31 Dec 2008 Audited US$000
Continuing Operations				
Revenue		3,058	8,747	18,066
Cost of sales	3	(3,396)	(5,494)	(13,364)
Gross (loss)/profit		(338)	3,253	4,702
Administrative expenses	4	(931)	(1,935)	(2,797)
Operating (loss)/profit before impairment charge		(1,269)	1,318	1,905
Impairment charge		(546)	-	(1,131)
Loss on sale of non-current assets		(131)	-	-
Operating (loss)/profit		(1,946)	1,318	774
Investment income –				
Gain on derivative financial instruments		365	-	652
Fair value through profit and loss		122	-	1,771
Interest on bank deposits		15	2	36
Finance costs		(393)	-	(449)
(Loss)/profit before tax		(1,837)	1,320	2,784
Income tax credit/(expense)		117	(310)	(385)
(Loss)/profit for the period from continuing operations		(1,720)	1,010	2,399
Other comprehensive income, net of tax				
Exchange differences on translating foreign currency		345	152	35
Total comprehensive income for the period attributable to the equity holders of the parent		(1,375)	1,162	2,434
(Loss)/profit per share	5	US cents	US cents	US cents
Basic earnings per share from continuing operations		(10.7)	6.3	14.9
Diluted earnings per share from continuing operations		(10.7)	5.9	13.1

Consolidated Statement of Financial Position

	Note	*30 June 2009 (Unaudited) US$000*	*30 June 2008 (Unaudited) US$000*	*31 Dec 2008 Audited US$000*
ASSETS				
Non-current assets				
Intangible assets	6	5,046	3,457	2,593
Property, plant and equipment	6	4,141	9,006	6,229
		9,187	12,463	8,822
Deferred tax assets		512	-	114
Financial assets		152	-	388
Other non-current assets		167	-	161
		10,018	12,463	9,485
Current assets				
Trade and other receivables		3,835	2,872	4,790
Cash and cash equivalents		1,272	1,889	3,875
		5,107	4,761	8,665
Total assets		15,125	17,224	18,150
LIABILITIES				
Current liabilities				
Trade and other payables		(1,678)	(1,299)	(2,246)
Long-term borrowings		(1,539)	-	(2,320)
Current tax payable		-	(190)	-
		(3,217)	(1,489)	(4,566)
Non-current liabilities				
Long-term borrowings		(3,885)	(7,634)	(4,175)
Long-term provisions		(266)	(316)	(316)
		(4,151)	(7,950)	(4,491)
Total liabilities		(7,368)	(9,439)	(9,057)
NET ASSETS		7,757	7,785	9,093
EQUITY				
Share capital		9,026	9,026	9,026
Share premium		8,372	8,372	8,372
Translation reserve		540	312	195
Profit and loss account		(11,976)	(11,645)	(10,256)
Other reserves - share based payments		1,795	1,720	1,756
Total equity attributable to the equity holders		7,757	7,785	9,093

Consolidated Statement of Changes in Equity

	Share capital US$000	Share premium US$000	Translation reserve US$000	Profit and loss account US$000	Other reserves US$000	Total US$000
Balance at 1 January 2008	9,026	8,372	160	(12,655)	387	5,290
Total comprehensive income	-	-	-	1,162	-	1,162
Exchange differences on translating foreign currency	-	-	152	(152)	-	-
Share based payments	-	-	-	-	1,333	1,333
Balance at 30 June 2008	9,026	8,372	312	(11,645)	1,720	7,785
Total comprehensive income	-	-	-	1,272	-	1,272
Exchange differences on translating foreign currency	-	-	(117)	117	-	-
Share based payments	-	-	-	-	36	36
Balance at 31 December 2008	9,026	8,372	195	(10,256)	1,756	9,093
Total comprehensive income	-	-	-	(1,375)	-	(1,375)
Exchange differences on translating foreign currency	-	-	345	(345)	-	-
Share based payments	-	-	-	-	39	39
Balance at 30 June 2009	9,026	8,372	540	(11,976)	1,795	7,757

Consolidated Statement of Cash Flows

	6 months to 30 June 2009 (Unaudited) US$000	*6 months to 30 June 2008 (Unaudited) US$000*	*Year to 31 Dec 2008 Audited US$000*
Cash flows from operating activities - (Note 7)			
Cash generated by operations	1,628	1,783	7,225
Interest received	15	2	36
Taxation paid	(161)	(120)	(1,261)
	1,482	1,665	6,000
Cash flows from investing activities			
Expenditure on exploration and evaluation assets	(2,999)	(1,737)	(2,004)
Expenditure on development and production assets	-	(6,829)	(7,067)
Deposits with state authorities	-	-	(161)
	(2,999)	(8,566)	(9,232)
Cash flows from financing activities			
Proceeds from sale of non-current assets	207	-	-
Drawdown of bank loan	-	8,458	8,750
Repayment of bank loan	(1,464)	-	(1,648)
Debt arrangement fees	-	-	(232)
	(1,257)	8,458	6,870
Net (decrease)/increase in cash and cash equivalents	(2,774)	1,557	3,638
Opening cash and cash equivalents at beginning of year	3,875	295	295
Exchange gains on cash and cash equivalents	171	37	(58)
Closing cash and cash equivalents	1,272	1,889	3,875

Notes to the Consolidated Accounts

1. Nature of operations and general information

Meridian Petroleum plc and subsidiaries' (together 'the Group') principal activities are the exploration for and the evaluation and production of oil and gas.

Meridian Petroleum plc is the Group's ultimate parent company. It is incorporated and domiciled in Great Britain. The Group has oil and gas production and reserves in the USA. The Group also has exploration assets in Australia. The address of Meridian Petroleum plc's registered office is 13 Regent Street, London, United Kingdom. Meridian Petroleum plc's shares are listed on the Alternative Investment Market of the London Stock Exchange.

Meridian Petroleum plc's consolidated interim financial statements are presented in US Dollars as the Group's primary transactions originate in US Dollars, these being amongst other gas sales and procurement of plant and drilling services. The Parent Company's functional and presentation currency is UK sterling.

These consolidated condensed interim financial statements have been approved for issue by the Board of Directors on 23 September 2009.

The financial information for the year ended 31 December 2008 set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information for the six months ended 30 June 2009 and 30 June 2008 was neither audited nor reviewed by the auditors and does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2008 have been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified.

Notes to the Consolidated Accounts

2. Basis of preparation

These interim condensed consolidated financial statements are for the six months ended 30 June 2009. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2008.

These financial statements have been prepared under the historical cost convention, except for derivative financial instruments that have been measured at fair value.

These condensed consolidated interim financial statements (the interim financial statements) have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year to 31 December 2008 except for the adoption of IAS 1 Presentation of Financial Statements (Revised 2007).

The adoption of IAS 1 (Revised 2007) does not affect the financial position or profits of the Group, but gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. IAS 1 (Revised 2007) affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. In accordance with the new standard the entity does not present a Statement of recognised income and expenses (SORIE), as was presented in the 2008 consolidated financial statements. Furthermore, a 'Statement of changes in equity' is presented.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed consolidated interim financial statements.

Notes to the Consolidated Accounts

3. Cost of sales

	6 months to 30 June 2009 (Unaudited) US$000	*6 months to 30 June 2008 (Unaudited) US$000*	*Year to 31 Dec 2008 Audited US$000*
Royalties, overrides and other interests	850	3,077	6,604
Depreciation	1,750	1,377	4,074
Well operating costs	796	1,040	2,686
	3,396	5,494	13,364

4. Administrative expenses

Share incentive costs	39	509	545
Other	892	1,426	2,252
	931	1,935	2,797

5. (Loss)/profit per share

(Loss)/profit for the period from continuing operations	(1,720)	1,010	2,399

	Number '000	*Number '000*	*Number '000*
Weighted average number of shares in issue	16,094	16,094	16,093
Dilutive effect of share options	-	960	1,359
Dilutive effect of share warrants	-	74	830
	16,094	17,128	18,282

(Loss)/profit per share	*US cents*	*US cents*	*US cents*
Basic	(10.7)	6.3	14.9
Diluted	(10.7)	5.9	13.1

Notes to the Consolidated Accounts

6. Non-current assets

	Intangible US$000	*Property Plant and Equipment US$000*	*Total US$000*
Cost			
At 1 January 2008	1,720	10,046	11,766
Additions	1,737	7,051	8,788
At 30 June 2008	3,457	17,097	20,554
Additions	267	16	283
At 31 December 2008	3,724	17,113	20,837
Additions	2,999	-	2,999
Disposals	-	(4,064)	(4,064)
At 30 June 2009	6,723	13,049	19,772
Depreciation/impairment			
At 1 January 2008	-	6,714	6,714
Charge for the period		1,377	1,377
At 30 June 2008	-	8,091	8,091
Charge for the period	1,131	2,793	3,924
At 31 December 2008	1,131	10,884	12,015
Charge for the period	546	1,750	2,296
Disposals	-	(3,726)	(3,726)
At 30 June 2009	1,677	8,908	10,585
Net book value			
30 June 2009	5,046	4,141	9,187
Net book value			
30 June 2008	3,457	9,006	12,463
Net book value			
31 December 2008	2,593	6,229	8,822

Notes to the Consolidated Accounts

7. Reconciliation of operating profit to net cash outflow from operating activities

	6 months to 30 June 2009 (Unaudited) US$000	6 months to 30 June 2008 (Unaudited) US$000	Year ended 31 Dec 2008 Audited US$000
(Loss)/profit from operations before taxation	(1,837)	1,320	2,784
Adjustments for:			
Finance costs	378	(2)	413
Depreciation and impairment of property, plant and equipment	1,750	1,377	4,170
Amortisation of intangible assets	546	-	1,131
Loss on sale of non-current assets	131	-	-
Provision for decommissioning	(50)	-	221
Share based payments	39	509	545
Fair value through profit and loss on derivative financial instruments	(122)	-	(1,771)
Foreign exchange difference	246	101	85
Operating cash flows before movements in working capital	1,081	3,305	7,578
Decrease/(increase) in receivables	1,099	(2,316)	(2,130)
(Decrease)/increase in payables	(552)	794	1,777
Net cash generated by operating activities	1,628	1,783	7,225