STOCK EXCHANGE
AIM DISCIPLINARY NOTICE

PUBLIC CENSURE AND FINE – MERIDIAN PETROLEUM PLC

AIM DISCIPLINARY COMMITTEE

PUBLIC CENSURE AND FINE

In relation to the conduct of

MERIDIAN PETROLEUM PLC

for

Breaches of Rules 10, 11 and 31 of the
AIM Rules for Companies (the “AIM Rules”) \(^1\)

SUMMARY

1. The London Stock Exchange plc (the “Exchange”) of 10 Paternoster Square, London EC4M 7LS, announces for the reasons listed below, and having agreed with Meridian Petroleum plc (“Meridian” or the “Company”) the facts and matters set out below, that on 11 June 2008 the AIM Disciplinary Committee (“ADC”) approved a consent order agreed between the above parties which imposes the following sanctions on Meridian:

   (i) a public censure as detailed below; and

   (ii) a financial penalty of £75,000.

\(^1\) References to the AIM Rules in this Public Censure refer to the AIM Rules for Companies in force at the relevant time.
2. These sanctions were imposed on Meridian in respect of breaches of AIM Rules 10, 11 and 31 during the period from August 2004 to February 2007 (the “Relevant Period”), as summarised below:

- **AIM Rule 10**: Meridian repeatedly failed to take reasonable care to ensure that its announcements made to the market throughout the Relevant Period:
  
  (i) disclosed realistic operational deadlines and/or material issues likely to affect the achievability of those deadlines; and
  
  (ii) made full and accurate statements regarding the progress of the Calvin 36-1 well (the “Calvin well”) and the status of lease negotiations concerning the Orion 36 well (the “Orion well”).

- **AIM Rule 11**: Meridian repeatedly failed to disclose price sensitive information to the market without delay in respect of operational problems facing the Company and consequent drilling and production delays on the Calvin and Orion wells.

- **AIM Rule 31**: Meridian failed to seek the advice of its Nominated Adviser (“nomad”) and to take advice from the nomad into account regarding its compliance with the AIM Rules.

**RELEVANT REGULATORY PROVISIONS**

3. Under the AIM Disciplinary and Procedures Handbook (the “Handbook”), if the Exchange considers that an AIM company has breached its responsibilities under the AIM Rules, it can refer the matter to the ADC.

4. Pursuant to the Handbook, if the ADC finds, on the balance of probabilities, that the AIM company has breached the AIM Rules it may impose one or more of the following sanctions:

  - a fine;
  - a censure;
  - publish the fact that the AIM company has been fined and/or censured and the reasons for such fine or censure; and/or
  - cancel the admission of the company’s AIM securities.

5. Under AIM Rule 10\(^2\), an AIM company must, *inter alia*, take reasonable care to ensure that any information it notifies is not misleading, false or deceptive and does not omit anything likely to affect the import of such information.

6. Under AIM Rule 11\(^3\), an AIM company must issue notification without delay of any new developments which are not public knowledge concerning a change in:

- its financial condition;

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\(^2\) AIM Rule 10 was numbered AIM Rule 9 in the AIM Rules before April 2005. For ease of reference, this AIM Rule is referred to as “AIM Rule 10” throughout this Censure.

\(^3\) AIM Rule 11 was numbered AIM Rule 10 in the AIM Rules before April 2005. For ease of reference, this AIM Rule is referred to as “AIM Rule 11” throughout this Censure.
- its sphere of activity;
- the performance of its business; or
- its expectation of its performance,

which, if made public, would be likely to lead to a substantial movement in the price of its AIM securities.

7. Under AIM Rule 31, an AIM company must, inter alia, ensure that each of its directors seeks advice from its nomad regarding its compliance with these rules wherever appropriate and takes that advice into account. Part Two of the Guidance Notes to the AIM Rules states, inter alia, that "An AIM company must provide its nominated adviser with any information it requests in order to carry out its duties under these rules".

BACKGROUND

8. Meridian was admitted to trading on AIM on 20 July 2004 raising £2.3 million by the issue of new shares and exercise of warrants at admission. Its principal activity is to invest in and operate oil and gas exploration and production properties in the USA, Australia and elsewhere.

9. Meridian has an interest in several properties and potential reserves, including the Calvin field in Louisiana, USA, and the Orion field in Michigan, USA.

10. As at the date of admission, the Calvin field was the largest asset of Meridian, representing over 50% of the Net Present Value (NPV) of the Company reported in its AIM admission document.

11. The Orion field was acquired by the Company after admission, but the Company's announcement on 14 February 2006 stated that "the lease contains a proven and probable shut in reserve of 3 BCF of gas in place with approximately 2.7 BCF recoverable". The announcement went on to describe the asset as a "significant shut in gas reserve". During the Relevant Period, the Orion field was the Company's only 100%-owned asset in the USA.

PARTICULARS OF BREACHES

12. During the Relevant Period, Meridian breached AIM Rules 10, 11 and 31 in connection with its operations at the Calvin and Orion wells. Particulars of these breaches are set out below.

The Calvin Well

13. On 26 August 2004, Meridian announced that it was expecting the Calvin well to be completed during September 2004. Completion of the Calvin well did not, in fact, take place until July 2007 (some 3 years later).
Misleading announcements and/or omission of material information

14. Throughout the Relevant Period, Meridian repeatedly faced one or more of equipment shortages, lack of availability of key personnel and/or one-off operational difficulties, all of which led to significant delays in the completion of the Calvin well. Despite this fact, announcements made by Meridian during the Relevant Period failed:

(a) to make full and accurate statements regarding one or more the issues identified above; and/or

(b) to take these issues properly into account when notifying operational deadlines for the Calvin well and/or to identify these issues as matters likely to affect the achievability of those deadlines.

15. The following announcements failed to comply with AIM Rule 10 for one or more of the reasons identified at paragraph 14 above:

(a) On 21 October 2004, Meridian released a drilling update suggesting that “a series of mechanical difficulties and delays in getting replacement equipment” had been resolved. These problems had, in fact, not been resolved and were ongoing.

(b) On 11 May 2005, Meridian announced that it planned to “…re-enter and complete the [Calvin] well in May 2005…”. This deadline was not met due to equipment shortages, an issue of which the Company was aware but which was not mentioned in the announcement.

(c) On 16 June 2005, Meridian announced that it expected the Calvin well to be “in production by the end of August [2005]”. The announcement did not refer to ongoing equipment shortages, which resulted in this deadline being missed.

(d) In its interim results announcement made on 30 September 2005, Meridian stated that it “anticipates commencing work on the Calvin completion in mid to late October, with hook up for production shortly thereafter”. Due to equipment shortages and lack of availability of key personnel, work did not in fact commence on completion of the Calvin well until early December 2005.

(e) On 11 October 2005, Meridian announced, inter alia, that it was continuing to progress a number of prospects including Calvin. Despite this positive statement, however, no progress was being made on the Calvin well because it was “shut in” and the Company had no further information on operational timescales at that stage.

(f) On 24 January 2006, Meridian announced that, following positive drilling results on the Calvin well, plans were moving forward to get the Calvin well completed and on line “as soon as possible”. The announcement did not refer to the lack of equipment and personnel, which continued to hamper progress on the Calvin well. Following this announcement (which
dealt exclusively with developments at the Calvin well), the Company’s share price rose by 126%.

(g) On 3 February 2006, Meridian stated in a drilling update on the Calvin well that it was “moving ahead as quickly as possible to complete the well and commence production into the nearby pipeline”. The announcement did not refer to the fact that, at that stage, Meridian was still considering timescales with its engineers in light of continued equipment and personnel shortages. Following this announcement (which also dealt exclusively with the Calvin well), the Company’s share price increased by 18%.

(h) On 13 March 2006, Meridian released an activity update which stated that it was “anticipated that work will commence in the week of 27 March 2006 on the final completion and hook up will be in early April”. The announcement did not refer to the ongoing difficulties caused by lack of equipment and appropriate personnel.

(i) On 4 April 2006, Meridian notified that, inter alia, it was “looking forward to the imminent completion on Calvin 36”. On 10 April 2006, however, significant damage was accidentally caused to the Calvin well bore. This damage was not finally repaired until the fourth quarter of 2006.

(j) The next announcement made by Meridian on 27 April 2006 (over two weeks later) referred to “some small hold-ups in obtaining the appropriate personnel and equipment at the right time”. No mention was made of the well bore damage or the extent of this problem. Instead, the announcement stated that the Company “anticipates completion and tie-in within the next 30 days”.

(k) On 20 June 2006, Meridian stated that it was “evaluating whether any additional work will be required on the well prior to final hook-up, which is planned in the next few weeks after approval of permitting filed with State of Louisiana”. At the time, the Company was experiencing continued delays which meant that the deadline for hook up was missed, in part as a result of Meridian’s deteriorating relationship with the third party engineer responsible for operating the Calvin well. This also had the effect of delaying the approval of the permit, which was not in fact granted until over a year later.

(l) On 28 June 2006, the Company notified its preliminary results for the year ended 31 December 2005 and stated that development of the Calvin field was “well under way with positive results expected in 2006” and that “the [Calvin] well is currently being completed and will be on line in the summer of 2006”. The ongoing difficulties in Meridian’s relationship with its engineer caused the deadline of “the summer of 2006” to be missed.

(m) On 19 July 2006, Meridian announced that “… the Calvin 36-1 well is ready to commence production immediately upon the granting of a state permit, which is anticipated shortly”. Meridian was not, in fact, “ready to commence production immediately” as stated in this announcement.
Furthermore, the ongoing difficulties with its engineer meant that the state permit was likely to be further delayed and would not be obtained "shortly".

(n) On 8 September 2006, Meridian released its interim results for the six month period ended 30 June 2006 and stated that "Plans are still on track to complete the Calvin 36 Number 1 well in Sligo-Pettee, anticipated for late October 2006". This deadline was not met due to shortages of equipment and personnel.

(o) On 9 November 2006, Meridian announced that "it has commenced work on the completion of the Calvin 36-1 well". The announcement did not explain that the reference to completion was, in fact, only to completion of a particular drilling process, not to completion of the Calvin well as a whole (as referred to in earlier announcements).

(p) On 22 January 2007, Meridian released an operational update stating that "Perforation and subsequent test and hook up of Calvin 36-1 well are likely to take place this month". Hook up of the Calvin well did not in fact occur in January as intended, due to equipment shortages.

(q) On 22 February 2007, Meridian made a US operational update stating, *inter alia*, that "Plans [were] moving ahead to hook the [Calvin] well into the existing gathering and processing system located in the Calvin field". At the time, however, limited progress had been made on hooking up the well and progress had not met the Company's expectations as announced on 22 January 2007 due to continued equipment shortages. These matters were not mentioned in the announcement.

Based on the above facts, the above announcements were inaccurate and/or contained unrealistic deadlines due to ongoing and/or one-off operational difficulties facing the Company. Furthermore, Meridian did not refer to these difficulties in the announcements as matters likely to affect the achievability of the deadlines being announced. As a result, the Company was repeatedly in breach of AIM Rule 10 by failing to take reasonable care to ensure that the information that it notified in the above announcements was not misleading or omitted anything likely to affect the import of such information.

**Failure to update the market without delay**

17. Despite the ongoing delays associated with the Calvin well, Meridian did not update the market as to its progress on or before expiry of the deadlines announced at paragraph 15(b), (c), (d), (i), (j), (m), (n), and (p) above, as well as the original deadline for completion announced on 26 August 2004 (see paragraph 13 above).

18. In addition, Meridian did not notify the market without delay that it had discharged the third party engineer responsible for operating the Calvin well at the end of July 2006. This was despite the fact that the deterioration of this relationship and the subsequent discharge of the engineer had a significant impact on the development of the Calvin well.
19. Given the importance of the Calvin well to the Company’s operations, Meridian should have kept the market updated without delay as to any changes in the expected operational timetable for the Calvin well and/or the discharge of its engineer. By failing to do so, Meridian was repeatedly in breach of AIM Rule 11 throughout the Relevant Period.

**The Orion Well**

20. On 14 February 2006, Meridian announced that it had signed a lease on the Orion field and that, subject to permitting and equipment availability, it was expecting to begin drilling operations on the Orion well “early in the second quarter of that year”.

21. Drilling did not, in fact, commence on the Orion well until 20 January 2007 (some 8 months after the original deadline).

**Misleading announcements and/or omission of material information**

22. On the following occasions, the Company made inaccurate statements to the market and/or announced unrealistic deadlines regarding the commencement of drilling on the Orion well:

(a) On 13 March 2006, Meridian released an activity update which stated, *inter alia*, that it was expecting to commence drilling operations on the Orion well in the “second quarter of 2006”. The Company had decided that it would not proceed with drilling operations until a second lease was signed in connection with a 40 acre site on the Orion field. Meridian anticipated possible delays in agreeing the second lease and deleted the word “early” from the previous deadline given on 14 February 2006. Meridian did not, however, explain the change in its expectations or the reasons for it in this announcement.

(b) On 27 April 2006, Meridian announced that it “has recently signed the second 40 acre lease block with the land owner...” and “Drilling activity is likely to commence, based on permitting and approvals, towards the end of the second quarter”. Contrary to the announcement, the counterparty to the lease had not signed the second 40 acre lease as at that date and subsequently refused to do so. Furthermore, the announcement did not explain the reasons for the Company’s change to the expected timescale (i.e. to “towards the end of the second quarter”), which was due to delays in negotiating the second lease.

(c) On 20 June 2006, Meridian announced that it was “on schedule to meet the current timetable”. The announcement did not refer to the fact that the counterparty had still not signed the second lease and negotiations were ongoing.

(d) On 28 June 2006, Meridian released its preliminary results for the year ended 31 December 2005 in which it stated, *inter alia*, that “We intend to drill this well [i.e. the Orion well] shortly following completion of the permitting process”. Again, the announcement did not clarify that the second lease had not yet been signed.
(e) On 1 August 2006, Meridian released an activity update which stated that "... additional drilling at Orion is being undertaken currently in preparation for re-entry in approximately the same timescale". The wording of this announcement gave the impression that drilling was underway in August 2006. This was not, in fact, the case. The announcement also did not refer to the ongoing negotiations on the second lease.

(f) On 8 September 2006, Meridian announced its interim results for the six month period ended 30 June 2006 which stated, inter alia, that "The Orion, Michigan prospect will be drilled in late October 2006". The announcement again did not refer to the ongoing negotiations on the second lease (some 4 months after Meridian had announced that it had signed the lease).

23. By failing to take reasonable care to ensure that the above announcements were not false, misleading or deceptive and did not omit information which was likely to affect the import of the information notified, Meridian was in breach of AIM Rule 10 in relation to each of the above announcements.

**Failure to update the market without delay**

24. During the Relevant Period, Meridian failed to update the market without delay in respect of the following material developments relating to the Orion well:

(a) By mid-July 2006, it became apparent to Meridian that the second lease would not be signed by the counter party in the near future, which would inevitably cause drilling operations on the Orion well to be delayed. Despite this, Meridian failed to update the market without delay of this change in its expectations.

(b) Meridian failed to update the market on or before expiry of the deadline of "late October 2006" referred to in its announcement of 8 September 2006 (see paragraph 22(f) above).

25. By not updating the market in relation to the above matters, Meridian was in breach of AIM Rule 11 by failing to announce changes in its expectations which were or were likely to be price sensitive.

**Failure to liaise with the nomad**

26. During the Relevant Period, Meridian failed to liaise appropriately with its nomad in the following respects:

(a) Meridian did not keep its nomad fully informed as to the causes and/or likelihood of delays to the operational timetable for the Calvin and Orion wells;

(b) Meridian provided its nomad with unjustified assurances that operational deadlines for the Calvin and Orion wells mentioned in announcements were reasonable;
(c) Meridian failed to provide its nomad with sufficient time to review announcements ahead of their release; and

(d) Meridian failed to take into account the advice from its nomad that announcements required by the AIM Rules needed to be released without delay.

27. Based on the above facts, Meridian breached AIM Rule 31 by not seeking appropriate advice from its nomad and/or by not providing the nomad with sufficient information to enable such advice to be given. Meridian also breached AIM Rule 31 by failing to take advice received from its nomad adequately into account during the Relevant Period.

SANCTION

28. In determining the appropriate sanction against Meridian in respect of the above breaches of the AIM Rules during the Relevant Period, the following matters have been taken into account:

- Meridian committed repeated breaches of the AIM Rules over a 2½ year period.

- The breaches set out in this public censure were serious in nature, including (but not limited to):
  - notification of misleading information to the market and/or omitting material information from announcements;
  - failure to notify the market without delay of material developments, particularly in respect of delays to the drilling and completion deadlines for both the Calvin and Orion wells; and
  - failure to liaise appropriately with its nomad.

- The most significant positive announcements made by Meridian concerning the Calvin and Orion wells took place in the period from January to April 2006. During that time, Meridian’s share price rose from around 8p to 39p (a rise of almost 500%). By October 2006, Meridian’s share price had fallen to below 15p.

- The number, nature and duration of the breaches evidence a disregard for the AIM Rules by Meridian, amounting to reckless conduct during the Relevant Period.

- Meridian’s Board of directors has undergone significant changes since the matters referred to in this public censure took place, including the appointment of a new Chief Operating Officer for its US operating subsidiary.

- New procedures have been established by Meridian to ensure future compliance with the AIM Rules, including:
- the establishment of a UK office with permanent senior staff present in order to improve liaison with the Company's UK advisers, including its nomad;

- the establishment of a committee comprising senior management (including technical personnel) and non-executive directors to review announcements prior to them being notified to the market.

- Meridian's cooperative and constructive approach with the Exchange during the course of its investigation.

- The size and limited financial resources of Meridian.

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