

Melbana Energy Limited

ABN 43 066 447 952

Annual Report - 30 June 2018

Directors	Andrew Purcell (Chairman) Michael Sandy Peter Stickland
Chief Executive Officer	Robert Zammit
Company Secretary	Melanie Leydin
Registered office	Level 15, 500 Collins Street Melbourne, Victoria 3000 Australia Telephone +61 (3) 8625 6000
Principal place of business	Level 15, 500 Collins Street Melbourne, Victoria 3000 Australia Telephone +61 (3) 8625 6000
Share register	Link Market Services Limited Level 1, 333 Collins Street Melbourne, Victoria 3000 Australia Telephone +61 (3) 9615 9800
Auditor	Ernst & Young 8 Exhibition Street Melbourne, Victoria 3000 Australia
Stock exchange listing	Melbana Energy Limited shares are listed on the Australian Securities Exchange (ASX code: MAY)

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Melbana Energy Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

Directors

The following persons were directors of Melbana Energy Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Andrew Purcell (Chairman)
Michael Sandy
Peter Stickland

Principal activities

The principal activities during the year of the consolidated entity were oil and gas exploration in Cuba, Australia and New Zealand together with development concepts for the Tassie Shoal Methanol Project and Timor Sea LNG Project.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$6,100,000 (30 June 2017: \$2,121,000).

Environment, Health and Safety

Your Board believes that all workplace injuries are avoidable. Policies and procedures are in place to ensure employees and contractors conduct all activities in a safe manner. Melbana has adopted an environmental, health and safety policy and conducts its operations in accordance with the Australian Petroleum Production & Exploration Association (APPEA) Code of Practice.

Directors specifically address Health, Safety and Environment issues at each Board meeting and are pleased to advise there were no reported Lost Time Injuries or environmental incidents during the year.

Upstream activities including seismic surveys, well site surveys and drilling operations require a variety of regulatory approvals as detailed in the applicable regulatory regime, including environment plans, safety cases and the preparation of plans to manage the undertaking of the activities and the contractors engaged in undertaking the activities.

INTERNATIONAL OPERATIONS

Cuba - Block 9 (Melbana 100%)

The Production Sharing Contract (PSC) for Block 9, onshore Cuba, was executed on 3 September 2015. The Block 9 PSC area is in a proven hydrocarbon system with multiple discoveries within close proximity, including the multi-billion barrel Varadero oil field. It also contains the Motembo field - the first oil field discovered in Cuba. As an early mover into Cuba, Melbana is now one of the few western companies with a footprint in the expanding Cuban hydrocarbon sector.

Melbana has identified Block 9 as one of the world's most exciting exploration plays with an independent assessment by McDaniel & Associates identifying exploration potential of approximately 15.7 billion barrels of Oil-in-Place with a Prospective (Recoverable) Resource of 718 million barrels (Best Estimate, 100% basis)¹.

The Company's aim is to drill up to two wells in Block 9 during the current exploration sub-period which concludes on 3 November, 2019. Melbana has progressed the well design and regulatory permitting process for drilling for its two highest priority prospects, Alameda and Zapato.

Funding for an exploration program of up to two wells is subject to capital raising and/or a farm-out process. Melbana commenced a farmout process during the year.

¹ This estimate should be read with reference to the footnote "Notes regarding Contingent and Prospective resource estimates" on page 19

During the Financial Year, Petro Australis Limited ("Petro Australis") provided a notice to Melbana exercising its back-in right with respect to a 40% participating interest in Block 9 PSC however this was subject to Petro Australis receiving the necessary Cuban regulatory approvals (including pre-qualification) for this transfer. Petro Australis failed to achieve pre-qualification to enable a timely application to Cuban regulatory authorities for their acquisition of a 40% participating interest in the Block 9 PSC.

As a result, Melbana has terminated its commercial arrangements with Petro Australis. On 4 December 2017 the Company announced it had reached a commercial settlement with Petro Australis to conclusively resolve its claim to a right to acquire a 40% participating interest in the Block 9 PSC. The commercial settlement involved Petro Australis relinquishing all claims to its back-in right to the Block 9 PSC in consideration for Melbana paying A\$50,000 in cash and issuing 20.8 million Melbana shares to Petro Australis. As a result of the settlement there are no further obligations on either party and it is confirmed that Melbana holds an unencumbered 100% interest in Block 9 PSC.

New Zealand - PEP51153 (Melbana 30%)

During the year the PEP51153 Joint Venture (Melbana 30%, Tag Oil (TSX: TAO) 70% and Operator) proceeded to drill the Pukatea-1 exploration well primarily targeting the Tikorangi limestone formation. Pukatea-1 penetrated the secondary Mt. Messenger objective, which was encountered 2m high to prognosis, recording encouraging oil shows over a 14mMD gross interval. Pukatea-1 continued drilling and reached a final total depth of 3100mMD after penetrating a thickened overlying interval without intersecting the Tikorangi Limestone target. A production test of the Pukatea-1 oil zone found in the Mt. Messenger formation was conducted. Over a 12-hour test period using a 24/64" choke setting, the well flowed at a stabilized rate of approximately 276 boe/d (74% oil) without the need for artificial lift. Based on the failure of the primary target and the results from the longer term production test, the Company determined that this permit was not core to its future activities and has been actively pursuing divestment of its interest in the permit. Based on the offers received, the Company has elected to write down the previously capitalised value of the permit to \$100,000.

The Company is currently undertaking a strategic review of its New Zealand acreage.

AUSTRALIAN OPERATIONS

WA-488-P (Melbana 100%)

Melbana was awarded 100% interest in WA-488-P, located in the Bonaparte Basin, in May 2013. The permit is located between the producing Blacktip gas field and the undeveloped Turtle and Barnett oil fields and contains the giant Beehive prospect. Beehive was identified as a follow-up to the 2011 Ungani-1 oil discovery in the adjacent Canning Basin and represents a new play type in the Bonaparte Basin.

Beehive is considered prospective for oil at the upper Carboniferous aged carbonate target and is considered analogous to the giant Tengiz oil field in the Caspian Sea. An independent assessment by McDaniel & Associates has assessed the Beehive prospect as having a Prospective Resource of 388 million barrels of oil equivalent (Best Estimate, 100% basis).

During the year, Melbana completed 330km of 2D seismic broadband reprocessing and additional studies, including a stratigraphic interpretation study and an analogue field study.

In December 2017 a Seismic Funding and Farmin Option Agreement was signed with French major Total and Australia's Santos (ASX code: STO) to fully fund 100% of the cost of a 3D seismic survey over the Beehive prospect in consideration for which, they are granted an option (exercisable together or individually) to acquire a direct 80% participating interest in the permit. If the option is exercised, Total and/or Santos will fully fund the costs of all activities until completion of the first well in the WA-488-P permit. In the event of a commercial discovery, Melbana will repay carried funding from its share of cash flow from the Beehive field. Melbana will have no re-payment obligations for such carried funding in the event there is no commercial discovery and development in WA-488-P.

Subsequent to the period, in August 2018 the Company received notice from the National Offshore Petroleum Titles Administrator ("NOPTA") of the approval of its application for a WA-488-P work program credit. As a result, the acquisition of the Beehive 3D Seismic Survey completed in Permit Year 2 is officially credited against meeting the Permit Year 4 work commitment to acquire a new 400km² 3D seismic survey.

Subsequent to the period, in September 2018 the Company received notice from NOPTA of the approval of its application to suspend the deadline for completion of the current (Year 3) WA-488-P permit year work obligations by 15 months to 21 December 2020.

AC/P50 & AC/P51 (both Melbana 55%)*

*Subject to a 5% option granted to Far Cape Energy Pte Ltd

AC/P50 and AC/P51 are located in the proven Vulcan sub-basin, immediately to the east of the producing Montara oil field. The area has historically been challenged by structural complexity and poor seismic image quality.

During the year, Rouge Rock Pty Ltd ("Rouge Rock") exercised its option to acquire a 45% interest in the AC/P50 and AC/P51 Exploration Permits ("Permits"). Melbana granted the option to Rouge Rock on 5 July 2016 in exchange for a free carry for Melbana on the costs of the committed work program for the 2016-18 primary term of each of the exploration permits.

Both permits are also subject to an option to acquire a 5% interest in each permit currently held by Far Cape Energy Pte Ltd ("Far Cape"). Under this option agreement, Melbana, through its wholly-owned subsidiary, Vulcan Exploration Pty Ltd, will carry Far Cape's participating interest in the first well should Melbana elect to drill a well in either of the permits.

Subsequent to the period in July 2018 Melbana received notice from NOPTA revising the work program to extend the current year 3 permit year by 12 months to allow for additional work above the current commitment to be completed and also to vary the year 4 commitment by deferring one exploration well to year 5 to allow sufficient time to interpret the extra data acquired as a result of the new year 3 commitment.

Subsequent to the period in August 2018, both permits were divested in their entirety. Melbana, through its wholly-owned subsidiary, Vulcan Exploration Pty Ltd, retains exposure to upside in both permits.

Tassie Shoal Gas Processing Projects

Melbana has Australian Government environmental approvals to construct, install and operate two stand-alone world scale 1.75 Mtpa methanol plants collectively referred to as the Tassie Shoal Methanol Project (TSMP) and a single 3 Mtpa LNG plant known as the Tassie Shoal LNG Project (TSLNG) on Tassie Shoal, an area of shallow water in the Australian waters of the Timor Sea approximately 275 km north-west of Darwin, Northern Territory. Environmental Approvals are valid until 2052. These projects uniquely provide a development option for discovered but undeveloped gas resources in the region.

Tassie Shoal Methanol Project (TSMP, Melbana 100%)

Melbana proposes the staged construction of two large methanol production plants, each with an annual production capacity of 1.75 million tonnes on its own concrete gravity structure. Each TSMP requires ~200 – 220 Million Standard Cubic Feet per day (MSCFD) of raw gas, preferably with up to 25% CO₂, resulting in a potential total requirement of up to 440 MSCFD and ~4 Trillion Cubic Feet (TCF) of gas over an initial 25 year period.

It was reported by ConocoPhillips that the Barossa gas field is proposed to be developed as feedstock to the Darwin LNG facility from 2023, this leaves the Evans Shoal Gas field (~28% CO₂) without a publicly stated development path. During the year, the competition between Evans Shoal Joint Venture and the Barossa Joint Venture to back fill Darwin LNG heightened with Barossa Joint Venture reported to commence front end engineering and design. Melbana remains ready to engage with the titleholders on using Tassie Shoal Projects as an LNG or methanol development path once there is a decision made on the successful Joint Venture to supply Darwin LNG.

Tassie Shoal LNG Project (TSLNG, Melbana 100%)

The TSLNG requires approximately 3 Tcf of low CO₂ gas to operate for 20 years. Gas supply for the LNG plant could come from one or more of the neighbouring undeveloped gas fields confronting economic challenges imposed by long distances from land, high domestic construction costs and/or high floating LNG (FLNG) development costs. The Greater Sunrise resource represents the most obvious source of gas for the LNG project. Any LNG project proposed for gas in the region of Tassie Shoal has the potential to utilise the TSLNG development path as an alternative to FLNG or piping gas to an onshore LNG facility. Due to its proximity to the resource and modularised construction, TSLNG has a significant cost advantage when compared to both FLNG and onshore Australia development paths.

In August 2017, the company was advised that the environmental approvals for TSLNG were extended to 2052, and, the limit of 3% CO₂ feed gas was removed with the project now able to receive gas of varying qualities.

Results for the year

The net loss of the consolidated entity for the financial year, after provision for income tax, was \$6,100,000 (2017: net loss after tax of \$2,121,000). The loss for the year was mainly due to:

- a slight increase in gross Administrative costs, to \$3,319,000 for the year ended 30 June 2018 from \$3,131,000 for the year ended 30 June 2017, due mainly to additional consulting and legal fees;
- a decrease in the allocation of Administrative costs to exploration activities, to \$966,000 for the year ended 30 June 2018 from \$1,459,000 for the year ended 30 June 2017, due mainly to: a reduction in salary rates in 2018, compared to 2017; and a reduction in 2018 of staff time related to exploration projects compared to the previous year, particularly Cuba Block 9, which was at the staff time-intensive set up/establishment phase in 2017, and the fact that the overall number of in-progress projects in place in 2017 was higher than in 2018;
- higher Exploration expenditure write-offs/write-downs in 2018, up to \$3,691,000, compared to \$455,000 in 2017, due mainly to: full write off of costs for the AC/P50-AC/P51 permits, in light of the consolidated entity's post-year end disposal of those interests; and a write-down in the carrying value of the consolidated entity's interest in the PEP51153 venture;
- Research & Development tax incentive received of \$357,000 (2017: Nil);
- interest expense of \$96,000 (2017: Nil) and interest income of \$20,000 (2017: \$71,000).

The successful drilling and commercialisation of any commercial oil and gas discoveries in offshore Australian exploration permits and onshore overseas acreage and/or the development/sale of the consolidated entity's methanol and LNG Projects could ultimately lead to the establishment of a profitable business or result in a profit to the Company if an asset sale occurs. While the consolidated entity is in the exploration/appraisal stage of drilling for hydrocarbons in offshore Australian exploration permits and overseas acreage and in the project development phase, funding will be provided by equity capital raised from the issue of new shares and/or farm out or joint development arrangements with other companies.

Review of Financial Condition

At balance date the consolidated entity held cash and cash equivalents of \$3,047,000 (2017: \$2,605,000), a net increase of \$442,000 (2017: net decrease of \$1,531,000), while its net assets were \$6,695,000 (2017: \$5,779,000), a net increase of \$916,000 (2017: net increase of \$176,000). The main determinants of the consolidated entity's financial condition were:

- loss after tax of \$6,100,000 (2017: loss of \$2,121,000);
- cash flows as follows: net operating cash outflows of \$2,327,000 (2017: \$1,286,000) and net investing cash outflows of \$3,766,000 for plant & equipment and exploration/evaluation (2017: \$2,306,000)
- new term deposit of \$3,073,000 required to secure bank guarantees required for Cuba Block 9 (2017: not applicable);
- new short-term borrowings of \$3,099,000 (2017: not applicable);
- share issue proceeds of \$7,765,000, of which \$458,000 were non-cash share issues (2017: \$2,233,000, with no non-cash share issues);
- share issue costs of \$910,000, of which \$244,000 were non-cash costs (2017: \$121,000, with no non-cash share costs).

Corporate

Melbana's future prospects are centred on continuing to secure quality exploration, development and producing opportunities and seeking to maximise the value to shareholders of its current portfolio including the Tassie Shoal projects and/or undertaking a corporate transaction.

Adequacy of funding will, for the immediate future, remain a key focus for the consolidated entity and its Shareholders. The consolidated entity will look to raise additional funding either through farm-in/sale and/or capital injection to advance its projects. In the event that the consolidated entity cannot meet its share of work program commitments, permits may need to be surrendered.

Significant changes in the state of affairs

On 17 August 2017, the Company issued 20,940,032 shares to employees for no consideration upon the exercise of employee performance rights.

On 23 August 2017, the Company issued 178,733,229 shares, at an issue price of \$0.01 (1 cent) per share, and 59,577,757 free options to institutional and sophisticated investors pursuant to a share placement (Placement). Proceeds from the placement were approximately \$1.8 million before costs of the issue.

On 13 September 2017, the Company issued 152,185,161 shares, at an issue price of \$0.01 (1 cent) per share, and 50,728,685 free options pursuant to a partially underwritten entitlement offer (Entitlement Offer). Proceeds from the issue were approximately \$1.5 million before costs of the issue.

On 15 September 2017, the Company issued 189,814,839 shares, at an issue price of \$0.01 (1 cent) per share, and 63,271,613 free options to underwriters pursuant to a partially underwritten entitlement offer. Proceeds from the issue were approximately \$1.9 million before costs of the issue.

The funds from the August 2017 and September 2017 Placement and Entitlement Offer were raised to fund preparatory activities for a planned drilling program of up to two wells in Cuba anticipated for mid-2018, and to provide additional working capital.

On 4 December 2017 the Company announced that it had reached a commercial settlement with Petro Australis Pty Ltd (Petro Australis) whereby Petro Australis had relinquished all claims to its back-in right to the Cuba Block 9 Production Sharing Contract (Block 9 PSC) in consideration for Melbana making a \$A50,000 cash payment and issuing 20.8 million shares in the Company to Petro Australis. As a result of the settlement, it was confirmed that the Company held an unencumbered 100% interest in the Block 9 PSC.

On 21 December 2017, the Company issued 150,000,000 shares, at an issue price of \$0.014 (1.4 cents) per share, to institutional and sophisticated investors pursuant to a share placement. Proceeds from this placement were approximately \$2.1 million before costs of the issue.

On 12 January 2018 Mr Peter Stickland resigned as Managing Director with immediate effect and agreed to continue as a non-executive director of the Company. Mr Robert Zammit was appointed Chief Executive Officer effective 12 January 2018.

In April 2018 the Company executed a loan facility agreement for \$US2.5 million with TransAsia Private Capital Limited. The loan has an interest rate of 15% per annum and its maturity date is 10 January 2019.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

On 6 July 2018 the Company issued 5,333,333 shares to Non-executive Director Mr Peter Stickland following the exercise by Mr Stickland of performance rights. The performance rights had an exercise price of \$Nil.

On 7 August 2018 the Company announced that Independent Expert McDaniel & Associates (Canada) has completed its assessment of the Prospective Resources of Cuba Block 9 and Beehive in Australia resulting in Block 9 best estimate Oil In Place increasing by 24% to more than 15.7 billion barrels of oil and recoverable Prospective Resources increasing by 13% to 718 million barrels of oil.

On 13 August 2018 the Company issued 3,141,226 shares upon the exercise of Unlisted options with an exercise price of \$0.02. The share issue included 2,004,507 shares issued to Directors of the Company.

On 13 August 2018 the Company issued 80,000,000 unquoted options to Mr Andrew Purcell, the Chairman of the Company. Each option is an option to acquire a fully paid ordinary share in the Company. The options were issued to Mr Purcell as compensation for providing a personal guarantee over the Loan Agreement with TransAsia Private Capital Limited ("TransAsia") pursuant to Resolution 3, approved by shareholders at the Company's General Meeting held on 9 August 2018. Details of the loan are set out in Note 17. The options will vest seven months after the repayment of the loan and will expire twelve months after the vesting date. The loan is due for repayment by 10 January 2019, but the actual repayment date is not currently known and, therefore, the options' vesting date and expiry date are also not currently known. The options have an exercise price of \$0.022 (2.2 cents) each.

On 14 August 2018, the Company announced that acquisition of the Beehive 3D Seismic Survey has been completed safely and without incident and that during the planning of the Beehive 3D Seismic Survey, a new lead was identified (Egret) and the survey area was extended by ~100km² (~16%) to provide coverage over the portion of Egret that is partially within the boundary of WA-488-P. The extension of the survey area was within the approved scope and operational envelope of the Beehive 3D Seismic Survey. The Beehive 3D Seismic Survey, including the extension over the Egret lead, was fully funded by Santos and Total.

On 21 August 2018 the Company issued 4,761,215 shares upon the exercise of Unlisted options with an exercise price of \$0.02.

On 22 August 2018 the Company announced that it had divested its interest in the AC/P50 and AC/P51 permits ("Permits") via a sale of the holding subsidiary Vulcan Exploration Pty Ltd to joint venture partner Rouge Rock. The commercial agreements provide for the Company to retain exposure to the upside outcomes of a subsequent sale or farmout of either of the Permits by Rouge Rock. The agreements are structured such that if Rouge Rock enters into an arrangement in future for cash or shares, Melbana earns 10% of the cash benefit or shares received by Rouge Rock. If Rouge Rock enters into an arrangement in future that provides for a full or partial carry on a well, Melbana has the right to back-in for a 5% interest after the well is drilled, effectively providing a carried interest during the drilling process and avoiding costs associated with the drilling process.

On 28 August 2018 the Company issued 1,247,988 shares upon the exercise of Unlisted options with an exercise price of \$0.02.

On 6 September 2018 the Company issued 827,228 shares upon the exercise of Unlisted options with an exercise price of \$0.02.

On 21 September 2018, the Company announced that it has accepted commitments to raise up to \$3.5 million (before costs) through a placement to qualified institutional and sophisticated investors of 194 million fully paid ordinary shares at \$0.018 per share plus an accompanying one unlisted share option per three shares placed exercisable at \$0.03 per option expiring 18 months from grant date. The Placement is scheduled to settle on Thursday 27 September 2018 with new shares expected to be allotted on Friday 28 September 2018.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

During FY2019, Melbana is advancing preparations for drilling up to 2 wells in Block 9 Cuba, progressing its assessment and seeking to finalise a long-term prospect for the Santa Cruz Incremental Oil Recovery opportunity. Non-core assets will be considered for divestment on a case by case basis and the Company will also continue with farmout/partial sale opportunities and pursue attractive new venture opportunities.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name: Andrew Purcell
Title: Non-Executive Chairman
Qualifications: B Eng; MBA
Experience and expertise: Mr Purcell founded the Lawndale Group (formerly Teknix Capital) in Hong Kong over 10 years ago, a company specialising in the development and management of projects in emerging markets across the heavy engineering, petrochemical, resources and infrastructure sectors. Prior to this, Mr Purcell spent 12 years working in investment banking across the region for Macquarie Bank then Credit Suisse. Mr Purcell also has significant experience as a public company director, both in Australia and across Asia.
Other current directorships: AJ Lucas Group Limited (ASX: AJL)
Former directorships (last 3 years): Metgasco Limited (ASX: MEL)
Special responsibilities: Chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee
Interests in shares: 54,032,297 fully paid ordinary shares
Interests in options: 80,000,000 unlisted options, vesting approximately 11 August 2019, expiring approximately 11 August 2020; exercise price 2.2 cents (options issued as consideration for Mr Purcell providing personal guarantee to an entity making a loan to the Company).

Name: Peter Stickland
Title: Non-Executive Director (was Managing Director until resigned from that position on 12 January 2018 and continues as Non-Executive Director)
Qualifications: BSc, Hons (Geology), GDipAppFin (Finsia), GAICD
Experience and expertise: Peter Stickland has over 25 years' global experience in oil and gas exploration. Peter was CEO of Tap Oil Limited (ASX: TAP) from 2008 until late 2010 during which time he oversaw the evolution of the company into a South East Asia/Australia focused E&P Company and was directly involved in a number of oil and gas discoveries. Prior to joining Tap Oil, Peter had a successful career with BHP Billiton including a range of technical and management roles both in Australia and internationally. Peter was a member of the Board of Australian Petroleum Production and Exploration Association Limited (APPEA) for nine years.
Other current directorships: Entek Energy Limited (ASX: ETE)
Former directorships (last 3 years): None
Special responsibilities: Member of the Remuneration & Nomination Committee and a member of the Audit and Risk Committee
Interests in shares: 16,597,279 fully paid ordinary shares
Interests in options: 3,000,000 unlisted employee options

Name: Michael Sandy
Title: Non-Executive Director
Qualifications: BSC Hons (Geology), MAICD
Experience and expertise: Michael Sandy is a geologist with over 40 years' experience in the resources industry – mostly focused on oil and gas. Michael has had a varied career with early roles in minerals exploration and research and with the PNG Government. In the early 1990s he was Technical Manager of Oil Search Limited. He was involved in establishing Novus Petroleum Ltd and preparing that company for its \$186m IPO in April 1995 and then held various senior management roles with that company. He co-managed the defence effort in 2004 when Novus was taken over by Medco Energi.

For the last 14 years, Michael, through his consultancy Sandy Associates P/L, has been involved in various resources projects and start-ups. He was previously a non-executive director of Hot Rock Ltd (ASX: HRL), Caspian Oil and Gas (ASX: CIG) and Pan Pacific Petroleum (ASX: PPP), as well as those mentioned below.
Other current directorships: MEC Resources Limited (Chairman) (ASX: MMR)
Former directorships (last 3 years): Tap Oil Limited (ASX: TAP), Burleson Energy Limited (ASX: BUR)
Special responsibilities: Chairman of the Audit & Risk Committee and a member of the Remuneration and Nomination Committee.
Interests in shares: 4,341,113 fully paid ordinary shares

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Ms Melanie Leydin, CA (appointed Chief Financial Officer and Company Secretary 21 June 2018)

Ms Leydin has 25 years' experience in the accounting profession including 13 years in the Corporate Secretarial professions and is a company secretary and finance officer for a number of entities listed on the Australian Securities Exchange. She is a Chartered Accountant and a Registered Company Auditor. Since February 2000, she has been the principal of Leydin Freyer, specialising in outsourced company secretarial and financial duties.

Mr Colin Naylor (resigned as Company Secretary 21 June 2018)

Mr Naylor was appointed Chief Financial Officer on 5 February 2007 and Company Secretary on 23 February 2007. Mr Naylor has previously worked in senior financial roles in major resource companies and is a Fellow of CPA Australia.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Andrew Purcell	10	10	-	-	1	1
Michael Sandy	10	10	-	-	1	1
Peter Stickland	10	10	-	-	-	-

Held: represents the number of meetings held during the time the director held office.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Remuneration and Nomination Committee, which comprises non-executive directors, is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Remuneration and Nomination Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- Offer competitive remuneration benchmarked against the external market to attract high calibre executives;
- Where appropriate, provide executive rewards linked to shareholder value; and
- Encourage non-executive directors to hold shares in the Company.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors' remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee receives independent market data when undertaking this annual review process.

The Remuneration and Nomination may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market.

The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market.

The chairman is not present at any discussions relating to the determination of his own remuneration.

Non-executive directors do not receive share options or other incentives as part of their remuneration package.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 18 November 2010, where the shareholders approved a maximum annual aggregate remuneration of \$500,000.

Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has the following components:

- base pay and non-monetary benefits
- share-based payments

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The long-term incentives ('LTI') comprise share-based payments. Options and/or performance rights are awarded to executives and vest conditional upon the recipient meeting service objectives. The Board reviewed the long-term equity-linked performance incentives specifically for executives during the year ended 30 June 2018 and certain executives were issued LTIs in consideration for accepting a reduction in their cash salaries.

Consolidated entity performance and link to remuneration

Remuneration for certain executives granted options or performance rights is linked to the performance of the consolidated entity, as an improvement in the Company's share price will correspondingly increase the benefits to the executive. This will align the interests of the executive and the shareholders. Refer to the section "Additional information" below for details of the earnings and share price movements for the last five years.

Voting and comments made at the Company's 2017 Annual General Meeting ('AGM')

At the 23 November 2017 AGM, 95.9% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2017. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of Melbana Energy Limited:

- Andrew Purcell – Non-Executive Chairman (appointed Non-executive Director 30 July 2015) (appointed Chairman 25 November 2015)
- Michael Sandy – Non-Executive Director (appointed 30 July 2015)
- Peter Stickland – Non-Executive Director (appointed Chief Executive Officer - 19 December 2014, and Managing Director - 30 January 2015, resigned as Managing Director and Chief Executive Office on 12 January 2018, Appointed Non-Executive Director from 12 January 2018)

And the following persons:

- Robert Zammit - Chief Executive Officer (appointed Chief Executive Officer 12 January 2018; previously held the role of Executive Manager, Commercial & Business Development)
- Colin Naylor - Chief Financial Officer and Company Secretary (until 21 June 2018)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total
	Salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	Termination benefit	
2018	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Andrew Purcell	100,000	-	-	-	-	-	-	100,000
Michael Sandy	75,000	-	-	-	-	-	-	75,000
Peter Stickland *	35,081	-	-	-	-	-	-	35,081
<i>Executive Directors:</i>								
Peter Stickland *	252,918	-	-	20,049	(22,095)	17,568	-	268,440
<i>Other Key Management Personnel:</i>								
Robert Zammit**	294,029	-	-	20,049	(7,582)	24,181	-	330,677
Colin Naylor***	282,428	-	-	20,049	4,988	20,931	251,922	580,318
	<u>1,039,456</u>	<u>-</u>	<u>-</u>	<u>60,147</u>	<u>(24,689)</u>	<u>62,680</u>	<u>251,922</u>	<u>1,389,516</u>

* Mr Stickland resigned as Managing Director on 12 January 2018 and continued to act Non-executive director thereafter. The disclosures above reflect his remuneration during his tenure as Non-executive director and Executive director, respectively.

** Mr Zammit was appointed Chief Executive Officer on 12 January 2018. He previously held the role of Executive Manager, Commercial & Business Development.

*** Mr Naylor ceased employment with the Company during July 2018, as agreed with the Company prior to 30 June 2018. A termination benefit was paid in accordance with contractual obligations and was recorded as an expense in the Company's accounts in the year ended 30 June 2018 and, accordingly, is disclosed in the remuneration details for that financial year.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total
	Salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled		
2017	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Andrew Purcell	81,250	-	-	-	-	-	-	81,250
Michael Sandy	56,250	-	-	-	-	-	-	56,250
<i>Executive Directors:</i>								
Peter Stickland	341,500	-	-	19,616	9,839	33,333	-	404,288
<i>Other Key Management Personnel:</i>								
Robert Zammit	239,185	-	-	19,616	6,280	40,615	-	305,696
Colin Naylor	214,906	-	-	32,150	7,856	32,932	-	287,844
	<u>933,091</u>	<u>-</u>	<u>-</u>	<u>71,382</u>	<u>23,975</u>	<u>106,880</u>	<u>-</u>	<u>1,135,328</u>

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2018	2017	2018	2017	2018	2017
<i>Non-Executive Directors:</i>						
Andrew Purcell	100%	100%	-	-	-	-
Michael Sandy	100%	100%	-	-	-	-
Peter Stickland *	100%	-	-	-	-	-
<i>Executive Directors:</i>						
Peter Stickland *	94%	92%	-	-	6%	8%
<i>Other Key Management Personnel:</i>						
Robert Zammit	93%	87%	-	-	7%	13%
Colin Naylor	96%	89%	-	-	4%	11%

* Mr Stickland resigned as Managing Director on 12 January 2018 and continued to act Non-executive director thereafter. The disclosures above reflect his remuneration during his tenure as Non-executive director and Executive director, respectively.

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Robert Zammit
Title: Chief Executive Officer
Agreement commenced: 12 January 2018
Term of agreement: No fixed term
Details: Total remuneration package of \$300,000 per annum (inclusive of superannuation).

He is entitled to an Incentive Bonus of up to 33.3% of the base salary at the discretion of the board at the end of each year dependent on the success in meeting key deliverables.

He was granted 2,584,949 performance rights on 10 May 2018; these will vest on 30 April 2019, provided he completes continuous service for the Company until that time. These performance rights were issued on consideration for Mr Zammit accepting a reduction in his cash salary.

The executive can terminate the agreement with 3 months' notice. The Company can terminate the agreement with 3 months' notice, or payment in lieu thereof. In addition, if the Company terminates the executive's employment, the Company must pay a lump sum amount calculated as 16.67 weeks' remuneration, plus 4 weeks' remuneration for each completed year of continuous service from 1 February 2016 plus 2 weeks' remuneration for each part-completed year of continuous service.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

Name	Date	Shares	Issue price	\$
Robert Zammit*	18 August 2017	5,939,612	-	-
Colin Naylor*	18 August 2017	4,610,519	-	-

* Shares were issued upon the conversion of performance rights. The performance rights were granted in February 2016.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of options		Vesting date and		Exercise price	Fair value per option at grant date
	granted	Grant date	exercisable date	Expiry date		
Robert Zammit	1,000,000	28 March 2017	28 March 2018	27 September 2020	\$0.032	\$0.016
Robert Zammit	1,000,000	28 March 2017	28 March 2019	27 September 2020	\$0.032	\$0.016
Colin Naylor	1,000,000	28 March 2017	28 March 2018	27 September 2020	\$0.032	\$0.016
Colin Naylor	1,000,000	28 March 2017	28 March 2019	27 September 2020	\$0.032	\$0.016
Peter Stickland	1,500,000	23 November 2017	28 March 2018	27 September 2020	\$0.032	\$0.008
Peter Stickland	1,500,000	23 November 2017	28 March 2019	27 September 2020	\$0.032	\$0.008

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

Name	Number of options granted during the year 2018	Number of options granted during the year 2017	Number of options vested during the year 2018	Number of options vested during the year 2017
Robert Zammit	-	2,000,000	1,000,000	-
Colin Naylor	-	2,000,000	1,000,000	-
Peter Stickland	3,000,000	-	1,500,000	-

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

Name	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
Robert Zammit	-	16,745	-	6%
Colin Naylor	-	16,745	-	4%
Peter Stickland	24,442	12,221	-	6%

Performance rights

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of rights granted	Grant date	Vesting date and exercisable date	Expiry date	Fair value per right at grant date
Robert Zammit	2,584,949	10 May 2018	30 April 2019	30 April 2021	\$0.009

Performance rights granted carry no dividend or voting rights.

The number of performance rights over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

Name	Number of rights granted during the year 2018	Number of rights granted during the year 2017	Number of rights vested during the year 2018	Number of rights vested during the year 2017
Peter Stickland	-	-	-	5,333,333
Robert Zammit	2,584,949	-	-	5,939,612
Colin Naylor	-	-	-	4,610,519

Values of performance rights over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2018 are set out below:

Name	Value of rights granted during the year \$	Value of rights vested during the year \$	Value of rights lapsed during the year \$	Remuneration consisting of rights for the year %
Robert Zammit	23,265	-	-	1%

Additional information

The earnings of the consolidated entity for the five years to 30 June 2018 are summarised below:

	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000
Profit/(loss) after income tax	(6,100)	(2,121)	(10,406)	(10,042)	(135,910)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2018	2017	2016	2015	2014
Share price at financial year end (\$)	0.012	0.017	0.015	0.015	0.030
Basic earnings per share (cents per share)	(0.41)	(0.26)	(1.31)	(1.34)	(21.12)

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received upon exercise of performance rights	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Andrew Purcell	2,388,198	-	51,644,099	-	54,032,297
Michael Sandy*	1,716,667	-	1,968,334	-	3,685,001
Peter Stickland**	5,870,367	-	4,045,184	-	9,915,551
Robert Zammit	1,848,889	5,939,612	-	-	7,788,501
Colin Naylor	981,667	4,610,519	-	-	5,592,186
	<u>12,805,788</u>	<u>10,550,131</u>	<u>57,657,617</u>	<u>-</u>	<u>81,013,536</u>

* After the end of the financial year, Mr Sandy acquired a further 656,112 shares on the exercise of unquoted options.

** After the end of the financial year, Mr Stickland acquired a further 1,348,395 shares on the exercise of unquoted options and an additional 5,333,333 shares on the conversion of performance rights.

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Acquired in connection with shareholders' share entitlement offer	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Andrew Purcell	-	-	17,048,033	-	17,048,033
Michael Sandy	-	-	656,112	-	656,112
Peter Stickland	-	3,000,000	1,348,395	-	4,348,395
Robert Zammit	2,000,000	-	-	-	2,000,000
Colin Naylor	2,000,000	-	-	-	2,000,000
	<u>4,000,000</u>	<u>3,000,000</u>	<u>19,052,540</u>	<u>-</u>	<u>26,052,540</u>

	Vested and exercisable	Vested and unexercisable	Balance at the end of the year
<i>Options over ordinary shares</i>			
Peter Stickland	1,500,000	-	1,500,000
Robert Zammit	1,000,000	-	1,000,000
Colin Naylor	1,000,000	-	1,000,000
	<u>3,500,000</u>	<u>-</u>	<u>3,500,000</u>

Performance rights holding

The number of performance rights over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Converted	Expired/ forfeited/ other	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
Peter Stickland	5,333,333	-	-	-	5,333,333
Robert Zammit	5,939,612	2,584,949	(5,939,612)	-	2,584,949
Colin Naylor	4,610,519	-	(4,610,519)	-	-
	<u>15,883,464</u>	<u>2,584,949</u>	<u>(10,550,131)</u>	-	<u>7,918,282</u>

	Vested and exercisable	Vested and unexercisable	Balance at the end of the year
<i>Performance rights over ordinary shares</i>			
Peter Stickland	5,333,333	-	5,333,333
	<u>5,333,333</u>	-	<u>5,333,333</u>

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Melbana Energy Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price \$	Number under option
03 November 2016	03 November 2019	\$0.065	4,000,000
28 March 2017	27 September 2020	\$0.032	8,250,000
23 November 2017	23 November 2020	\$0.018	20,000,000
23 November 2017	27 September 2020	\$0.032	3,000,000
13 August 2018	Still to be confirmed*	\$0.022	80,000,000
			<u>115,250,000</u>

* Expiry date of these options is not known at date of this report. The options, which were issued to director Mr Andrew Purcell as compensation for his providing a personal guarantee to support a loan made to the Company, will vest seven months after the repayment of that loan and will expire twelve months after the vesting date. The loan is due for repayment by 10 January 2019, but the actual repayment date is not currently known and, therefore, the options' vesting date and expiry date are also not currently known.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares under performance rights

Unissued ordinary shares of Melbana Energy Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
10 May 2018	30 April 2021	-	6,763,158

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

The following ordinary shares of Melbana Energy Limited were issued during the year ended 30 June 2018 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price \$	Number of shares issued
23 August 2017	\$0.02	9,977,657

Shares issued on the exercise of performance rights

The following ordinary shares of Melbana Energy Limited were issued during the year ended 30 June 2018 and up to the date of this report on the exercise of performance rights granted:

Date performance rights granted	Exercise price	Number of shares issued
07 December 2015	-	5,333,333
04 February 2016	-	<u>20,940,032</u>
		<u>26,273,365</u>

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the end of the financial year.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 26 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 26 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Ernst & Young

There are no officers of the Company who are former partners of Ernst & Young.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

Ernst & Young continues in office in accordance with section 327 of the Corporations Act 2001.

Notes regarding Contingent and Prospective resource estimates

1. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.
2. The information that relates to Contingent Resources and Prospective Resources for Melbana is based on, and fairly represents, information and supporting documentation compiled by Mr. Dean Johnstone, who is an employee of the company and has more than 34 years of relevant experience. Mr. Johnstone is a member of the American Association of Petroleum Geologists. Mr. Johnstone consents to the publication of the resource assessments contained herein. The Contingent Resource and Prospective Resource estimates are consistent with the definitions of hydrocarbon resources that appear in the Listing Rules.
3. Total Liquids = oil + condensate
4. 6 Bcf gas equals 1 MMboe; 1 MMbbl condensate equals 1 MMboe
5. Melbana share can be derived by pro-rating the resource ranges described in the tables above by its percentage equity.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Andrew Purcell
Chairman

26 September 2018

Auditor's Independence Declaration to the Directors of Melbana Energy Limited

As lead auditor for the audit of Melbana Energy Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Melbana Energy Limited and the entities it controlled during the financial year.



Ernst & Young



Tony Morse
Partner
26 September 2018

Melbana Energy Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018



	Note	Consolidated 2018 \$'000	2017 \$'000
Interest income	5	20	71
Other income	6	392	-
Expenses			
Settlement costs	7	(300)	-
Exploration expenditure written off/down	15	(3,691)	(455)
Administration	8	(2,353)	(1,672)
Net foreign exchange loss		-	(33)
Finance costs		(96)	-
Loss before income tax expense		(6,028)	(2,089)
Income tax expense	9	(72)	(32)
Loss after income tax expense for the year attributable to the owners of Melbana Energy Limited	22	(6,100)	(2,121)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		1	1
Other comprehensive income for the year, net of tax		1	1
Total comprehensive income for the year attributable to the owners of Melbana Energy Limited		(6,099)	(2,120)
		Cents	Cents
Basic earnings per share	35	(0.41)	(0.26)
Diluted earnings per share	35	(0.41)	(0.26)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Melbana Energy Limited
Statement of financial position
As at 30 June 2018



	Note	Consolidated 2018 \$'000	2017 \$'000
Assets			
Current assets			
Cash and cash equivalents	10	3,047	2,605
Other receivables	11	63	23
Other financial assets	12	3,073	11
Total current assets		<u>6,183</u>	<u>2,639</u>
Non-current assets			
Plant and equipment	13	102	73
Exploration and evaluation	15	4,470	3,817
Total non-current assets		<u>4,572</u>	<u>3,890</u>
Total assets		<u>10,755</u>	<u>6,529</u>
Liabilities			
Current liabilities			
Trade and other payables	16	454	312
Borrowings	17	3,099	-
Provisions	18	453	312
Total current liabilities		<u>4,006</u>	<u>624</u>
Non-current liabilities			
Provisions	19	54	126
Total non-current liabilities		<u>54</u>	<u>126</u>
Total liabilities		<u>4,060</u>	<u>750</u>
Net assets		<u>6,695</u>	<u>5,779</u>
Equity			
Issued capital	20	272,790	265,935
Reserves	21	495	334
Accumulated losses	22	(266,590)	(260,490)
Total equity		<u>6,695</u>	<u>5,779</u>

The above statement of financial position should be read in conjunction with the accompanying notes

Melbana Energy Limited
Statement of changes in equity
For the year ended 30 June 2018



Consolidated	Issued capital \$'000	Share-based payment reserve \$'000	Foreign currency reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2016	263,823	448	17	(258,684)	5,604
Loss after income tax expense for the year	-	-	-	(2,121)	(2,121)
Other comprehensive income for the year, net of tax	-	-	1	-	1
Total comprehensive income for the year	-	-	1	(2,121)	(2,120)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity (note 20)	2,233	-	-	-	2,233
Share issue costs (note 20)	(121)	-	-	-	(121)
Share-based payments	-	183	-	-	183
Expiry of unvested options	-	(315)	-	315	-
Balance at 30 June 2017	265,935	316	18	(260,490)	5,779

Consolidated	Issued capital \$'000	Share-based payment reserve \$'000	Foreign currency reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2017	265,935	316	18	(260,490)	5,779
Loss after income tax expense for the year	-	-	-	(6,100)	(6,100)
Other comprehensive income for the year, net of tax	-	-	1	-	1
Total comprehensive income for the year	-	-	1	(6,100)	(6,099)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity (note 20)	7,307	-	-	-	7,307
Share issue costs (note 20)	(910)	-	-	-	(910)
Share issue as part settlement of Block 9 commercial dispute	250	-	-	-	250
Share-based payments (performance rights)	-	124	-	-	124
Share-based payments (options)	-	244	-	-	244
Exercise of performance rights	208	(208)	-	-	-
Balance at 30 June 2018	272,790	476	19	(266,590)	6,695

The above statement of changes in equity should be read in conjunction with the accompanying notes

Melbana Energy Limited
Statement of cash flows
For the year ended 30 June 2018



	Note	Consolidated	
		2018 \$'000	2017 \$'000
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(2,708)	(1,360)
Interest received		24	74
Research and development tax incentive received		357	-
		<hr/>	<hr/>
Net cash used in operating activities	33	<u>(2,327)</u>	<u>(1,286)</u>
Cash flows from investing activities			
Payments for property, plant and equipment	13	(50)	(16)
Payments for exploration and evaluation	15	(3,716)	(2,290)
Payments for security deposits for bank guarantee		(2,937)	-
Proceeds from disposal of property, plant and equipment		-	13
		<hr/>	<hr/>
Net cash used in investing activities		<u>(6,703)</u>	<u>(2,293)</u>
Cash flows from financing activities			
Proceeds from issue of shares	20	7,307	2,233
Proceeds from borrowings		2,848	-
Share issue transaction costs		(737)	(152)
		<hr/>	<hr/>
Net cash from financing activities		<u>9,418</u>	<u>2,081</u>
Net increase/(decrease) in cash and cash equivalents		388	(1,498)
Cash and cash equivalents at the beginning of the financial year		2,605	4,136
Effects of exchange rate changes on cash and cash equivalents		54	(33)
		<hr/>	<hr/>
Cash and cash equivalents at the end of the financial year	10	<u><u>3,047</u></u>	<u><u>2,605</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The financial statements cover Melbana Energy Limited as a consolidated entity consisting of Melbana Energy Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Melbana Energy Limited's functional and presentation currency.

Melbana Energy Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are disclosed on the Corporate Summary accompanying these financial statements.

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 September 2018.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

The amendments to AASB 107 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The requirements of this amendment are disclosed in Note 34.

Going concern

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

At 30 June 2018, the consolidated entity:

- had, for the financial year ending on that date, incurred a net loss after tax of \$6,100,000 (2017: \$2,121,000);
- had, for the financial year ending on that date, net cash outflows from operating and investing activities of \$9,030,000 (\$6,093,000 excluding security deposit payment) (2017: \$3,579,000);
- had cash and cash equivalents on hand of \$3,047,000 (2017: \$2,605,000); and
- had a net working capital position of \$2,177,000 (2017: \$2,015,000).
- had current borrowings of \$3,099,000 (2017: nil).

At the date of this report, the Group is contractually committed to the commencement of drilling an exploration well within Cuba Block 9 (Melbana 100%) (further details are located in Note 27)

To meet these funding requirements and its ongoing operational debts as and when they fall due the Group will need to take appropriate steps, including a combination of:

- Raising capital by one of or a combination of the following: placement of shares, pro-rata issue to shareholders, the exercise of outstanding share options, and/or further issue of shares to the public;
- Meeting its obligations by either farm-out or partial sale of the Group's exploration interests;
- Subject to negotiation and approval, minimum work requirements may be varied or suspended, and/or permits may be surrendered or cancelled; or
- Other avenues that may be available to the Group.

Note 2. Significant accounting policies (continued)

This financial report has been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. In the event these steps do not provide sufficient funds to meet the consolidated entity's exploration commitments, the interest in some or all of the consolidated entity's tenements may be affected. No adjustments have been made relating to the recoverability and reclassification of recorded asset amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern, particularly the write-down of capitalised exploration expenditure should the exploration permits be ultimately surrendered or cancelled.

Having carefully assessed the potential uncertainties relating to the consolidated entity's ability to effectively fund exploration activities and operating expenditures, the Directors believe that the consolidated entity will continue to operate as a going concern for the foreseeable future. Therefore, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the AASB and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Melbana Energy Limited ('Company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Melbana Energy Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Specifically, the consolidated entity controls an investee if and only if the consolidated entity has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the consolidated entity has less than a majority of the voting or similar rights of an investee, the consolidated entity considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The consolidated entity's voting rights and potential voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Note 2. Significant accounting policies (continued)

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

The consolidated entity's consolidated financial statements are presented in Australian dollars, which is also the parent company's functional currency. Each entity in the consolidated entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date. All exchange differences in the consolidated report are taken to profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other income

Other income is recognised when it is received or when the right to receive payment is established.

Grant Income

Research and Development tax credits are recognised in accordance with AASB 120: Accounting for Government Grants and Government Assistance. The Research and development tax credit is recognised when there is reasonable assurance that the grant will be received and all conditions have been complied with. The Grant has been recognised as other income within the period.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Note 2. Significant accounting policies (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the consolidated statement of comprehensive income.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash at bank and on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance date which are classified as non-current assets. Loans and receivables are included in receivables in the consolidated statement of financial position.

Note 2. Significant accounting policies (continued)

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade date, the date on which the Group commits to purchase or sell the asset.

Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement, have rights to assets, and obligations for the liabilities of the joint arrangement. Joint control is the contractual agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The consolidated entity accounts for its share of the joint operation assets, and liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint operation's output, together with its share of the expenses incurred by the joint operation, and any expenses it incurs in relation to its interest in the joint operation.

Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives which range from 3 to 15 years.

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the consolidated statement of comprehensive income in the period the item is derecognised.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is written down to its recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Exploration and evaluation assets

Exploration and evaluation expenditure is carried at cost. If indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Exploration and evaluation costs are accumulated separately for each current area of interest and carried forward provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development or sale; or
- exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Note 2. Significant accounting policies (continued)

Impairment of exploration and evaluation costs

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits/(losses) and net assets will be varied in the period in which this determination is made.

Farm-outs

- The consolidated entity will not record any expenditure made by the farminee on its behalf;
- The consolidated entity will not recognise a gain or loss on the farm-out arrangement but rather will redesignate any costs previously capitalised in relation to the whole interest as relating to the partial interest retained; and
- Any cash consideration to be received will be credited against costs previously capitalised in relation to the whole interest with any excess to be accounted for by the consolidated entity as gain on disposal.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are recognised in provisions in respect of employees' service up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Note 2. Significant accounting policies (continued)

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital

Ordinary shares are classified as equity and paid up capital is recognised at the fair value of the consideration received by the consolidated entity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Melbana Energy Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Note 2. Significant accounting policies (continued)

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement.

This standard modifies the classification and measurement of financial assets. It includes:

- A single, principle-based approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held
- A new expected credit loss impairment model requiring expected losses to be recognised when financial assets are first recognised;
- A modification of hedge accounting to align the accounting treatment with risk management practices of an entity.

The consolidated entity will adopt this standard from its application date of 1 July 2018. Initial assessment of existing financial instruments by the consolidated entity has commenced, however we have not fully determined the impact on recognition and measurement of financial instruments as our analysis is still ongoing.

AASB 15 Revenue from Contracts with Customers

The core principle of AASB 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to the customer. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.

Assessment of the new standard has focused on identifying any components of the consolidated entity's contractual arrangements to which AASB 15 would be applicable and understanding the nature of those arrangements, in particular, whether there are any key terms and conditions that may impact revenue recognition. At present, as the consolidated entity has no relevant sales contracts in place, there are no significant matters identified which would impact revenue recognition.

The consolidated entity will adopt this standard from its application date of 1 July 2018. Initial assessment of existing contracts by the consolidated entity has commenced, however we have not fully determined the revenue recognition impact as our analysis is still ongoing.

AASB 16 Leases

AASB 16 sets out a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. AASB 16 applies a control model for the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard requires lessees to account for leases under an on-balance sheet model with the distinction between operating and finance leases being removed. Lessors continue to classify leases and account for them as operating or finance leases

The consolidated entity will adopt this standard from its application date of 1 July 2019. The consolidated entity is yet to finalise its assessment and has not quantified any impact.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Exploration and evaluation costs

Exploration and evaluation costs are accumulated separately for each area of interest and carried forward provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development or sale; or
- exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Significant judgement is required in determining whether it is likely that future economic benefits will be derived from the capitalised exploration and evaluation expenditure.

In the judgement of the Directors, at 30 June 2018, the carried-forward exploration and evaluation costs associated with PEP51153, AC/P50 and AC/P51 were assessed to exceed their future recoverable values. Accordingly, PEP51153 was written down to \$100,000, while AC/P50 and AC/P51 were written down to nil, reflecting the estimated future economic benefits expected to be derived from the sale of these areas of interest.

In the judgement of the Directors, at 30 June 2018 exploration activities in Cuba Block 9 has not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. Active and significant operations in relation to Cuba Block 9 is continuing and nothing has come to the attention of the Directors to indicate future economic benefits will not be achieved. The Directors are continually monitoring the areas of interest and are exploring alternatives for funding the development of areas of interest when economically recoverable reserves are confirmed. If new information becomes available that suggests the recovery of expenditure is unlikely, the amounts capitalised will need to be reassessed at that time.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Note 4. Operating segments

The consolidated entity operates in the oil and gas exploration industry within Australia, New Zealand and Cuba.

The Board of Directors currently receive regular consolidated cash flow information as well as Consolidated Statement of Financial Position and Statement of Comprehensive Income information that is prepared in accordance with Australian Accounting Standards.

The Board does not currently receive segmented Statement of Financial Position and Statement of Comprehensive Income information. The Board manages exploration activities of each permit area through review and approval of budgets, joint venture cash calls and other operational information. Information regarding exploration expenditure capitalised for each area is contained in Note 15.

Note 5. Interest income

	Consolidated	
	2018	2017
	\$'000	\$'000
Interest	20	71

Note 6. Other income

	Consolidated	
	2018	2017
	\$'000	\$'000
Net foreign exchange gain	35	-
Government grants	357	-
Other income	392	-

Government grant income relates to Research and Development tax incentive received during the financial year.

Note 7. Settlement costs

	Consolidated	
	2018	2017
	\$'000	\$'000
Settlement costs	300	-

The settlement costs relate to a commercial settlement reached during the financial year ended 30 June 2018 between the Company and Petro Australis Limited (Petro Australis) in relation to the cancellation of Petro Australis' back in right to Block 9 PS. As a result of the settlement, Petro Australis relinquished all claims to its back-in right to the Block 9 PSC in consideration for Melbana paying A\$50,000 in cash and issuing 20.8 million Melbana shares to Petro Australis. As a result of the settlement, Melbana holds an unencumbered 100% interest in Block 9 PSC. The total of the settlement costs reflect the value of the consideration provided by the Company to Petro Australis.

Note 8. Net Administration expenses

	Consolidated	
	2018	2017
	\$'000	\$'000
Consultants fees and expenses	498	160
Employee benefits expense excluding superannuation and share-based payments	1,737	1,779
Defined contribution superannuation expense	121	116
Share based payments	123	183
Administration and other expenses	315	274
Audit costs	59	53
Securities exchange, share registry and reporting costs	106	126
Operating lease expenses	149	152
Investor relations and corporate promotion costs	85	99
Travel costs	105	107
Depreciation and amortisation expense	21	25
Office relocation costs	-	57
Gross administration costs	<u>3,319</u>	<u>3,131</u>
Less: Allocation to exploration activities	<u>(966)</u>	<u>(1,459)</u>
	<u><u>2,353</u></u>	<u><u>1,672</u></u>

Note 9. Income tax expense

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Income tax expense</i>		
Deferred tax	<u>72</u>	<u>32</u>
Aggregate income tax expense	<u><u>72</u></u>	<u><u>32</u></u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	<u>(6,028)</u>	<u>(2,089)</u>
Tax at the statutory tax rate of 27.5% (2017: 30%)	(1,658)	(627)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	34	55
Write off/impairment of overseas exploration expenses	736	-
Difference in overseas tax rates	-	69
Non-deductible expenses	<u>1</u>	<u>1</u>
Current year tax losses not recognised	<u>(887)</u>	<u>(502)</u>
Income tax expense	<u><u>72</u></u>	<u><u>32</u></u>

Note 10. Current assets - cash and cash equivalents

	Consolidated	
	2018	2017
	\$'000	\$'000
Cash at bank	3,003	591
Cash on deposit	44	2,014
	<u>3,047</u>	<u>2,605</u>

Note 11. Current assets - other receivables

	Consolidated	
	2018	2017
	\$'000	\$'000
Other receivables	33	13
BAS receivable	30	10
	<u>63</u>	<u>23</u>

Note 12. Current assets - other financial assets

	Consolidated	
	2018	2017
	\$'000	\$'000
Prepayments	-	11
Security deposits	3,073	-
	<u>3,073</u>	<u>11</u>

The security deposit has been made as security for a bank guarantee provided on the Company's behalf for the second exploration sub-period in accordance with the Block 9 Production Sharing Contract.

Note 13. Non-current assets - plant and equipment

	Consolidated	
	2018	2017
	\$'000	\$'000
Office equipment - at cost	646	596
Less: Accumulated depreciation	(544)	(523)
	<u>102</u>	<u>73</u>

Note 13. Non-current assets - plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Plant & equipment \$'000
Balance at 1 July 2016	106
Additions	16
Disposals	(24)
Depreciation expense	<u>(25)</u>
Balance at 30 June 2017	73
Additions	50
Depreciation expense	<u>(21)</u>
Balance at 30 June 2018	<u><u>102</u></u>

Note 14. Non-current assets - intangibles

	Consolidated	
	2018	2017
	\$'000	\$'000
Software - at cost	373	373
Less: Accumulated amortisation	<u>(373)</u>	<u>(373)</u>
	<u><u>-</u></u>	<u><u>-</u></u>

Note 15. Non-current assets - exploration and evaluation

	Consolidated	
	2018	2017
	\$'000	\$'000
Exploration and evaluation Block 9 Cuba - at cost	<u>4,370</u>	<u>3,096</u>
Exploration and evaluation PEP51153 - at cost	<u>100</u>	<u>88</u>
Exploration and evaluation AC/P50 & AC/P51 - at cost	<u>-</u>	<u>633</u>
	<u><u>4,470</u></u>	<u><u>3,817</u></u>

Note 15. Non-current assets - exploration and evaluation (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Block 9 Cuba \$'000	AC/P50 & AC/P51 \$'000	PEP 51153 \$'000	Other \$'000	Total \$'000
Balance at 1 July 2016	1,132	633	-	-	1,765
Expenditure during the year	1,964	-	88	455	2,507
Costs expensed	-	-	-	(455)	(455)
Balance at 30 June 2017	3,096	633	88	-	3,817
Expenditure during the year	1,274	-	2,476	628	4,378
Exchange differences	-	-	(34)	-	(34)
Write off/impairment of assets	-	(633)	(2,430)	-	(3,063)
Costs expensed	-	-	-	(628)	(628)
Balance at 30 June 2018	<u>4,370</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>4,470</u>

Significant judgement is required in determining whether it is likely that future economic benefits will be derived from capitalised exploration and evaluation expenditure. In the judgement of the Directors, at 30 June 2018 exploration activities in each area of interest, where costs are carried forward, have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. Active and significant operations in relation to each area of interest are continuing and nothing has come to the attention of the Directors to indicate future economic benefits will not be achieved. The Directors are continually monitoring the areas of interest and are exploring alternatives for funding the development of areas of interest when economically recoverable reserves are confirmed.

Following review by the Directors and management, the book value of PEP 51153 was written down to \$100,000 as at 30 June 2018, reflecting the estimated future economic benefits expected to be derived from this area of interest.

Following review by the Directors and management, the book value of AC/P50 and AC/P51 was written down to nil as at 30 June 2018, as it was not expected that any material future economic benefits would be derived from these areas of interest.

Note 16. Current liabilities - trade and other payables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade payables	406	105
Other payables	48	207
	<u>454</u>	<u>312</u>

Refer to note 24 for further information on financial instruments.

Note 17. Current liabilities - borrowings

	Consolidated	
	2018	2017
	\$'000	\$'000
Short term loan payable	3,099	-

Refer to note 24 for further information on financial instruments.

During the financial year ended 30 June 2018, the Company obtained a US\$2.5 million loan facility from Trans Asia Private Capital Limited, in its capacity as Manager, for and on behalf of Asian Trade Finance Fund 2, a sub-fund of TA Asian Multi-Finance Fund. The key terms of the loan are:

1. Annualised interest rate of 15%;
2. Maturity Date of the loan is January 10, 2019;
3. Secured by first ranking security over the Company's cash security deposit used to support the Bank Guarantee in relation to Block 9 Cuba;
4. A personal guarantee from Melbana's Chairman, Mr Purcell, in favour of the lender. Refer also Note 28 Related party transactions.

Note 18. Current liabilities - provisions

	Consolidated	
	2018	2017
	\$'000	\$'000
Annual leave	89	150
Long service leave	112	162
Employee benefits	252	-
	<u>453</u>	<u>312</u>

Employee benefits

The provision represents the obligation to pay a termination payment in relation to an executive who ceased employment after the end of the financial year, where notification of that cessation of employment was given by the Company before the end of that financial year.

Note 19. Non-current liabilities - provisions

	Consolidated	
	2018	2017
	\$'000	\$'000
Long service leave	54	126

Note 20. Equity - issued capital

	Consolidated			
	2018	2017	2018	2017
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	1,665,750,480	953,243,886	272,790	265,935

Note 20. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2016	891,204,960		263,823
Share placement	26 August 2016	46,900,000	\$0.036	1,688
Share purchase plan issue	23 September 2016	15,138,926	\$0.036	545
Share issue costs (net of tax)		-	-	(121)
Balance	30 June 2017	953,243,886		265,935
Share issue upon exercise of performance rights	18 August 2017	20,940,032	-	208
Share placement	23 August 2017	178,733,229	\$0.01	1,787
Entitlement offer	13 September 2017	152,185,161	\$0.01	1,522
Shares issued to underwriters	15 September 2017	189,814,839	\$0.01	1,898
Share issue as part settlement of commercial dispute	6 December 2017	20,833,333	-	250
Share placement	21 December 2017	150,000,000	\$0.014	2,100
Share issue costs (net of tax)		-	-	(910)
Balance	30 June 2018	<u>1,665,750,480</u>		<u>272,790</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share issue costs

Incremental costs directly attributable to the issue of new shares or options, including transactional costs and fees payable to relevant service providers, are shown in equity as a deduction, net of tax, from the proceeds.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 2017 Annual Report.

Note 21. Equity - reserves

	Consolidated	
	2018	2017
	\$'000	\$'000
Foreign currency reserve	19	17
Share-based payments reserve	476	317
	<u>495</u>	<u>334</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Share based payments reserve \$'000	Foreign currency reserve \$'000	Total \$'000
Balance at 1 July 2016	448	17	465
Foreign currency translation	-	1	1
Cost of share based payments	183	-	183
Options expired	(315)	-	(315)
	<u>316</u>	<u>18</u>	<u>334</u>
Balance at 30 June 2017	316	18	334
Foreign currency translation	-	1	1
Cost of share based payments	124	-	124
Exercise of performance rights	(208)	-	(208)
Issues of options to service providers	244	-	244
	<u>476</u>	<u>19</u>	<u>495</u>
Balance at 30 June 2018	476	19	495

Note 22. Equity - accumulated losses

	Consolidated	
	2018	2017
	\$'000	\$'000
Accumulated losses at the beginning of the financial year	(260,490)	(258,684)
Loss after income tax expense for the year	(6,100)	(2,121)
Transfer from share based payment reserve	-	315
	<u>(266,590)</u>	<u>(260,490)</u>
Accumulated losses at the end of the financial year	(266,590)	(260,490)

Note 23. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 24. Financial instruments

Financial risk management objectives

The consolidated entity's principal financial instruments comprise cash and short term deposits, the main purpose of which is to finance the consolidated entity's operations. The consolidated entity has various other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations and, as at 30 June 2018, a significant US dollar term deposit and US dollar short term loan payable. The main risks arising from the consolidated entity's financial instruments are credit risk, interest rate risk, exchange rate risk and liquidity risk. The Board of Directors has reviewed each of those risks and has determined that, overall, they are not significant in terms of the consolidated entity's current activities. The consolidated entity may also enter into derivative financial instruments, principally forward currency contracts. The purpose is to manage the currency risks arising from the consolidated entity's operations. Speculative trading in derivatives is not permitted. There are no derivatives outstanding at 30 June 2018 (2017: \$nil).

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the consolidated financial statements.

Market risk

Foreign currency risk

Generally, the consolidated entity's main exposure to exchange rate risk relates primarily to trade payables and cash denominated in US dollars, arising in relation to its activities in Cuba. Where a payable is significant, US dollars may be purchased on incurring the liability or commitment.

In addition to the above, as at 30 June 2018, the consolidated entity had in place a significant US dollar term deposit, and a significant US dollar short term loan liability.

The consolidated entity's exposure to unhedged financial assets and liabilities at balance date is as follows:

	Consolidated	
	2018	2017
	\$'000	\$'000
USD financial assets		
Cash on hand and at bank	1,896	554
Term deposit	3,073	-
	<u>4,969</u>	<u>554</u>
USD financial liabilities		
Trade creditors	66	-
Short term loan payable	3,099	-
	<u>3,165</u>	<u>-</u>
NZD financial assets		
Cash on hand and at bank	63	-
	<u>63</u>	<u>-</u>
EUR financial assets		
Cash on hand and at bank	1	-
	<u>1</u>	<u>-</u>

Note 24. Financial instruments (continued)

	Consolidated	
	2018 \$'000	2017 \$'000
EUR financial liabilities		
Trade creditors	<u>32</u>	<u>-</u>

The consolidated entity had net liabilities denominated in foreign currencies of \$1,836,000 (assets of \$5,033,000 less liabilities of \$3,197,000) as at 30 June 2018 (2017: \$554,000 (assets of \$554,000 less liabilities of \$Nil)). Based on this exposure, had the Australian dollars strengthened by 5%/weakened by 5% (2017: strengthened by 10%/weakened by 10%) against these foreign currencies with all other variables held constant, the consolidated entity's profit before tax for the year would have been \$88,000 higher/\$96,000 lower (2017: \$66,000 lower/\$80,000 higher) and equity would have been \$88,000 higher/\$96,000 lower (2017: \$66,000 lower/\$80,000 higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months each year and the spot rate at each reporting date.

An analysis of the exchange rate sensitivity by foreign currency is as follows:

Consolidated - 2018	% change	AUD strengthened Effect on profit before tax \$'000		% change	AUD weakened Effect on profit before tax \$'000	
			Effect on equity \$'000			Effect on equity \$'000
US dollars net financial assets/liabilities	5%	86	86	5%	(95)	(95)
NZ dollars net financial assets/liabilities	5%	3	3	5%	(3)	(3)
Euros net financial assets/liabilities	5%	<u>(1)</u>	<u>(1)</u>	5%	<u>2</u>	<u>2</u>
		<u>88</u>	<u>88</u>		<u>(96)</u>	<u>(96)</u>

Consolidated - 2017	% change	AUD strengthened Effect on profit before tax \$'000		% change	AUD weakened Effect on profit before tax \$'000	
			Effect on equity \$'000			Effect on equity \$'000
US dollars net financial assets/liabilities	10%	<u>(66)</u>	<u>(66)</u>	10%	<u>80</u>	<u>80</u>

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity's exposure to the risk of changes in market interest rates relates primarily to the consolidated entity's cash and cash equivalents with a floating interest rate. Short term deposits are made for varying periods depending on the immediate cash requirements of the consolidated entity, and earn interest at the respective short term deposit rates.

Taking into account the current cash balance, a +/- 1.0% movement from the year-end Australian interest rates will not have a material impact on the profit or loss and cash balances of the consolidated entity.

Additionally, as at 30 June 2018 the consolidated entity had in place a significant short term loan payable. This loan has a fixed interest rate of 15% per annum. The consolidated entity also had in place a significant term deposit with a fixed interest rate of 0.72% per annum.

Note 24. Financial instruments (continued)

Credit risk

The consolidated entity trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the results being that the consolidated entity's exposure to bad debts is not significant.

Credit risk arises from the financial assets of the consolidated entity, which comprise cash and cash equivalents and trade and other receivables. The consolidated entity's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. No collateral is held as security. Exposure at balance date is the carrying value as disclosed in each applicable note.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2018	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	454	-	-	-	454
Employee provision	-	252	-	-	-	252
<i>Interest-bearing - fixed rate</i>						
Other loans	15.00%	3,358	-	-	-	3,358
Total non-derivatives		4,064	-	-	-	4,064

Consolidated - 2017	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	312	-	-	-	312
Total non-derivatives		312	-	-	-	312

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 25. Key management personnel disclosures

Compensation

The aggregate compensation to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2018	2017
	\$	\$
Short-term employee benefits	1,039,456	933,091
Post-employment benefits	60,147	71,382
Long-term benefits	(24,689)	23,975
Termination benefits	251,922	-
Share-based payments	62,680	106,880
	<u>1,389,516</u>	<u>1,135,328</u>

Note 26. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the Company:

	Consolidated	
	2018	2017
	\$	\$
<i>Audit services - Ernst & Young</i>		
Audit or review of the financial statements	<u>58,600</u>	<u>52,500</u>
<i>Other services - Ernst & Young</i>		
Tax services	<u>9,000</u>	<u>7,810</u>
	<u>67,600</u>	<u>60,310</u>

Note 27. Commitments

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	131	151
One to five years	-	26
	<u>131</u>	<u>177</u>

Operating lease commitments comprises contracted amounts for office rental under a non-cancellable operating lease expiring within 1 year with an option to extend. The lease has an escalation clause. On renewal, the terms of the lease are expected to be renegotiated.

Guarantee

The consolidated entity has provided guarantees of \$44,300 (2017: \$44,300) at 30 June 2018 for lease of premises.

Note 27. Commitments (continued)

Exploration Commitments

In order to maintain rights of tenure to petroleum exploration tenements, the consolidated entity has discretionary exploration requirements up until the expiry of the primary term of the tenements. These requirements, which are subject to renegotiation, are not provided for in the financial statements. If the consolidated entity decides to relinquish certain tenements and/or does not meet these obligations, assets recognised in the Statement of financial position may require review in order to determine the appropriateness of carrying values. The commitments for exploration expenditure of approximately \$7,000,000 include the minimum expenditure requirements that the consolidated entity is required to meet in order to retain its present permit interests over the next fiscal year. These obligations may be subject to renegotiation, may be farmed out or may be relinquished.

For Australian exploration permits in the jurisdiction of the Commonwealth of Australia, the first three-years of a work program are referred to as the primary term. The work program is guaranteed and cannot be reduced. Later years (4, 5 and 6) are referred to as the secondary term and the work program for each year becomes guaranteed upon entry to that year. Whilst failure to complete a guaranteed work program does not result in a financial penalty, it is grounds for cancellation of the permit. Further, the default may be considered by the Regulator in relation to future interactions with the defaulting party for a period of 5 years.

AC/P50 and AC/P51 (Melbana 55%*)

As at 30 June 2018, each permit had an obligation to drill an exploration well in 2019 financial year, however there was an open application that had been submitted to the regulatory authority to amend the work program obligations, including a deferral of the well. Subsequently on 3 July 2018, the work program was amended following the approval from the regulator. On 22 August 2018, the subsidiary holding the AC/P50 and AC/P51 permits was divested and Melbana has no further obligations.

WA-488-P (Melbana 100%)

In 2013, Melbana was awarded WA-488-P for a six year period with a minimum commitment being the three year primary term ending 21 May 2017.

Permit Year 1 work program (ending 21 May 2014) was 400km 2D seismic – Work program completed

Permit Year 2 – work program (ending 21 September 2018) undertake 330km of 2D seismic broadband reprocessing and additional studies including a stratigraphic interpretation study and an analogue field study. On August 2018, Melbana announced that the Regulator has approved its application for the crediting of the 2018 Beehive 3D Seismic Survey against meeting the Permit Year 4 work commitment to acquire a new 400km² 3D seismic survey.

Permit Year 3 – work program (ending 21 December 2020) drilling of an exploration well. French major Total and Australia's Santos have an option (expiring 6 months from the receipt of processed data from the Beehive 3D Seismic Survey) to fully fund the first well in the WA-488-P permit in return for an 80% participating interest in the permit.

PEP51153 (Melbana 30% interest)

PEP51153 expires on 23 September 2018. The minimum work program for PEP51153 has been completed during the year and an appraisal extension of the permit has been applied for.

Note 27. Commitments (continued)

Cuba Block 9 (Melbana 100% interest)

In September 2015, Melbana executed the Cuba Block 9 Production Sharing Contract (PSC) with the national oil company Cuba Petróleo Union (CUPET).

The exploration period of the Block 9 PSC is split into four sub-periods with withdrawal options at the end of each sub-period.

In November 2017 the company announced that CUPET approved an adjustment to the Block 9 PSC exploration sub-periods such that the first exploration sub-period, which commenced in September 2015 (for an 18 month period) was extended by eight months to November 2018 with a corresponding reduction in the term of future sub-periods. The work program in the first sub-period consisting of evaluating existing exploration data in the block and reprocessing selected 2D seismic data is unchanged and substantially complete.

In July 2018 CUPET approved a further amendment to the Block 9 PSC exploration work program, deferring the obligation to undertake a 200km 2D seismic survey in the second exploration sub-period starting November 2018 to the third sub-period starting November 2019 and accelerating the obligation to drill an exploration well from the third sub-period to the second exploration sub-period. On August 11, 2017 Melbana announced it had provided official notice to Cuban regulatory authority of commitment to Block 9 second exploration sub-period.

Summary

Melbana costs for the current sub-period until November 2019 are estimated to be US\$5,000,000.

There are no material commitments or contingencies other than as set out in this note.

Note 28. Related party transactions

Parent entity

Melbana Energy Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 30.

Key management personnel

Disclosures relating to key management personnel are set out in note 25 and the remuneration report included in the directors' report.

Transactions with related parties

During the year ended 30 June 2018 the Chairman of the Company, Mr Andrew Purcell, provided a personal guarantee in favour of TransAsia Private Capital Limited ("TransAsia") in connection with a loan made by TransAsia to the Company. Details of the loan are set out in Note 17. As consideration for the provision of the personal guarantee, the Company issued 80,000,000 options to Mr Purcell on 13 August 2018. Details of these options are set out in Note 32. The guarantee remained in place as at 30 June 2018.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 29. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2018	2017
	\$'000	\$'000
Loss after income tax	(6,568)	(1,623)
Total comprehensive income	<u>(6,568)</u>	<u>(1,623)</u>

Statement of financial position

	Parent	
	2018	2017
	\$'000	\$'000
Total current assets	<u>10,235</u>	<u>3,735</u>
Total assets	<u>10,591</u>	<u>6,905</u>
Total current liabilities	<u>3,978</u>	<u>595</u>
Total liabilities	<u>4,032</u>	<u>721</u>
Equity		
Issued capital	269,618	262,834
Share-based payments reserve	476	317
Accumulated losses	<u>(263,535)</u>	<u>(256,967)</u>
Total equity	<u><u>6,559</u></u>	<u><u>6,184</u></u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity, as the Guarantor, unconditionally and irrevocably guarantees the performance of MEO International Pty Ltd in relation to PEP51153 obligations.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 30. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
North West Shelf Exploration Pty Ltd	Australia	100%	100%
Methanol Australia Pty Ltd	Australia	100%	100%
LNG Australia Pty Ltd	Australia	100%	100%
TSP Arafura Petroleum Pty Ltd	Australia	100%	100%
Oz-Exoil Pty Ltd	Australia	100%	100%
Vulcan Exploration Pty Ltd	Australia	100%	100%
MEO International Pty Ltd*	Australia	100%	100%
Finniss Offshore Exploration Pty Ltd	Australia	100%	100%
MEO New Zealand Pty Limited	New Zealand	100%	100%

Note 31. Interests in joint operations

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
PEP51153*	New Zealand	30%	30%
AC/P50 & AC/P51**	Australia	55%	55%

* Melbana Energy, through its wholly-owned subsidiary, MEO New Zealand Pty Limited, holds a 30% interest in the PEP51153 in New Zealand. The principal activity of the joint operation is the exploration, development and production of hydrocarbons.

** Melbana Energy, through its wholly-owned subsidiary, Vulcan Exploration Pty Ltd, holds 55% interest in AC/P50 and AC/P51. The principal activity of the joint operation is the exploration, development and production of hydrocarbons.

Commitments related to joint operation assets

Commitments relating to the joint operation assets are set out in Note 27 to the accounts.

Contingent liabilities

As at 30 June 2018, there are no contingent liabilities relating to PEP51153 (2017:Nil).

Note 32. Events after the reporting period

On 6 July 2018 the Company issued 5,333,333 shares to Non-executive Director Mr Peter Stickland following the exercise by Mr Stickland of performance rights. The performance rights had an exercise price of \$Nil.

On 7 August 2018 the Company announced that Independent Expert McDaniel & Associates (Canada) has completed its assessment of the Prospective Resources of Cuba Block 9 and Beehive in Australia resulting in Block 9 best estimate Oil In Place increasing by 24% to more than 15.7 billion barrels of oil and recoverable Prospective Resources increasing by 13% to 718 million barrels of oil.

On 13 August 2018 the Company issued 3,141,226 shares upon the exercise of Unlisted options with an exercise price of \$0.02. The share issue included 2,004,507 shares issued to Directors of the Company.

Note 32. Events after the reporting period (continued)

On 13 August 2018 the Company issued 80,000,000 unquoted options to Mr Andrew Purcell, the Chairman of the Company. Each option is an option to acquire a fully paid ordinary share in the Company. The options were issued to Mr Purcell as compensation for providing a personal guarantee over the Loan Agreement with TransAsia Private Capital Limited ("TransAsia") pursuant to Resolution 3, approved by shareholders at the Company's General Meeting held on 9 August 2018. Details of the loan are set out in Note 17. The options will vest seven months after the repayment of the loan and will expire twelve months after the vesting date. The loan is due for repayment by 10 January 2019, but the actual repayment date is not currently known and, therefore, the options' vesting date and expiry date are also not currently known. The options have an exercise price of \$0.022 (2.2 cents) each.

On 14 August 2018, the Company announced that acquisition of the Beehive 3D Seismic Survey has been completed safely and without incident and that during the planning of the Beehive 3D Seismic Survey, a new lead was identified (Egret) and the survey area was extended by ~100km² (~16%) to provide coverage over the portion of Egret that is partially within the boundary of WA-488-P. The extension of the survey area was within the approved scope and operational envelope of the Beehive 3D Seismic Survey. The Beehive 3D Seismic Survey, including the extension over the Egret lead, was fully funded by Santos and Total.

On 21 August 2018 the Company issued 4,761,215 shares upon the exercise of Unlisted options with an exercise price of \$0.02.

On 22 August 2018 the Company announced that it had divested its interest in the AC/P50 and AC/P51 permits ("Permits") via a sale of the holding subsidiary Vulcan Exploration Pty Ltd to joint venture partner Rouge Rock. The commercial agreements provide for the Company to retain exposure to the upside outcomes of a subsequent sale or farmout of either of the Permits by Rouge Rock. The agreements are structured such that if Rouge Rock enters into an arrangement in future for cash or shares, Melbana earns 10% of the cash benefit or shares received by Rouge Rock. If Rouge Rock enters into an arrangement in future that provides for a full or partial carry on a well, Melbana has the right to back-in for a 5% interest after the well is drilled, effectively providing a carried interest during the drilling process and avoiding costs associated with the drilling process.

On 28 August 2018 the Company issued 1,247,988 shares upon the exercise of Unlisted options with an exercise price of \$0.02.

On 5 September 2018 the Company issued 827,228 shares upon the exercise of Unlisted options with an exercise price of \$0.02.

On 21 September 2018, the Company announced that it has accepted commitments to raise up to \$3.5 million (before costs) through a placement to qualified institutional and sophisticated investors of 194 million fully paid ordinary shares at \$0.018 per share plus an accompanying one unlisted share option per three shares placed exercisable at \$0.03 per option expiring 18 months from grant date. The Placement is scheduled to settle on Thursday 27 September 2018 with new shares expected to be allotted on Friday 28 September 2018.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 33. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2018	2017
	\$'000	\$'000
Loss after income tax expense for the year	(6,100)	(2,121)
Adjustments for:		
Depreciation and amortisation	21	25
Share-based payments	373	183
Foreign exchange differences	(34)	33
Exploration expenditure written-off/down	3,063	455
Deferred income tax expense	72	32
Interest expense capitalised to loan account	96	-
Change in operating assets and liabilities:		
Decrease/(increase) in other receivables	(40)	16
(Increase)/decrease in prepayments	11	-
Increase in trade and other payables	142	21
Increase/(decrease) in provisions	69	70
Net cash used in operating activities	<u>(2,327)</u>	<u>(1,286)</u>

Note 34. Changes in liabilities arising from financing activities

Consolidated	Long term borrowings \$'000
Balance at 1 July 2016	-
Balance at 30 June 2017	-
Loans received	2,848
Exchange differences	155
Loan interest capitalised	96
Balance at 30 June 2018	<u>3,099</u>

Note 35. Earnings per share

	Consolidated	
	2018	2017
	\$'000	\$'000
Loss after income tax attributable to the owners of Melbana Energy Limited	<u>(6,100)</u>	<u>(2,121)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>1,484,600,383</u>	<u>803,629,702</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>1,484,600,383</u>	<u>803,629,702</u>
	Cents	Cents
Basic earnings per share	(0.41)	(0.26)
Diluted earnings per share	(0.41)	(0.26)

Note 35. Earnings per share (continued)

For financial years ended 30 June 2018 and 30 June 2017 outstanding options and performance rights are anti-dilutive and are therefore excluded from the calculation of diluted earnings per share.

Note 36. Share-based payments

An employee share plan ("Plan") has been established by the consolidated entity and approved by shareholders at a general meeting, whereby the consolidated entity may, at the discretion of the Nomination and Remuneration Committee, grant options over ordinary shares in the Company or performance rights over ordinary shares in the Company to certain key management personnel and employees of the consolidated entity. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

In March 2017, 9,250,000 options were issued to employees pursuant to the Plan. In November 2017 a further 3,000,000 options were issued under the Plan to the then Managing Director and Chief Executive Officer, on the same terms as the previously-issued employee options.

In addition to options issued under the Plan, the consolidated entity may also issue options to service providers as consideration for services provided to the consolidated entity. During the financial year, the consolidated entity issued options to the Joint Lead Manager as part consideration for fees payable in connection with a share placement and entitlement offer undertaken by the Company

Set out below are summaries of options granted under the plan, and to service providers.

2018							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
03/11/2016	03/11/2019	\$0.065	4,000,000	-	-	-	4,000,000
28/03/2017	27/09/2020	\$0.032	9,250,000	-	-	-	9,250,000
23/11/2017	23/11/2020	\$0.018	-	20,000,000	-	-	20,000,000
24/11/2017	27/09/2020	\$0.032	-	3,000,000	-	-	3,000,000
			<u>13,250,000</u>	<u>23,000,000</u>	<u>-</u>	<u>-</u>	<u>36,250,000</u>
Weighted average exercise price			\$0.042	\$0.019	\$0.000	\$0.000	\$0.028
2017							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/07/2011	01/07/2016	\$0.500	500,000	-	-	(500,000)	-
03/10/2011	03/10/2016	\$0.000	1,200,000	-	-	(1,200,000)	-
01/12/2011	01/12/2016	\$0.000	2,500,000	-	-	(2,500,000)	-
03/11/2016	03/11/2019	\$0.000	-	4,000,000	-	-	4,000,000
28/03/2017	27/09/2020	\$0.000	-	9,250,000	-	-	9,250,000
			<u>4,200,000</u>	<u>13,250,000</u>	<u>-</u>	<u>(4,200,000)</u>	<u>13,250,000</u>
Weighted average exercise price			\$0.500	\$0.042	\$0.000	\$0.500	\$0.042

Note 36. Share-based payments (continued)

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2018 Number	2017 Number
03/11/2016	03/11/2019	4,000,000	4,000,000
28/03/2017	27/09/2020	4,625,000	-
23/11/2017	23/11/2020	20,000,000	-
24/11/2017	27/09/2020	1,500,000	-
		<u>30,125,000</u>	<u>4,000,000</u>

The weighted average share price during the financial year was \$0.0132 (2017: \$0.0315).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.23 years (2017: 2.97 years).

Set out below are summaries of performance rights granted under the plan:

2018							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
07/12/2015	29/11/2018	\$0.000	5,333,333	-	-	-	5,333,333
04/02/2016	31/01/2019	\$0.000	20,940,032	-	(20,940,032)	-	-
10/05/2018	30/04/2021	\$0.000	-	6,763,158	-	-	6,763,158
			<u>26,273,365</u>	<u>6,763,158</u>	<u>(20,940,032)</u>	<u>-</u>	<u>12,096,491</u>
2017							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
07/12/2015	29/11/2018	\$0.000	5,333,333	-	-	-	5,333,333
04/02/2016	31/01/2019	\$0.000	20,940,032	-	-	-	20,940,032
			<u>26,273,365</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,273,365</u>

Set out below are the performance rights exercisable at the end of the financial year:

Grant date	Expiry date	2018 Number	2017 Number
07/12/2015	29/11/2018	5,333,333	5,333,333
		<u>5,333,333</u>	<u>5,333,333</u>

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.77 years (2017: 1.27 years).

Note 36. Share-based payments (continued)

For the options granted for or first accounted for during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
03/11/2016	03/11/2019	\$0.026	\$0.065	206.900%	-	2.560%	\$0.0241
23/11/2017	23/11/2020	\$0.013	\$0.018	100.800%	-	2.510%	\$0.0074
23/11/2017	27/09/2020	\$0.013	\$0.032	134.910%	-	2.194%	\$0.0081

For the performance rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
10/05/2018	30/04/2021	\$0.010	\$0.000	191.900%	-	2.175%	\$0.009

In the directors' opinion:

- the attached financial statements and notes, and the Remuneration report contained in the accompanying Directors' report, comply with the Corporations Act 2001, Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read "A Purcell", written over a horizontal line.

Andrew Purcell
Chairman

26 September 2018

Independent Auditor's Report to the Members of Melbana Energy Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Melbana Energy Limited (the Company) including its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 *Going Concern*, which outlines as at 30 June 2018 the consolidated entity had for the financial year ending on that date, incurred a net loss after tax of \$6,100,000, had net cash outflows from operating and investing activities of \$9,030,000, had cash and cash equivalents on hand of \$3,047,000, had a net current asset position of \$2,177,000 and current borrowings of \$3,099,000. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern. Note 2 *Going Concern* sets out the basis by which the Directors believe the consolidated entity will be able to continue as a going concern. Our opinion is not qualified with respect to this matter.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Carrying value of capitalised exploration and evaluation costs

Why significant

The assessment of the carrying value of capitalised exploration and evaluation costs is subjective based on Melbana Energy Limited's ability, and intention, to continue to explore the asset. The carrying value may also be impacted by the results of exploration work indicating whether the mineral reserves are likely to be commercially viable for extraction. This creates a risk that the amounts stated in the financial statements may not be recoverable.

Refer to Note 15 *Exploration and evaluation* to the financial statements for the amounts recorded on the consolidated statement of financial position by the Group as at 30 June 2018 and related disclosure.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Considered the Group's right to explore in the relevant exploration area which included obtaining evidence confirming the Group's licenses remain current and active.
- ▶ Considered the Group's intention to carry out significant exploration and evaluation activity in the relevant exploration area which included assessment of the Group's cash-flow forecast models, discussions with senior management and Directors as to the intentions and strategy of the Group.
- ▶ Assessed the carrying value of capitalised exploration and evaluation costs where recent exploration activity in a given exploration license provided negative indicators as to the recoverability of the exploration and evaluation costs that remain capitalised.
- ▶ Assessed the ability to finance any planned future exploration and evaluation activity.

Information Other than the Financial Statements and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 18 the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Melbana Energy Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Tony Morse'.

Tony Morse
Partner
Melbourne
26 September 2018

The shareholder information set out below was applicable as at 25 September 2018.

Corporate Governance Statement

Refer to the company's Corporate Governance statement at: <http://www.melbana.com/site/About-Us/corporate-governance>.

Distribution of equity securities

Analysis of number of equity security holders by size of holding:

	Number of holders of performance rights	Number of options of holders over ordinary shares	Number of holders of ordinary shares
1 to 1,000	-	-	434
1,001 to 5,000	-	-	1,129
5,001 to 10,000	-	-	1,137
10,001 to 100,000	-	-	2,801
100,001 and over	3	9	1,546
	<u>3</u>	<u>9</u>	<u>7,047</u>
Holding less than a marketable parcel	-	-	3,958

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Number held	Ordinary shares % of total shares issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	66,564,674	3.96
M&A ADVISORY PTY LTD (PURCELL FAMILY A/C)	54,032,297	3.22
NATIONAL NOMINEES LIMITED (DB A/C)	34,032,006	2.03
J P MORGAN NOMINEES AUSTRALIA LIMITED	26,341,164	1.57
MR JOHN OLDANI	24,111,111	1.43
MRS DANIELLE GORDON	22,005,000	1.31
BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAILCLIENT DRP)	21,525,728	1.28
MRS CATHY ANN BENDER	20,622,531	1.23
TETS PTY LTD	20,000,000	1.19
ESSELMONT PTY LIMITED (ESSELMONT A/C)	19,642,857	1.17
MISS ANITA TSANG & MR BRADLEY GARTH WRIGHT (ATBW INVESTMENTS SF A/C)	19,253,947	1.15
FIVE ELEMENTS DESIGN PTY LTD (FIVE ELEMENTS DESIGN A/C)	18,180,000	1.08
MR JASON MEINHARDT	16,649,543	0.99
MRS SUSAN JANE STICKLAND	16,597,279	0.99
MR DAVID COGHILL	12,805,837	0.76
VALUI PTY LTD	12,191,242	0.73
PEDOMML PTY LTD (PEDOMML SUPER FUND A/C)	12,000,000	0.71
CITICORP NOMINEES PTY LIMITED	11,647,009	0.69
MR MATTHEW DEAN MARSHALL	11,120,000	0.66
MR JOHN OLDANI (J O INVESTMENTS S/F A/C)	11,111,111	0.66
	<u>450,433,336</u>	<u>26.81</u>

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares	115,250,000	9
Performance rights	6,763,158	3

The following persons hold 20% or more of unquoted equity securities:

Name	Class	Number held
Andrew Purcell	Options over ordinary shares	80,000,000
Zenix Nominees Pty Ltd	Options over ordinary shares	24,000,000

Substantial holders

Substantial holders in the Company are set out below:

	Number held	Ordinary shares % of total shares issued
Cadence Asset Management Entities and Esselmont Pty Limited (1)	120,612,082	7.18

(1) Holder has notified the Company that it manages the relevant shares and therefore has a relevant interest in those shares under section 608(1)(b) or (c) of the Corporations Act

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options and performance rights

Options and performance rights do not carry voting rights.

There are no other classes of equity securities.

Current on-market buy-back

There is no current on-market buy-back.