

MELBANA ENERGY LIMITED
ABN 43 066 447 952



FINANCIAL REPORT

2017

Melbana Energy Limited (formerly MEO Australia Limited)

ABN 43 066 447 952

Corporate Directory

Directors

Andrew G Purcell (Chairman)
Peter J Stickland (Managing Director and Chief Executive Officer)
Michael J Sandy

Company Secretary

Colin H Naylor

Registered office and Principal place of business

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Melbourne, Victoria 3000 Australia
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Share registrar

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Auditor

Ernst & Young
8 Exhibition Street
Melbourne, Victoria 3000 Australia

Stock exchange listing

ASX Limited
Level 4, North Tower, Rialto
525 Collins Street
Melbourne, Victoria 3000 Australia

ASX Code: MAY

Website www.melbana.com

Incorporated 14 September 1994
Victoria, Australia

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FORWARD LOOKING STATEMENTS

This Financial Report includes certain forward-looking statements that have been based on current expectations about future acts, events and circumstances. These forward-looking statements are, however, subject to risks, uncertainties and assumptions that could cause those acts, events and circumstances to differ materially from the expectations described in such forward-looking statements.

These factors include, among other things, commercial and other risks associated with the meeting of objectives and other investment considerations, as well as other matters not yet known to the Group or not currently considered material by the Group.

Melbana Energy Limited (formerly MEO Australia Limited)

ABN 43 066 447 952

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2017

The directors of Melbana Energy Limited (variously the “Company”, “Melbana” and “Melbana Energy”) submit their report for the financial year ended 30 June 2017. Melbana is a company limited by shares, incorporated and domiciled in Australia.

1. DIRECTORS

The names and details of the Company’s directors in office during the financial year and until the date of this report are as follows. The directors were in office during the entire period unless otherwise stated.

Andrew G Purcell, B Eng; MBA

Chairman (Appointed Independent Non-Executive Director 30 July 2015, appointed Chairman 25 November 2015)

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.

Mr Purcell is a Non-Executive Director of AJ Lucas Group Limited (ASX: AJL) and Metgasco Limited (ASX:MEL).

Mr Purcell is Chairman of the Remuneration & Nomination Committee and a member of the Audit & Risk Committee.

Peter J Stickland BSc, Hons (Geology), GDipAppFin (Finsia), GAICD

Chief Executive Officer (Appointed 19 December 2014) and Managing Director (Appointed 30 January 2015)

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 has been a member of the Board of Australian Petroleum Production and Exploration Association Limited (APPEA) since 2009.

Michael J Sandy, BSC Hons (Geology), MAICD

Independent Non-Executive Director (Appointed 30 July 2015)

Michael Sandy is a geologist with 40 years’ experience in the resources industry – mostly focused on oil and gas. Michael had a varied early career with roles in minerals exploration and research and a role with the PNG Government based in Port Moresby. In the early 1990s he was Technical Manager of Oil Search Limited also based in Port Moresby. Michael was involved in establishing Novus Petroleum Ltd and preparing that company for its \$186m IPO in April 1995. Over 10 years, he held various senior management roles with Novus including manager of assets in Australia, Asia, the Middle East and the USA and as Business Development Manager was involved in numerous acquisitions and divestments. He co-managed the defence effort in 2004 when Novus was taken over by Medco Energi.

For the last 13 years, Michael has been the principal of consultancy company Sandy Associates P/L involved in petroleum, minerals, geothermal, environmental and disaster management projects and resources industry start-ups. He was previously a non-executive director of Tap Oil Limited (ASX: TAP), Hot Rock Ltd (ASX: HRL), Caspian Oil and Gas (ASX: CIG) and Pan Pacific Petroleum (ASX:PPP) and ex-chairman of Bursleson Energy Limited (ASX: BUR).

Mr Sandy is Chairman of the Audit & Risk Committee and a member of the Remuneration & Nomination Committee.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

1. DIRECTORS (cont)

Interests in the shares and options of the company

As at the date of this report, the relevant beneficial and non-beneficial interests of each of the directors in the shares and share options in the Company were:

	Ordinary Shares	Unlisted 31 August 2018 Options	Share Performance Rights
A G Purcell	53,532,297	17,048,033	-
M J Sandy	3,685,001	656,112	-
P J Stickland	9,915,551	1,348,395	5,333,333

The terms of the share performance rights are set out in note 19 to the consolidated financial statements.

2. COMPANY SECRETARY

Mr Colin 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.

3. DIVIDENDS

No dividend has been paid, provided or recommended during the financial year and to the date of this report (2016: nil).

4. PRINCIPAL ACTIVITIES

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

At 30 June 2017 the Company had 4 full-time and 5 part-time employees including directors (2016: 3 full-time and 6 part-time employees including directors). In addition, the Company engages consultants to assist in the development and management of its various activities on an as required basis.

5. REVIEW OF OPERATIONS

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.

Any proposed development activities on Tassie Shoal are subject to environment conditions specified in the Offshore Petroleum and Greenhouse Gas Storage Act (2006), associated Regulations and Directions, as well as the Environment Protection and Biodiversity Conservation (EPBC) Act (1999).

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

5. REVIEW OF OPERATIONS (cont)

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.

During the year Melbana identified Block 9 as one of the world's most exciting exploration plays with exploration potential for approximately 12.5 billion barrels of Oil-in-Place with a Prospective (Recoverable) Resource of 637 million barrels (Best Estimate, 100% basis)[#] of potentially high quality oil. The prospectivity assessment also identified 19 individual prospects and leads which the Company has been prioritising so as to focus on the highest impact, lowest risk drill opportunities.

The Company's aim is to drill up to two wells in Block 9 commencing mid-2018. Melbana engaged a Cuban engineering consulting firm to undertake some aspects of well design and manage the regulatory permitting process for drilling, incorporating operating and environmental licences as well as civil approvals of the 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.

Net Entitlement Interest** (based on approximate 67.5% contractor share under Production Sharing Contract)

Block 9 Prospects & Leads			CoS*	Low	Best	Mean	High
Alameda	Oil	MMstb	32%	2	44	61	144
Zapato	Oil	MMstb	25%	3	48	80	200
Piedra	Oil	MMstb	22%	2	26	36	83
A1	Oil	MMstb	18%	1	4	6	15
A2	Oil	MMstb	21%	6	46	63	144
B	Oil	MMstb	14%	7	62	88	207
C2	Oil	MMstb	18%	2	40	64	160
E	Oil	MMstb	25%	1	27	40	97
F	Oil	MMstb	22%	1	17	23	54
G1	Oil	MMstb	15%	2	9	12	26
G2	Oil	MMstb	15%	1	5	8	20
J	Oil	MMstb	16%	2	18	28	67
L	Oil	MMstb	21%	0	3	4	9
N	Oil	MMstb	22%	3	28	38	87
Q1	Oil	MMstb	14%	1	4	6	14
Q2	Oil	MMstb	14%	1	2	3	8
Q3	Oil	MMstb	14%	3	22	26	57
R	Oil	MMstb	17%	1	9	14	36
U1	Oil	MMstb	17%	1	17	26	63
Total unrisks	Oil	MMstb		39	430	625	1,490

* CoS = Chance of Geologic Success

These estimates should be read with reference to the footnote "Notes regarding Contingent and Prospective resource estimates" on page 12.

** Subject to Petro Australis receiving the necessary Cuban regulatory approvals (including pre-qualification) for its 40% back-in option which Petro Australis notified Melbana that it was exercising on 25 August 2017

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

5. REVIEW OF OPERATIONS (cont)

Subsequent to the end of 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. Subject to Petro Australis receiving the necessary Cuban regulatory approvals (including pre-qualification) for this transfer, the Block 9 PSC Joint Venture would consist of Melbana 60% (and Operator) and Petro Australis 40%. Petro Australis is responsible for 40% of certain back costs as well as 40% of future costs associated with Block 9 PSC.

New Zealand

PEP51153 (Melbana 30%)

During the year the PEP51153 Joint Venture (Melbana 30%, Tag Oil (TSX: TAO) 70% and Operator) has approved plans to drill Pukatea-1, with the Operator advising that drilling is currently planned to commence early 2018.

During the year the PEP51153 Joint Venture significantly upgraded the prospective resources attributable to the Pukatea prospect which are estimated to range from 1.3 to 40 million barrels (Low-High estimates) with a Best Estimate of 12.4 million barrels of oil equivalent. The chance of success* for Pukatea has also been revised upward from 16% to 19%. The Pukatea prospect is proximal to existing infrastructure and has a number of low cost alternative development paths. The Pukatea-1 well is planned to be drilled from the existing Puka production pad where three wells have previously been drilled. Subsequent to the end of the year the PEP51153 Joint Venture secured a local rig to drill Pukatea-1 and commenced site civil and construction works to upgrade the existing drill pad.

PEP51153 also contains the shallower Puka oil accumulation, which was discovered in 2012 and has previously produced from two wells under extended production test at 100bpd, but is currently shut-in.

The Company is currently exploring opportunities to reduce its funding requirements whilst maintaining exposure to a successful result in the highly prospective Pukatea-1 well.

Net Contingent Resources (30% share)

Discovery Name			1C	2C	3C
Puka	Gas	Bscf	-	-	-
	Total Liquids	MMstb	0.1	0.2	0.6
	Barrels Equiv	MMboe	0.1	0.2	0.6

Net Prospective Resources (30% share)

Prospect Name			CoS*	Low	Best	Mean	High
Pukatea	Gas	Bscf		0.3	3.4	4.8	11.1
	Oil	MMstb		0.3	3.1	4.6	10.1
	Barrels Equiv	MMboe	19%	0.3	3.7	5.4	12.0

* CoS = Chance of Geologic Success

These tables should be read with reference to the footnote “Notes regarding Contingent and Prospective resource estimates” on page 12.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

5. REVIEW OF OPERATIONS (cont)

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.

During the year, Melbana completed 2D seismic reprocessing and inversion studies of selected seismic lines to enhance the prospectivity of the Beehive prospect, results of which showed a significant enhancement to data quality. Subsequently a further 2D seismic reprocessing study was commenced incorporating a complete grid of 2D seismic lines across Beehive.

In November 2016 Melbana was granted a 16 month extension to the work program for WA-488-P. Permit Year 2 is now extended to 21 March 2018. The timeframe within which to drill the Beehive-1 exploration well has also been deferred commensurately. The additional time will provide an opportunity for Melbana to undertake a further 330km of 2D seismic broadband reprocessing and additional studies, including a stratigraphic interpretation study and an analogue field study.

A renewed farmout/partial sale process was commenced during the year.

Net Prospective Resources (100% share)

Beehive – Carboniferous Prospect			CoS*	Low	Best	Mean	High
Oil Dominant Scenario	Gas	Bscf		-	-	-	-
	Total Liquids	MMstb	13%	104	598	1,009	2,182
Gas Dominant Scenario	Gas	Bscf	3%	415	2,374	3,996	8,615
	Total Liquids	MMstb		20	117	207	457
Aggregate (oil equivalent)**	Barrels Equiv	MMboe	16%	101	581	982	2,124

* CoS = Chance of Geologic Success

** Aggregate Risk Weighted Average (80:20) of Oil Dominant and Gas Dominant Scenarios

These tables should be read with reference to the footnote "Notes regarding Contingent and Prospective resource estimates" on page 12.

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

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, Melbana executed an agreement with Rouge Rock Pty Ltd ("Rouge Rock") which granted Rouge Rock an option to acquire a 45% interest in the AC/P50 and AC/P51 Exploration Permits ("Permits"). In exchange for the grant of the option, Rouge Rock undertook and funded the remaining primary statutory work program for each permit consisting of seismic reprocessing and other technical activities ("Reprocessing Work"). The Reprocessing Work was completed as required by the timing stated in the primary statutory work program and subsequently Rouge Rock advised Melbana that it was exercising its options to acquire a 45% interest in the Permits. The exercise of the Rouge Rock option is subject to the usual regulatory approvals.

*Assumes Rouge Rock receives regulatory approval for its option to acquire a 45% interest in the Permits and subject to a 5% option granted to Far Cape Energy Pte Ltd.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

5. REVIEW OF OPERATIONS (cont)

The 3D seismic reprocessing undertaken in AC/P50 and AC/P51 has significantly improved the data quality in an area with historically poor data.

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 will carry Far Cape's participating interest in the first well should Melbana elect to drill a well in either of the permits.

Prospective Resources (55% share)

<i>Ramble On Prospect</i>			CoS*	Low	Best	Mean	High
Oil Dominant Scenario	Gas	Bscf		-	-	-	-
	Total Liquids	MMstb	9%	4	21	31	72
Gas Dominant Scenario	Gas	Bscf	2%	16	89	254	625
	Total Liquids	MMstb		1	3	9	21
Aggregate (oil equivalent)**	Barrels Equiv	MMboe	11%	4	21	35	82

* CoS = Chance of Geologic Success

** Aggregate Risk Weighted Average (80:20) of Oil Dominant and Gas Dominant Scenarios

<i>Jur'maker Prospect</i>			CoS*	Low	Best	Mean	High
Oil Dominant Scenario	Gas	Bscf		-	-	-	-
	Total Liquids	MMstb	5%	2	8	18	40
Gas Dominant Scenario	Gas	Bscf	1%	6	30	64	152
	Total Liquids	MMstb		-	1	2	6
Aggregate (oil equivalent)**	Barrels Equiv	MMboe	6%	2	7	17	38

* CoS = Chance of Geologic Success

** Aggregate Risk Weighted Average (80:20) of Oil Dominant and Gas Dominant Scenarios

These tables should be read with reference to the footnote "Notes regarding Contingent and Prospective resource estimates" on page 12.

Tassie Shoal Gas Processing Projects

Melbana has Australian Government environmental approvals to construct, install and operate two stand-alone world scale 1.75 Mta methanol plants collectively referred to as the Tassie Shoal Methanol Project (TSMP) and a single 3 Mta 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.

Industry is expected to seek opportunities to collaborate to secure lowest cost and efficient resource development in Australia, especially as titleholders with stranded discoveries are under resource tenure pressure. The unique concept of the Tassie Shoal Projects represents an opportunity for collaboration with Melbana to develop a commercialisation path for the significant, discovered but undeveloped resources in the region, for the benefit of all stakeholders.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

5. REVIEW OF OPERATIONS (cont)

Tassie Shoal Methanol Project (TSMP, Melbana 100%)

Melbana proposes the staged construction of two large natural gas reforming and methanol production plants, each with an annual production capacity of 1.75 million tonnes on its own concrete gravity structure (CGS). 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 publically stated development path.

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 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 floating LNG (FLNG) and onshore Australia development paths.

In August 2016, 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 Group for the financial year, after provision for income tax, was \$2,120,937 (2016: net loss after tax of \$10,406,105). The loss for the year was mainly due to administration costs of \$1,672,180.

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 Group's methanol and LNG Projects could ultimately lead to the establishment of a profitable business. While the Group 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 Group held cash and cash equivalents of \$2,605,011 (2016: \$4,135,989). During the year the Group decreased the cash balance by \$1,497,858 (before foreign exchange fluctuations) with funds used to meet exploration cash outflows of \$2,290,400, net corporate costs of \$1,359,856 and expenditure on plant and equipment (\$15,520) partly offset by a proceeds from share issues (\$2,080,864 net of costs), interest received (\$73,642) and proceeds from sale of plant and equipment (\$13,412).

Share Issues

In August 2016, the Company announced it had raised \$1,688,400 (before costs) through a placement of 46,900,000 ordinary shares at 3.6 cents per share to qualified institutional and sophisticated investors. The Company also completed a Share Purchase Plan which raised \$545,000 (before costs) from the issue of 15,138,926 ordinary shares to Melbana shareholders at 3.6 cents per share. Proceeds from the Placement and Share Purchase Plan have been used to accelerate Melbana's onshore exploration activities on Block 9 Cuba.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

5. REVIEW OF OPERATIONS (cont)

Corporate

Following approval by shareholders at the Annual General Meeting held on 3 November 2016, the company name was changed to Melbana Energy Limited. The Company commenced trading under the new name and ASX Ticker "MAY" on 8 November 2016.

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 Group and its Shareholders. The Group will look to raise additional funding either through farm-in/sale and/or capital injection to advance its projects. In the event that the Group cannot meet its share of work program commitments, permits may need to be surrendered.

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity increased to \$5,779,484 from \$5,603,741, an increase of \$175,743. The major movements were net proceeds from the share placement and share purchase plan (\$2,080,864) and the 2017 net loss (\$2,120,937).

7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

During FY2018, Melbana is advancing preparations for drilling up to 2 wells in Block 9 Cuba and considering opportunities to reduce its exposure to an exploration well in New Zealand whilst maintaining exposure to a successful result in the Pukatea-1 well. The Company will also continue with farmout/partial sale opportunities and pursue attractive new venture opportunities.

8. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 19 July 2017 the Company announced an amendment to the Cuba Block 9 work program with the deferral of the obligation to undertake a 200km 2D seismic survey in the second exploration sub-period starting November 2017 to the third exploration sub-period starting November 2019 and accelerating the obligation to drill an exploration well from the third exploration sub-period to the second exploration sub-period. The amendment was requested by the Company due to it being able to define a number of high quality drill targets from the data it received and further studies undertaken during the first exploration sub-period.

On 26 July 2017 it was announced that Rouge Rock Pty Ltd ("Rouge Rock") had formally notified Melbana of the exercise of its options to acquire a forty five percent (45%) participating interest in the AC/P50 and AC/P51 exploration 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. The exercise of the farm-in by Rouge Rock follows its evaluation of reprocessed data and the resulting suite of enhanced technical products which are intended to further de-risk the identified prospects and leads, facilitating a potential further farm-out of the Permits to fund future discretionary exploration drilling.

On 31 July 2017 PEP51153 Operator (TAG Oil 70%) advised that the commencement of drilling of the Pukatea-1 exploration well had been delayed until mid - January, 2018 to provide additional time to undertake civil works on the primary access road and drilling pad and to undertake potential drill rig modifications. Under the terms of PEP51153 an exploration well is required to be drilled prior to 23 February 2018.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

8. SIGNIFICANT EVENTS AFTER THE BALANCE DATE (cont)

In August 2017 the Company announced that it had raised \$1,787,332 (before costs) from qualified institutional and sophisticated investors through the placement of 178,733,229 fully paid ordinary shares at \$0.01 per share together with the issue of 59,577,743 options on the basis of one unlisted option for every three shares subscribed. In addition to the share placement and to enable all Melbana shareholders to participate, the Company announced a 1 for 2 pro-rata non-renounceable entitlement offer of Shares to raise up to approximately \$4,766,000 (before costs). Hartleys Limited and Patersons Limited were Joint Lead Managers to the Placement and the Entitlement Offer, and Patersons Limited is partially underwriting the Entitlement Offer up to \$3,420,000. Proceeds from the Placement and the Entitlement Offer will be used primarily to allow the Company to undertake the necessary initial preparations for the planned, but not committed, Cuba drilling program in 2018 on onshore Block 9 (but excluding drilling itself). The net proceeds will also be used for corporate costs and for general working capital purposes.

On 28 August 2017, the Company advised that Petro Australis Limited ("Petro Australis") had provided a notice to Melbana exercising its back-in right with respect to a 40% participating interest in Cuba Block 9 Production Sharing Contract ("Block 9 PSC"). Subject to Petro Australis receiving the necessary Cuban regulatory approvals (including pre-qualification) for this transfer, the Block 9 PSC Joint Venture would consist of Melbana 60% (and Operator) and Petro Australis 40%. Petro Australis is responsible for 40% of certain back costs as well as 40% of future costs associated with Block 9 PSC.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or state of affairs of the Group in future financial years.

9. BUSINESS STRATEGY AND PROSPECTS

Melbana's business strategy is to create shareholder value by successful exploration, development and production of oil and gas. Key elements of this strategy include securing a portfolio of attractive upstream oil and gas growth opportunities and seek to underpin this growth portfolio with a moderate production base.

Future Prospects

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.

Business Risks

Oil and gas exploration and appraisal involves significant risk. The future profitability of Melbana and the value of Melbana's shares are directly related to the results of exploration and appraisal activities. There are inherent risks in these activities. No assurances can be given that funds spent on exploration and appraisal will result in discoveries that will be commercially viable. Future exploration and appraisal activities, including drilling and seismic acquisition, may result in changes in current prospectivity perceptions of individual prospects, leads and permits. It may even lead to a relinquishment of the permit, or a portion of the permit.

Oil and gas drilling activities are subject to numerous risks, many of which are beyond Melbana's control. Drilling activities may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, availability of the necessary technical equipment and appropriately skilled and experienced technicians. Drilling may result in wells that, whilst encountering oil and gas, may not achieve commercially viable results.

Industry operating risks include fire, explosions, blow outs, pipe failures, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures, or discharge of toxic gases. The occurrence of any of these risks could result in substantial losses to Melbana due to injury or loss of life; damage to or destruction of property, natural resources, or equipment; pollution or other environmental damage; clean-up responsibilities; regulatory investigation and penalties or suspension of operations. Damages occurring to third parties as a result of such risks may give rise to claims against Melbana.

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

9. BUSINESS STRATEGY AND PROSPECTS (cont)

Permits in which Melbana has an interest are subject to compulsory work or expenditure obligations for each permit year which must be met in order to keep the permit in good standing. It is possible for these commitments to be varied by deferment and combination with later year requirements on application of the holders but any such variation is at the discretion of the relevant Minister administering the relevant legislation and regulatory authorities in Australia and foreign jurisdictions. If no variation is approved by the relevant Minister then a failure to meet compulsory obligation could lead to forfeiture of the permit.

Melbana, in order to meet future ongoing work programs, may consider raising additional capital. There can be no assurance that sufficient funding will be available to Melbana on favourable terms or at all. If Melbana is unable to raise necessary finance, there may be a reduction in planned exploration expenditure which could have a material adverse effect on Melbana's business, financial condition and operations. Any additional equity financing may dilute existing shareholdings.

Melbana is also exposed to a range of market, financial, cultural and governance risks. The Company has risk management and internal control systems to manage material business risks which include insurance coverage over major operational activities and regular review of material business risks by the Audit & Risk Committee.

10. SHARE OPTIONS AND SHARE PERFORMANCE RIGHTS

Options and Share Performance Rights granted to directors and executives of the Company

In March 2017, the company granted 9,250,000 Share Options to employees of which 4,000,000 Share Options were granted to executives of the company.

There were no share options or performance rights granted to employees and contractors since the end of the financial year.

Unissued shares under options and share performance rights

At the date of this report unissued ordinary shares of the Company under option and share performance rights are:

Options

Expiry Date	Exercise Price	Number of Shares
27 September 2020	\$0.032	9,250,000

Share Performance Rights

Expiry Date	Number of Shares
29 November 2018	5,333,333

Shares issued on the Exercise of Compensation Options or Performance Rights

During the financial year, there has been no issue of ordinary shares as a result of the exercise of options or performance rights. Since the end of the financial year, 20,940,032 ordinary shares have been issued as a result of the exercise of 20,940,032 performance rights (2016: nil).

11. INDEMNIFICATION AND INSURANCE OF DIRECTORS

The Company has an insurance policy indemnifying all directors of the Company against legal costs incurred in defending proceedings as permitted by Section 199B of the *Corporations Act 2001*. Under the policy, details of the premium cannot be disclosed.

Melbana Energy Limited (formerly MEO Australia Limited)

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

12. INDEMNIFICATION OF AUDITORS

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.

13. BOARD AND COMMITTEE MEETINGS

The following table sets out the members of the Board of Directors and the members of the Committees of the Board, the number of meetings of the Board and of the Committees held during the year and the number of meetings attended during each Director's period of office.

	Board of Directors		Audit & Risk Committee		Remuneration & Nomination Committee	
	A	B	A	B	A	B
A G Purcell	11	11	2	2	5	5
M J Sandy	11	11	2	2	5	5
P J Stickland	11	11	-	-	-	-

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

14. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors have received the independence declaration from the auditor, Ernst & Young, set out on page 13.

Non Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each non-audit service provided means that auditor independence was not compromised. Tax services were provided by Ernst & Young during the year.

Notes regarding Contingent and Prospective resource estimates

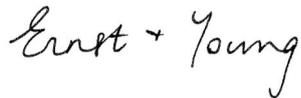
- The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.*
- The assessments are based on, and fairly represent, information and supporting documentation prepared by Mr Peter Stickland, Melbana's Managing Director & Chief Executive Officer, who is an employee of the company and has more than 25 years of relevant experience. Mr. Stickland is a member of the European Association of Geoscientists and Engineers and the Petroleum Exploration Society of Australia. Mr Stickland consents to the publication of the resource assessments contained herein.*
- Total Liquids = oil + condensate*
- 6 Bcf gas equals 1 MMboe; 1 MMbbl condensate equals 1 MMboe*
- Melbana share can be derived by pro-rating the resource ranges described in the tables above by its percentage equity*

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 2017, 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



Alison Parker
Partner
15 September 2017

Melbana Energy Limited (formerly MEO Australia Limited)

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

15. REMUNERATION REPORT (Audited)

This remuneration report for the year ended 30 June 2017 outlines the remuneration arrangements of the Company in accordance with the requirements of the *Corporations Act 2001* and its regulations.

The information provided in this Remuneration Report has been audited as required by Section 308 (3C) of the *Corporations Act*. This Remuneration Report forms part of the Directors' Report.

The remuneration report details the remuneration arrangements for Key Management Personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the group, directly and indirectly, including any director (whether executive or otherwise) of the parent company.

The remuneration report is presented under the following sections:-

1. Key Management Personnel disclosures for FY2017
2. Remuneration Strategy and Board oversight of remuneration
3. Non-executive director remuneration arrangements
4. Executive remuneration arrangements
5. Remuneration outcomes for FY2017
6. Additional disclosures relating to shares and options
7. Company performance

1. Key Management Personnel (KMP) for FY2017

The names and positions of the KMP during the 2017 financial year (FY2017) and up to the date of this remuneration report are listed below.

(i) Directors

A G Purcell	Director (independent non-executive appointed 30 July 2015) (appointed Chairman 25 November 2015)
M J Sandy	Director (independent non-executive) appointed 30 July 2015
P J Stickland	Managing Director and Chief Executive Officer (appointed Chief Executive Officer - 19 December 2014 and Managing Director - 30 January 2015)

(ii) Executives

C H Naylor	Chief Financial Officer and Company Secretary
R Zammit	Executive Manager - Commercial & Business Development

2. Remuneration Strategy and Board oversight of remuneration

Remuneration and nomination committee

The Remuneration and Nomination Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, including the Managing Director and Chief Executive Officer and making recommendations to the Board.

It is important that the Board maintains independence from management when making decisions affecting executive remuneration, particularly in respect of the Managing Director and Chief Executive Officer. Accordingly, the Company's Remuneration and Nomination Committee is comprised solely of non-executive directors and has an independent chair. The Committee can have access to external advisors on a 'case by case' basis.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of remuneration on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of high quality directors and the Managing Director and Chief Executive Officer.

Melbana Energy Limited (formerly MEO Australia Limited)

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

15. REMUNERATION REPORT (Audited) (cont)

2. Remuneration Strategy and Board oversight of remuneration (cont)

Further details regarding the role, responsibilities and composition of the Remuneration and Nomination Committee are set out in the Corporate Governance Statement on the company's website.

Remuneration approval process

The Board approves the remuneration arrangements of the Managing Director and Chief Executive Officer and awards under short term and long term incentive arrangements following recommendations from the Remuneration and Nomination Committee. The Board also sets the remuneration of non-executive directors which is within the aggregate amount approved by shareholders.

The Managing Director and Chief Executive Officer approves the annual extension of consultants' contracts and their consulting fees and will make recommendations to the Remuneration and Nomination Committee for granting of awards to executives and contractors under the short term and long term incentive arrangements.

Remuneration consultants and external advisors

The Corporations Act sets out a detailed regime in relation to the engagement of external remuneration consultants to ensure that remuneration consultants are free from undue influence by any member of the KMP to whom a 'remuneration recommendation' relates, and requires that certain information be disclosed in the Remuneration Report where a remuneration recommendation has been provided. During the reporting period, the Company did not receive a 'remuneration recommendation' in relation to the quantum or elements of the remuneration packages of the Company's KMP within the meaning of the Corporations Act.

Remuneration strategy

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.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director remuneration and executive remuneration is separate and distinct. Further details regarding the structure of non-executive director remuneration and executive remuneration (including the Managing Director and Chief Executive Officer) are set out in sections 3 and 4.

Changes in Remuneration – 2016 - 2017

In FY2016 the Board implemented the following remuneration changes which continued into FY2017 as follows:-

- (i) In November 2015, after receiving shareholder approval, the company granted 5,333,333 Exercisable Performance Rights to the Managing Director and Chief Executive Officer, Mr Peter Stickland under the Company's Long Term incentive Plan in return for reducing the cash component of Mr Stickland's annual remuneration from \$400,000 to \$320,000 per annum for the period 1 December 2015 to 30 November 2016. From December 2016, the cash component of Mr Stickland's annual remuneration reverted to \$400,000.

Melbana Energy Limited (formerly MEO Australia Limited)

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

15. REMUNERATION REPORT (Audited) (cont)

2. Remuneration Strategy and Board oversight of remuneration (cont)

- (ii) In February 2016, the company revised the remuneration arrangements for senior staff. Senior staff members voluntarily agreed to a 20% reduction in the cash component of their annual remuneration packages in exchange for Exercisable Performance Rights. 20,940,032 Exercisable Performance Rights were granted to senior staff, of which 10,550,131 Rights were granted to Key Management Personnel. From February 2017, the cash component of senior staff annual remuneration reverted back to the original annual cash component of their respective remuneration packages.
- (iii) The changing activities of the company, particularly in Cuba increased the involvement of non-executive directors, while a review of fees paid/payable to the Chairman and Non-executive directors of peer companies was tabled for consideration. With effect from 1st March 2017, the fee payable to the Chairman was increased from \$70,000 per annum (inclusive of superannuation) to \$100,000 per annum (inclusive of superannuation) and the annual fee payable to the Non-executive director was increased from \$50,000 per annum (inclusive of superannuation) to \$75,000 per annum (inclusive of superannuation).
- (iv) In March 2017, the company granted 9,250,000 share options to employees of which 4,000,000 were granted to Key Management Personnel. Each option is exercisable at a price of 3.2 cents with 50% of the share options vesting on 27 March 2018 and 50% vesting on 27 March 2019. The expiry date is 27 September 2020. Options are subject to employees being in continuous service with the Company up to the date of vesting.

As a result of the above changes, remuneration to Key Management Personnel increased by 4.4% or \$47,594 from \$1,087,734 in FY2016 to \$1,135,328 in FY2017.

3. Non-executive director remuneration arrangements

Remuneration policy and structure

The Board seeks to set remuneration at a level which provides the Company with the ability to attract and retain directors of high calibre, at a cost which is acceptable to shareholders.

The amount of aggregate remuneration approved by shareholders and the fee structure is reviewed annually by the Remuneration and Nomination Committee against fees paid to non-executive directors of comparable companies. The Remuneration and Nomination Committee receives independent market data when undertaking this annual review process.

The Chairman, Mr Andrew Purcell and non-executive director, Mr Michael Sandy have been engaged by the Company under consulting contracts. Under such agreements current at the date of this report, there are no annual, long service leave, other termination entitlements or retirement benefits.

The Constitution and ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by members in a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. At the Annual General Meeting held on 18 November 2010 shareholders approved an increase in the aggregate annual remuneration to \$500,000 per year, with effect from the financial year commencing 1 July 2010.

Non-executive directors are encouraged by the Board to hold shares in the Company. Shares are purchased on market at the prevailing market share price.

There are currently no options or performance rights granted to non-executive directors. Directors may consider the granting of options or performance rights in the future, subject to shareholder approval at a General Meeting.

During the year, no additional remuneration was paid to Directors for service on Board committees.

In addition, Directors are entitled to be paid all travelling and other expenses they incur in attending to the Company's affairs, including attending and returning from general meetings of the Company or meetings of the Directors or of Committees of the Directors.

Melbana Energy Limited (formerly MEO Australia Limited)

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

15. REMUNERATION REPORT (Audited) (cont)

3. Non-executive director remuneration arrangements (cont)

The remuneration of non-executive directors for the year ended 30 June 2017 and 30 June 2016 is detailed in Table 1 and Table 2 of this report.

4. Executive remuneration arrangements

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- ensure total remuneration is competitive by market standards;
- reward executives for exceptional individual performance; and
- align the interests of executives with those of shareholders.

Remuneration mix

The Company's executive remuneration is structured as a mix of fixed annual remuneration and variable 'at risk' remuneration. The mix of these components varies for different management levels.

The table below sets out the relative proportion and components of the senior executives' total remuneration packages for FY2017:

% of Total Remuneration				
	Fixed remuneration	Performance-based remuneration		
		Share Performance Rights and Share Options	Short Term Incentive	Long Term Incentive
Executives				
P J Stickland	91.8%	8.2%	-	-
C H Naylor	88.6%	11.4%	-	-
R Zammit	86.7%	13.3%	-	-

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Executive contracts of employment do not include any guaranteed base pay increases.

The fixed component of executives' remuneration is detailed in Table 1 and Table 2 of this report.

Variable Remuneration – Short Term Incentives

Melbana does not have a formal Short Term Incentive Program, however the Company does, when applicable, recognise exceptional individual performances in any financial year through the award of a cash bonus. There were no short term incentives awarded in the financial year.

Variable Remuneration – Long Term Incentives

Melbana considers the retention of high calibre staff as essential to the growth of the Company. Therefore as an incentive to recruit high calibre individuals to Melbana or retain high calibre staff the Board will grant LTI Securities (which may be in the form of share options and/or performance rights) under the Company's Long Term Incentive Plan (**LTI Plan**).

Melbana Energy Limited (formerly MEO Australia Limited)

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

15. REMUNERATION REPORT (Audited) (cont)

4. Executive remuneration arrangements (cont)

Overview of the LTI Plan

The LTI Plan was adopted by the Board on 13 September 2011. Under the Plan, the Board may invite Eligible Executives (being an employee of the Melbana Group (including a director employed in an executive capacity) or any other person who is declared by the Board to be eligible to receive a grant of LTI Securities under the Plan) to participate in a grant of LTI Securities, which may comprise of performance rights and/or options. Offers will be made on the terms set out in the Plan and on any additional terms as the Board determines.

Options and/or performance rights granted under the Plan will only vest, and in the case of options, become exercisable, where any performance condition and any other relevant conditions advised to the participant by the Board have been satisfied.

On vesting of a performance right or following the exercise of an option (as the case may be), the Board will allocate the number of shares in respect of which the performance right have vested, or the options have been exercised. Any shares issued under the Plan will rank equally in all respects with other shares on issue at that time (except as regards any rights attaching to such shares by reference to a record date prior to the date of their issue).

In the event of a takeover, a scheme of arrangement, other reconstruction or amalgamation of the Company, a winding up of the Company or other event which is likely to result in a change of control of the Company, the Board may, in its absolute discretion, determine that all or a specified number of a participant's unvested performance rights and/or options vest, having regard to all relevant circumstances, including whether performance is in line with any applicable performance condition over the period from the date of grant to the relevant event, and the portion of any applicable performance period or period of service that has expired at the date of the relevant event. Unless the Board determines otherwise, any vested options will be exercisable for a period specified by the Board and will lapse if not exercised within the specified period.

In accordance with the terms of the Plan, prior to the allocation of shares to a participant upon vesting of performance rights or exercise of options (as the case may be), the Board may make any adjustments it considers appropriate to the terms of a performance right and/or option granted to a participant in order to minimise or eliminate any material advantage or disadvantage to a participant resulting from a corporate action or capital reconstruction. Without limiting the foregoing, if:

- shares are issued pro rata to the Company's shareholders generally by way of a bonus issue (other than an issue in lieu of dividends or by way of a dividend reimbursement) involving capitalisation of reserves of distributable profits;
- shares are issued pro rata to the Company's shareholders generally by way of a rights issue; or
- any reorganisation (including consolidated, subdivision, reduction or return) of the issued capital of the Company is effected,

then the Board may, in its discretion, adjust:

- the number of performance rights or options to which each participant is entitled;
- the number of shares to which each participant is entitled upon vesting of performance rights or exercise of options;
- any amount payable on vesting of the performance rights or exercise of options; or
- where appropriate, a combination of the above, in the manner determined by the Board, having regard to the ASX Listing Rules and the general principle set out above. Where additional performance rights or options are granted to a participant, such performance rights or options will be subject to the same terms and conditions as the original performance rights or options granted to the participant (including any performance conditions) unless the Board determines otherwise.

Melbana Energy Limited (formerly MEO Australia Limited)

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

15. REMUNERATION REPORT (Audited) (cont)

4. Executive remuneration arrangements (cont)

Grants made during FY2017

In March 2017, the company granted 9,250,000 share options to employees, of which 4,000,000 were granted to executives. Each option is exercisable at a price of 3.2 cents with 50% of the share options vesting on 27 March 2018 and 50% vesting on 27 March 2019. The expiry date is 27 September 2020. Options are subject to employees being in continuous service with the Company up to the date of vesting.

There were no director related options granted during the financial year.

Consultants

The Managing Director and Chief Executive Officer approves the terms and conditions of consultant's contracts including fees, taking into account market conditions for the services that are provided. Consultant contracts do not include any guaranteed fee increases.

Hedging of equity awards

The Company prohibits executives from entering into arrangements to protect the value of invested share options. The prohibition includes entering into contracts to hedge their exposure to options awarded as part of their remuneration package.

Executive contractual arrangements

The remuneration arrangements and other terms of employment for Key Management Personnel are formalised in employment agreements. The material terms of the KMP employment agreements are set out below.

- *Managing Director and Chief Executive Officer Remuneration*

On 1 December 2015, the Company entered into an executive agreement with Mr Peter Stickland. Mr Stickland had previously signed a one-year fixed term contract on 19th December 2014. The new executive agreement contains the **following major key terms:-**

- **Remuneration:** Total Fixed Remuneration is set at \$400,000 (including compulsory superannuation) which is reviewed on an annual basis. As approved by shareholders at the 2015 Annual General Meeting, 20% of the Total Fixed Remuneration (i.e. \$80,000) was granted as Exercisable Performance Rights, thus reducing the cash component of annual remuneration from \$400,000 to \$320,000 per annum for the period 1 December 2015 to 30 November 2016. From December 2016, the cash component of Mr Stickland's annual remuneration reverted back to \$400,000.
- **Term:** From 1 December 2015 until either the Company or Mr Stickland terminates the Agreement
- **Notice:** The Company and Mr Stickland may terminate the Agreement at any time by giving 3 Months' notice in writing.
- **Payments on Termination:** If the Executive's employment is terminated by reason of Fundamental Change or by the Company for other reasons, the Company must pay the Executive a lump sum amount (Separation Amount) up to the Total Fixed Remuneration for the 6 months immediately preceding the Termination Date.

Melbana Energy Limited (formerly MEO Australia Limited)

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DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 30 JUNE 2017

15. REMUNERATION REPORT (Audited) (cont)

4. Executive remuneration arrangements (cont)

- *Other Executives*

All executives have standard employment contracts. Each executive is employed until such time as the Company or the executive terminate by giving notice. The Company may terminate the executive's employment agreement by providing written notice (ranging from 4 weeks' notice to 3 months' notice) or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). The executive may terminate by giving notice under the employment contract, ranging from 4 weeks' notice to 2 months' notice. On termination of notice by the Company or the executive, any options that have vested or that will vest during the notice period will be released. Options that have not vested will be forfeited. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

5. Remuneration outcomes for FY2017

5.1 Remuneration of key management personnel of the Company

Details of the remuneration of KMP (including the non-executive directors) for FY2017 and comparative information for FY2016 are set out in Tables 1 and 2 below.

Table 1: Remuneration for the year ended 30 June 2017

	Short term		Post employment	Share-based payments	Long term	Total	Perform- -ance related
	Directors fees \$	Salary and consultant fees \$	Super-annuation benefits \$	*Performance Rights and share options \$	Long service leave \$		%
Non - executive directors							
A G Purcell	81,250	-	-	-	-	81,250	-
M J Sandy	56,250	-	-	-	-	56,250	-
Sub-total non-executive directors	137,500	-	-	-	-	137,500	-
Executive director							
P J Stickland	-	341,500	19,616	33,333	9,839	404,288	8.2
Other key management personnel							
C H Naylor	-	214,906	32,150	32,932	7,856	287,844	11.4
R Zammit	-	239,185	19,616	40,615	6,280	305,696	13.3
Sub-total executives	-	795,591	71,382	106,880	23,975	997,828	10.7
TOTAL	137,500	795,591	71,382	106,880	23,975	1,135,328	9.4

* Refer note 19 to the consolidated financial statements for fair value calculation of performance rights and share options.

Commentary

Key Management Personnel remuneration increased by 4.4% or \$47,594 from \$1,087,734 in FY2016 to \$1,135,328 in FY2017.

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**DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 30 JUNE 2017**

15. REMUNERATION REPORT (Audited) (cont)

5. Remuneration outcomes for FY2017

5.1 Remuneration of key management personnel of the Company

Table 2: Remuneration for the year ended 30 June 2016

	<i>Short term</i>		<i>Post employment</i>	<i>Share-based payments</i>	<i>Long term</i>	<i>Total</i>	<i>Performance related</i>
	<i>Directors fees</i>	<i>Salary and consultant fees</i>	<i>Super-annuation benefits</i>	<i>*Performance Rights</i>	<i>Long service leave</i>		
	\$	\$	\$	\$	\$	\$	%
Non - executive directors							
A G Purcell (i)	41,941	-	-	-	-	41,941	-
M J Sandy (i)	33,582	-	-	-	-	33,582	-
S W Hopley (ii)	18,392	-	1,747	-	-	20,139	-
G A Short (ii)	29,807	-	2,832	-	-	32,639	-
Sub-total non-executive directors	123,722	-	4,579	-	-	128,301	-
Executive director							
P J Stickland	-	328,114	30,000	46,667	12,306	417,087	11.2
Other key management personnel							
C H Naylor	-	198,973	35,000	19,038	11,704	264,715	7.2
R Zammit	-	204,273	35,000	24,526	13,832	277,631	8.8
Sub-total executives	-	731,360	100,000	90,231	37,842	959,433	9.4
TOTAL	123,722	731,360	104,579	90,231	37,842	1,087,734	8.3

* Refer note 19 to the consolidated financial statements for fair value calculation of performance rights.

(i) A G Purcell and M J Sandy were appointed directors on 30 July 2015.

(ii) G A Short resigned as Chairman and non-executive director on 25 November 2015 and S W Hopley retired as non-executive director on 25 November 2015.

Melbana Energy Limited (formerly MEO Australia Limited)

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**DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 30 JUNE 2017**

15. REMUNERATION REPORT (Audited) (cont)

5.2 Equity instruments

Table 3: Options and share performance rights awarded, vested and lapsed during the year

Options							
30 June 2017	Award date	Options awarded during the year No.	Fair value per option at award date (cents)	Vesting date	No. vested during year	No. lapsed during year	Expiry date
Non-executive directors							
Nil							
Executives							
	28 Mar 2017	1,000,000	1.6745	27 Mar 2018	-	-	27 Sep 2020
	28 Mar 2017	1,000,000	1.6745	27 Mar 2019	-	-	27 Sep 2020
	28 Mar 2017	1,000,000	1.6745	27 Mar 2018	-	-	27 Sep 2020
	28 Mar 2017	1,000,000	1.6745	27 Mar 2019	-	-	27 Sep 2020
Share Performance Rights							
30 June 2017	Award date	Share performance rights awarded during the year No.	Fair value per share performance right at award date (cents)	Vesting date	No. vested during year	No. lapsed during year	Expiry Date
Executives							
	25 Nov 2015	5,333,333	1.500	30 Nov 2016	5,333,333	-	29 Nov 2018
	4 Feb 2016	4,610,519	0.991	31 Jan 2017	4,610,519	-	31 Jan 2019
	4 Feb 2016	5,939,612	0.991	31 Jan 2017	5,939,612	-	31 Jan 2019

Table 4: Value of options awarded, exercised and lapsed during the year

	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$
C H Naylor	33,489	-	-
R Zammit	33,489	-	-

Table 5: Value of share performance rights, awarded, exercised and lapsed during the year

	Value of rights granted during the year \$	Value of options and rights exercised during the year \$	Value of options and rights lapsed during the year \$
P J Stickland	-	-	-
C H Naylor	-	-	-
R Zammit	-	-	-

For details on the valuation of the options and share performance rights, including models used and assumptions used please refer to note 19 to the consolidated financial statements.

Table 6: Shares issued on exercise of options and share performance rights

There was no exercise of options or share performance rights during the reporting period (2016: nil)

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**DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 30 JUNE 2017**

15. REMUNERATION REPORT (Audited) (cont)

6. Additional disclosures relating to shares and options

Shareholdings of key management personnel

The movement during the reporting period in the number of ordinary shares in Melbana Energy Limited held directly, indirectly or beneficially, by Key Management Personnel, including their related parties, is as follows:

30 June 2017	Held at 1 July 2016	Purchases	Received on Exercise of Options	Sales	Held at 30 June 2017
Shares held in Melbana Energy Limited (number)					
<i>Non-executive directors</i>					
A G Purcell	1,971,531	416,667	-	-	2,388,198
M J Sandy	800,000	916,667	-	-	1,716,667
<i>Executives</i>					
P J Stickland (Executive Director)	5,453,700	416,667	-	-	5,870,367
C H Naylor	565,000	416,667	-	-	981,667
R Zammit	1,710,000	138,889	-	-	1,848,889

No shares were granted to key management personnel during the reported period as compensation.

Option holdings of key management personnel

The movement during the reporting period in the number of options over ordinary shares in Melbana Energy Limited held, directly, indirectly and beneficially by key management personnel, including their related parties is as follows:

	Held at 1 July 2016	Granted as Remuneration	Options Exercised	Options Lapsed	Held at 30 June 2017	Vested and Vested exercisable at in 2017	Vested and exercisable at 30 June 2017
Options (number)							
<i>Executive Director and other Executives</i>							
P J Stickland	500,000	-	-	500,000	-	-	-
C H Naylor	1,000,000	-	-	1,000,000	-	-	-
R Zammit	1,000,000	-	-	1,000,000	-	-	-
C H Naylor	-	2,000,000	-	-	2,000,000	-	-
R Zammit	-	2,000,000	-	-	2,000,000	-	-

Share performance rights holdings of key management personnel

The movement during the reporting period in the number of share performance rights over ordinary shares in Melbana Energy Limited held, directly, indirectly and beneficially by key management personnel, including their related parties is as follows:

	Held at 1 July 2016	Granted as Remuneration	Rights Exercised	Rights Lapsed	Held at 30 June 2017	Vested and Vested exercisable at in 2017	Vested and exercisable at 30 June 2017
Share performance rights (number)							
<i>Executive Director and other Executives</i>							
P J Stickland	5,333,333	-	-	-	5,333,333	5,333,333	5,333,333
C H Naylor	4,610,519	-	-	-	4,610,519	4,610,519	4,610,519
R Zammit	5,939,612	-	-	-	5,939,612	5,939,612	5,939,612

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**DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 30 JUNE 2017****15. REMUNERATION REPORT (Audited) (cont)****7. Company performance**

The remuneration of Melbana executives and contractors is not formally linked to financial performance measures of the Company. However, as explained on pages 17 and 18, executives are strongly incentivised to maximise shareholder wealth because of the fact that the exercise price of the options granted to executives, should they vest, is higher than the market price on the grant date. In accordance the Section 300A of the *Corporations Act 2001* the following table summarises Melbana's performance over a five year period:

Measure	2017	2016	2015	2014	2013
Net (loss)/profit - \$000	(2,121)	(10,406)	(10,042)	(135,910)	(67,210)
Basic (loss)/earnings per share - cents per share	(0.26)	(1.31)	(1.34)	(21.12)	(11.26)
Share price at the beginning of year - \$	0.015	0.015	0.03	0.06	0.25
Share price at end of year - \$	0.017	0.015	0.015	0.03	0.06
Dividends per share – cents	Nil	Nil	Nil	Nil	Nil

16. CORPORATE GOVERNANCE STATEMENT

The Company's Corporate Governance Statement for the year ended 30 June 2017, ASX Appendix 4G (Key to Disclosure of Corporate Governance Principles and Recommendations) and other ancillary corporate governance related documents may be accessed from the Company's website at

<http://www.melbana.com/irm/content/corporate-governance.aspx?RID=376>

Signed in accordance with a resolution of the directors



P J STICKLAND

Managing Director and Chief Executive Officer

Melbourne, 15 September 2017

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	2017	2016
		\$	\$
Interest income		70,796	96,562
Total income		70,796	96,562
Net administration costs	4	(1,672,180)	(1,980,008)
Exploration expenditure written-off/down		(454,849)	(10,774,401)
Exchange (losses)/gains on revaluation of foreign currency bank accounts		(33,120)	30,105
Foreign currency gain on closure of foreign operation		-	2,264,862
Loss before income tax		(2,089,353)	(10,362,880)
Income tax expense	5	(31,584)	(43,225)
Net loss for the period		(2,120,937)	(10,406,105)
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		805	10,126
Transfer of foreign currency gain on closure of foreign operation		-	(2,264,862)
Other comprehensive income/(loss) for the period, net of tax		805	(2,254,736)
Total comprehensive loss for the period		(2,120,132)	(12,660,841)
Basic loss per share (cents per share)	6	(0.26)	(1.31)
Diluted loss per share (cents per share)	6	(0.26)	(1.31)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes. Where appropriate, prior year comparative information has been amended for the purposes of consistency.

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017**

	Note	2017 \$	2016 \$
CURRENT ASSETS			
Cash and cash equivalents	7	2,605,011	4,135,989
Other receivables	8	33,740	183,652
TOTAL CURRENT ASSETS		2,638,751	4,319,641
NON-CURRENT ASSETS			
Property, plant and equipment	9	72,656	106,312
Exploration and evaluation costs	11	3,817,191	1,764,514
TOTAL NON-CURRENT ASSETS		3,889,847	1,870,826
TOTAL ASSETS		6,528,598	6,190,467
CURRENT LIABILITIES			
Trade and other payables	12	311,550	219,622
Provisions	13	311,630	205,085
TOTAL CURRENT LIABILITIES		623,180	424,707
NON-CURRENT LIABILITIES			
Provisions	13	125,934	162,019
TOTAL NON-CURRENT LIABILITIES		125,934	162,019
TOTAL LIABILITIES		749,114	586,726
NET ASSETS		5,779,484	5,603,741
EQUITY			
Contributed equity	14	265,934,973	263,822,525
Reserves	14	334,225	464,603
Accumulated losses	14	(260,489,714)	(258,683,387)
TOTAL EQUITY		5,779,484	5,603,741

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

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017**

	Issued capital \$	Share based payments reserve \$	Foreign Currency Translation Reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016	263,822,525	447,741	16,862	(258,683,387)	5,603,741
Net loss after tax for the period	-	-	-	(2,120,937)	(2,120,937)
Other comprehensive income/(loss)	-	-	805	-	805
Total comprehensive income/(loss) after tax for the year	-	-	805	(2,120,937)	(2,120,132)
Transactions with owners in their capacity as owners:					
Cost of share based payments	-	183,427	-	-	183,427
Share placement	1,688,400	-	-	-	1,688,400
Share purchase plan	545,000	-	-	-	545,000
Costs of issues (net of tax)	(120,952)	-	-	-	(120,952)
Transfer of equity instruments expired unvested	-	(314,610)	-	314,610	-
At 30 June 2017	265,934,973	316,558	17,667	(260,489,714)	5,779,484
	Issued capital \$	Share based payments reserve \$	Foreign Currency Translation Reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2015	262,406,308	1,248,623	2,271,598	(249,211,295)	16,715,234
Net loss after tax for the period	-	-	-	(10,406,105)	(10,406,105)
Other comprehensive income/(loss)	-	-	(2,254,736)	-	(2,254,736)
Total comprehensive income/(loss) after tax for the year	-	-	(2,254,736)	(10,406,105)	(12,660,841)
Transactions with owners in their capacity as owners:					
Cost of share based payments	-	133,131	-	-	133,131
Share placement	1,407,166	-	-	-	1,407,166
Costs of issues (net of tax)	9,051	-	-	-	9,051
Transfer of equity instruments expired unvested	-	(934,013)	-	934,013	-
At 30 June 2016	263,822,525	447,741	16,862	(258,683,387)	5,603,741

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

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	2017 \$	2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(1,359,856)	(1,641,391)
Cost recovery from joint venture partners		-	65,531
Merger and takeover costs		-	(16,585)
Interest received		73,642	117,877
Net cash (used in) operating activities	15	(1,286,214)	(1,474,568)
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditure on plant and equipment		(15,520)	-
Expenditure on exploration tenements		(2,290,400)	(1,577,994)
Proceeds from sale of plant and equipment		13,412	-
Net cash (used in) investing activities		(2,292,508)	(1,577,994)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issues		2,233,400	1,407,166
Transaction costs on issue of shares		(152,536)	(34,174)
Net cash from financing activities		2,080,864	1,372,992
Net decrease in cash and cash equivalents		(1,497,858)	(1,679,570)
Cash and cash equivalents at beginning of period		4,135,989	5,785,454
Net foreign exchange differences		(33,120)	30,105
Cash and cash equivalents at end of period	7	2,605,011	4,135,989

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1 CORPORATE INFORMATION

The financial report of Melbana Energy Limited (“Melbana Energy”, or the “Company”) for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 15 September 2017.

Melbana Energy Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on Australian Securities Exchange.

The nature of operations and principal activities of the Group are described in note 3.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report of a “for-profit” entity, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, and is presented in Australian dollars.

(i) Compliance with IFRS

The financial report complies with Australian Accounting Standards issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(ii) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2016:

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2015-2	Amendments to Australian Accounting Standards Disclosure Initiative: Amendments to AASB 101	This Standard amends AASB 101 Presentation of Financial Statements to clarify existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying the Standard in determining what information to disclose, where and in what order information is presented in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures.	1 January 2016	1 July 2016

Adoption of this standard did not have a material effect on the financial position or performance of the Group. Other new Australian accounting standards and Interpretations issued and effective are not relevant to the Group.

(iii) Early adoption of new Accounting Standards

The Group has not elected to early adopt any of the standards set out under (b) New Accounting Standards and Interpretations’ for the current reporting period.

(iv) Historical cost convention

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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017****NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)****(b) New Accounting Standards and Interpretations**

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2017. Adoption of these standards is not expected to have a material effect on the financial position or performance of the Group however the position will be further reviewed during FY2018.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 15	Revenue from Contracts with Customers	AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations. AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).	1 January 2018	1 July 2018
AASB 9, and relevant amending standards	Financial Instruments	AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO.	1 January 2018	1 July 2018

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(b) New Accounting Standards and Interpretations (cont)

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2017. Adoption of these standards may have an effect on the financial position or performance of the Group however the position will be further reviewed during FY2018.

AASB 16	Leases	<p>AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).</p> <p>Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.</p> <p>Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.</p> <p>For the Group, at this stage, it is expected that at least the present value of the operating lease commitments will be brought onto the balance sheet. Other potential impacts are yet to be assessed.</p>	1 January 2019	1 July 2019
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Other new Australian accounting standards and Interpretations issued but not yet effective are not relevant to the Group.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group 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 Group has less than a majority of the voting or similar rights of an investee, the Group 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 Group's voting rights and potential voting rights

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(c) Basis of consolidation (cont)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

(d) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on judgements, estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share-based payment transactions

The Group 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 of share options is determined using a binomial option pricing model, and using the assumptions detailed in note 19.

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 2017 exploration activities in each area of interest 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. If new information becomes available that suggests the recovery of expenditure is unlikely, the amounts capitalised will need to be reassessed at that time.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(d) Significant accounting judgements, estimates and assumptions (cont)

Going concern

The Group is involved in the exploration and evaluation of oil and gas tenements. Further expenditure will be required on these tenements to ascertain whether they contain economically recoverable reserves.

At 30 June 2017, the Group:

- has incurred a net loss after tax of \$2,120,937 (2016: \$10,406,105);
- had net cash outflows from operating and investing activities of \$3,578,722 (2016: \$3,052,562);
- has cash and cash equivalents on hand of \$2,605,011 (2016: \$4,135,989); and
- in August 2017 the Group announced that it had successfully raised \$1,787,332 before costs (estimated at \$165,000) from qualified institutional and sophisticated investors. In addition, the Group announced a 1 for 2 pro-rata non-renounceable entitlement offer of Shares to raise up to approximately \$4,766,000 before costs (estimated at \$428,000). Patersons Limited has partially underwritten the Entitlement Offer up to \$3,420,000.

At the date of this report, the Group is contractually committed to the following exploration activities (further details are located in Note 17):

- the commencement of drilling of the Pukatea-1 exploration well in mid-January 2018 (Melbana 30% interest); and
- evaluating existing exploration data in the Cuba Block 9 and reprocessing selected 2D seismic data as part of the first sub period work program (Melbana 100%).

The cash reserves at 30 June 2017, plus the capital raising completed and underwritten subsequent to year-end are expected to be sufficient to meet the Group's committed exploration activities and ongoing operational expenditure for the 12 months from the date of this report.

Notwithstanding the contractual commitments detailed above, in forming a conclusion on the going concern assumption, consideration has been given to the Group's intentions with respect to future exploration activity, in line with recent market announcements.

The Group has prepared cash flow forecasts to support the going concern assumption based on its intended exploration activities and events subsequent to the reporting date (30 June 2017) as follows:

- The Cuban national oil company, Union Cuba Petroleo ("CUPET") has approved an amendment to the Block 9 exploration work program deferring the obligation to undertake a 200km 2D seismic survey in the second exploration sub-period starting November 2017 to the third exploration sub-period starting November 2019 and accelerating the obligation to drill an exploration well from the third exploration sub-period to the second exploration sub-period;
- In the event that the Group exercises its option to enter the second exploration sub period (November 2017 to November 2019) the budget to reflect the minimum work program of one well is currently estimated to cost US\$5m with related cash backed bank guarantee also required. The Group aims to drill up to two wells commencing mid-2018; and
- The Group is actively pursuing opportunities to reduce its committed funding requirements for Pukatea-1 well while maintaining exposure to a successful drilling result.

In the event the Group exercises its option to successfully enter the second sub period for Block 9 (November 2017) and is unable to reduce its funding requirements for the Pukatea-1 well, the current cash reserves will not be sufficient to meet the Group's planned exploration activities for the 12 months from the date of this report. In these circumstances Directors would consider options including raising additional capital to mitigate uncertainty as to whether the Group would be able to meet its debts as and when they fall due and thus continue as a going concern.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(d) Significant accounting judgements, estimates and assumptions (cont)

Directors consider they have reasonable basis to prepare the financial report on a going concern basis after having regards to the following:

- On 28 August 2017, Petro Australis Limited has provided a notice to the Group to exercise its back-in right with respect to a 40% participating interest in Block 9, which is subject to regulatory approval. Should the regulatory approvals be forthcoming, Melbana would retain a 60% interest and operatorship of Block 9. Under this arrangement Petro Australis would be responsible of 40% of certain costs incurred to date, and 40% of future costs relating to Block 9;
- The Group's intention to execute a farm-out or sale process of its interest in the Pukatea-1 well;
- Raising additional capital by one of 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 for the proposed drilling in Cuba Block 9;
- In some circumstances, 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.

The 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. 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 Group 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 Group's ability to effectively fund exploration planned activities and operating expenditures, the Directors believe that the Group 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.

(e) Segment reporting

Operating segments are reported in a manner which is materially consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

(f) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(iii) Group companies

On consolidation the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

(g) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at bank and in hand and short-term deposits that are readily convertible to a known amount of cash and used for meeting short term cash needs.

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.

(h) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets which range from 3 to 15 years.

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.

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.

(i) Exploration and evaluation costs

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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(i) Exploration and evaluation costs (cont)

Farm-outs

The Group will account for farm-out arrangements as follows:

- The Group will not record any expenditure made by the farminee on its behalf;
- The Group 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 Group as gain on disposal.

(j) 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.

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.

(k) Interests in joint arrangements

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 Group 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.

(l) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use a specific asset or assets and the arrangement conveys a right to use the asset.

Leases under which the lessor retains substantially all of the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(m) Trade and other payables

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of the goods and services.

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee leave benefits

Short term benefits

Liabilities for wage and salaries, including non-monetary benefits and certain annual leave entitlements expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' service up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long term benefits

The liability for long service leave and certain annual benefits are recognised in the provision for employee benefits and measured as 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 in high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(o) Share-based payment transactions

The Group provides benefits to employees (including directors) of, and consultants to, the Group in the form of share-based payment transactions, whereby services are rendered in exchange for shares or rights over shares ('equity-settled transactions'). The Board adopted the Long Term Incentive Plan on 13 September 2011.

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value of options and performance rights with market based performance criteria is determined using a binomial option pricing model. The fair value of performance plan rights with non-market performance criteria is determined by reference to the Company's share price at date of grant.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the recipient becomes fully entitled to the award ('vesting date').

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(o) Share-based payment transactions (cont)

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors, based on the best available information at balance date, will ultimately vest. No adjustment is made for the likelihood of market conditions being met as the effect of these conditions is included in determination of fair value at grant date. The charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(p) Contributed equity

Ordinary shares are classified as equity. 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.

(q) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest income is recognised as it accrues using the effective interest method.

(r) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date.

Deferred income tax is provided on all temporary differences at balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(r) Income tax (cont)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be used, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when the deductible temporary differences is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be applied.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it is has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 deferred tax liabilities are offset only if a legally enforceable right of set off exists to set off current tax assets against current liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxable authority.

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

Tax consolidation legislation

Melbana Energy Limited and its wholly owned subsidiaries have implemented the tax consolidation legislation as of 1 July 2004.

The head entity, Melbana Energy Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current tax and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Melbana Energy Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(s) Goods and services tax

Revenues, expenses and assets are recognised net of GST, except receivables and payables which are stated with GST included. Where GST incurred on a purchase of goods or services is not recoverable from the taxation authority, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

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

(t) Earnings per share

Basic earnings per share is calculated as net profit/(loss) attributable to members divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit/(loss) attributable to members divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(u) Parent entity financial information

The financial information for the parent entity, Melbana Energy Limited, disclosed in note 22 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less accumulated impairment losses in the financial statements of Melbana Energy Limited.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017****NOTE 3 SEGMENT INFORMATION**

The Group operates in the petroleum 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 11.

NOTE 4 NET ADMINISTRATION EXPENSES

	Consolidated	
	2017	2016
	\$	\$
Consultants fees and expenses	159,998	219,208
Non-executive directors remuneration (excluding share based payments)	137,500	147,051
Salaries and on-costs	1,757,969	1,684,993
Share based payments	183,427	133,131
Administration and other expenses	274,751	229,451
Audit costs	52,500	70,000
Securities exchange, share registry and reporting costs	125,657	110,990
Operating lease expenses	151,816	276,354
Investor relations and corporate promotion costs	98,917	75,484
Travel costs	106,924	53,528
Depreciation and amortisation expense	24,803	84,636
Office relocation costs	57,379	-
Gross administration costs	3,131,641	3,084,826
Less allocation to exploration activities	(1,459,461)	(1,104,818)
Net administration costs	1,672,180	1,980,008

NOTE 5 INCOME TAX**Statement of Comprehensive Income**

	Consolidated	
	2017	2016
	\$	\$
<i>Current income tax</i>		
Current income tax credit/(expense)	1,215,254	(232,265)
Tax losses (not recognised)/recognised	(653,027)	189,040
	562,227	(43,225)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(593,811)	2,770,490
Tax losses derecognised	-	(2,770,490)
	(593,411)	-
Income tax expense reported in the Statement of Comprehensive Income	(31,584)	(43,225)

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 5 INCOME TAX (cont)

	Consolidated	
	2017	2016
	\$	\$
Statement of Changes in Equity		
<i>Deferred income tax related to items charged or credited directly to equity</i>		
Share issue costs	45,761	10,252
Share issue costs not recognised as not probable	(27,457)	(6,151)
Amount recognised in respect of prior years share issue costs now considered probable	13,280	39,124
	<u>31,584</u>	<u>43,225</u>
Income tax benefit reported in equity	31,584	43,225

	Consolidated	
	2017	2016
	\$	\$

Tax Reconciliation

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting loss before tax	(2,120,937)	(10,406,105)
At the Group's statutory 30% tax rate (2016: 30%)	636,281	3,121,831
Share based payment expense	(55,028)	(39,939)
Non-deductible expenses	(513)	(67,248)
Difference in overseas tax rates	(68,707)	(422,144)
Tax losses not brought to account	(543,617)	(2,635,725)
Income tax expense reported in the Statement of Comprehensive Income	<u>(31,584)</u>	<u>(43,225)</u>

Deferred Income Tax	Statement of Financial Position		Income Statement	
	2017	2016	2017	2016
	\$	\$	\$	\$

Deferred income tax at 30 June relates to the following:

CONSOLIDATED

Deferred tax liabilities

Interest receivable	(1,313)	(2,167)	854	6,394
Exploration and evaluation costs	(1,145,157)	(529,354)	(615,803)	2,727,479
Gross deferred income tax liabilities	<u>(1,146,470)</u>	<u>(531,521)</u>		

Deferred tax assets

Accruals	-	-	-	(42,289)
Provisions	131,269	110,131	21,138	45,617
Share issue costs	59,041	49,376	-	-
Temporary differences not recognised as not probable	(27,457)	(6,151)	-	-
Tax losses brought to account to offset net deferred tax liability	983,617	378,165	562,227	(2,780,426)
Gross deferred income tax assets	<u>1,146,470</u>	<u>531,521</u>		
Net deferred tax asset	-	-		
Deferred tax expense			<u>(31,584)</u>	<u>(43,225)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 5 INCOME TAX (cont)

Tax losses

At balance date, the Group has estimated unused gross tax losses of \$163.6 million (2016: \$161.6 million) that are available to offset against future taxable profits subject to continuing to meet relevant statutory tests. To the extent that it does not offset a net deferred tax liability, a deferred tax asset has not been recognised in the accounts for these unused losses because it is not probable that future taxable profit will be available to use against such losses.

NOTE 6 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings/(loss) per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following data was used in the calculations of basic and diluted loss per share:

	Consolidated	
	2017	2016
	\$	\$
Net loss	(2,120,937)	(10,406,105)
	Shares	Shares
Weighted average number of ordinary shares used in calculation of basic loss per share	803,629,702	796,624,968
Effect of dilution:		
Exercisable Performance Rights and Share Options	28,627,798	11,743,018
Weighted average number of ordinary shares adjusted for the effect of dilution	832,257,500	808,367,986

Other than the exercise of performance rights, rights issue and share placement in August/September 2017 totalling 520,733,229 shares, there have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

NOTE 7 CASH AND CASH EQUIVALENTS

	Consolidated	
	2017	2016
	\$	\$
Cash at bank and in hand	590,690	728,107
Short term deposits	2,014,321	2,876,926
Cash backed bank guarantee for Block 9 Cuba	-	530,956
	2,605,011	4,135,989

Cash at bank earns interest at floating rates based on daily bank rates. Short term deposits are made for varying maturities depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017****NOTE 8 TRADE AND OTHER RECEIVABLES**

	Consolidated	
	2017	2016
	\$	\$
Goods and services tax refund	10,446	12,094
Interest receivable	4,376	7,223
Other receivables	18,918	164,335
	<u>33,740</u>	<u>183,652</u>

At balance date, there are no trade receivables or other receivables that are past due but not impaired. Due to the short term nature of these receivables, their carrying value approximates fair value. Trade receivables are non-interest bearing and are generally on 30-90 day terms. Details regarding the credit risk of current receivables are disclosed in note 16.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT**Plant and Equipment**

	Consolidated	
	2017	2016
	\$	\$
<i>Plant and Equipment</i>		
At cost	595,508	661,660
Accumulated depreciation	(522,852)	(555,348)
	<u>72,656</u>	<u>106,312</u>
Total Property, Plant and Equipment	72,656	106,312
<i>Movement in Plant and Equipment</i>		
Net carrying amount at beginning of year	106,312	150,094
Additions	15,520	-
Disposals	(24,373)	-
Depreciation	(24,803)	(43,782)
	<u>72,656</u>	<u>106,312</u>
Net carrying amount at end of year	72,656	106,312

The useful life of plant and equipment for 2017 and 2016 is estimated to be between 3 and 15 years.

NOTE 10 INTANGIBLE ASSETS

	Consolidated	
	2017	2016
	\$	\$
Software licences at cost	372,963	372,963
Accumulated amortisation	(372,963)	(372,963)
	<u>-</u>	<u>-</u>
<i>Movement in Intangibles</i>		
Net carrying amounts at beginning of year	-	40,854
Amortisation	-	(40,854)
	<u>-</u>	<u>-</u>
Net carrying amount at end of year	<u>-</u>	<u>-</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017****NOTE 11 EXPLORATION AND EVALUATION COSTS**

	Consolidated	
	2017	2016
	\$	\$
Balance at beginning of year	1,764,514	10,856,110
Expenditure for the year	2,507,526	1,682,805
Expenditure written-off/down during the year	(454,849)	(10,774,401)
	<u>3,817,191</u>	<u>1,764,514</u>
Balance at end of year	<u>3,817,191</u>	<u>1,764,514</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 2017 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.

The exploration write-off for the financial year is \$454,849. In FY2016 exploration expenditure written-off/down was \$10,774,401 consisting of a \$3,151,435 write-off of expenditure (\$2,236,280 relating to WA-454-P and \$679,381 relating to WA-488-P) and a write-down of \$7,622,966 relating to AC/P50 and AC/P51. The write-down was a result of the execution of the agreement with Rouge Rock which grants Rouge Rock an option to acquire a 45% interest in each permit in exchange for funding the remaining primary statutory work program for each permit.

Capitalised exploration and evaluation costs at 30 June 2017 are \$3,817,191 (June 2016: \$1,764,514) which relate to the following:-

Area of Interest	30 June 2017	30 June 2016
Block 9 Cuba	\$3,096,453	\$1,132,014
AC/P50 & AC/P51	\$632,500	\$632,500
PEP 51153	\$88,238	-
TOTAL	\$3,817,191	\$1,764,514

NOTE 12 TRADE AND OTHER PAYABLES

	Consolidated	
	2017	2016
	\$	\$
Trade and other payables	<u>311,550</u>	<u>219,622</u>

Trade payables are non-interest bearing and are normally settled on 30 day terms.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017****NOTE 13 PROVISIONS**

	Consolidated	
	2017	2016
	\$	\$
CURRENT		
Employee benefits		
Annual leave entitlement	149,541	133,416
Long service leave entitlement	162,089	71,669
	<u>311,630</u>	<u>205,085</u>
NON-CURRENT		
Employee benefits		
Long service leave entitlement	125,934	162,019

NOTE 14 CONTRIBUTED EQUITY AND RESERVES

	2017	Consolidated		2016
	Shares	2017	2016	2016
		\$	Shares	\$
ISSUED AND PAID UP CAPITAL				
Ordinary shares	953,243,886	265,934,973	891,204,960	263,822,525
	=====	=====	=====	=====
	2017	2017	2016	2016
	Shares	\$	Shares	\$
Movements in Ordinary Shares				
Balance at beginning of year	891,204,960	263,822,525	750,488,387	262,406,308
<i>Share Issues:</i>				
Share Placement at \$0.01 per share	-	-	140,716,573	1,407,166
Share Placement at \$0.036 per share	46,900,000	1,688,400	-	-
Share Purchase Plan at \$0.036 per share	15,138,926	545,000	-	-
Transaction costs (net of tax)	-	(120,952)	-	9,051
	<u>953,243,886</u>	<u>265,934,973</u>	<u>891,204,960</u>	<u>263,822,525</u>
Balance at end of year	953,243,886	265,934,973	891,204,960	263,822,525

(a) Terms and Condition of Ordinary Shares

Ordinary shares entitle their holder to receive dividends as declared. In the event of winding up the Company, ordinary shares entitle their holder to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up or which should have been paid up on shares held. Each ordinary share entitles the holder to one vote, either in person or by proxy, at a meeting of the Company. Ordinary shares issued during the year and since the end of the year, from date of issue rank equally with the ordinary shares on issue.

(b) Share Options and Performance Rights

At 30 June 2017, 9,250,000 share options and 26,273,365 share performance rights granted to directors, executives and employees were outstanding. The options and share performance rights are granted pursuant to the Senior Executives and Officers Option Plan, details of which are set out in note 19.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 14 CONTRIBUTED EQUITY AND RESERVES (cont)

(c) Capital Management

Capital is defined as equity. When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits of other stakeholders. All methods of returning funds to shareholders outside of dividend payments or raising funds are considered within the context of the Company's objectives.

The Group will seek to raise further capital, if required, as and when necessary to meet its projected operations. The decision of how the Group will raise future capital will depend on market conditions existing at that time. It is the Group's plan that this capital will be raised by any one or a combination of the following: placement of shares, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares to the public. Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the Company's intention to meet its obligations by either partial sale of the Company's interests or farmout, the latter course of action being part of the Company's overall strategy.

ACCUMULATED LOSSES

	Consolidated	
	2017	2016
	\$	\$
Balance at beginning of year	(258,683,387)	(249,211,295)
Net loss for the year	(2,120,937)	(10,406,105)
Transfer from share based payments reserve - cost of equity instruments expired unexercised	314,610	934,013
Balance at end of year	<u>(260,489,714)</u>	<u>(258,683,387)</u>

The Group is not subject to any externally imposed capital requirements.

OTHER RESERVES

Share based payments reserve

The share based payment reserve is used to record the value of share based payments provided to employees and contractors, including Key Management Personnel as part of their remuneration. Refer to note 19 for further details of the plan.

Share based payments reserve

	Consolidated	
	2017	2016
	\$	\$
Balance at beginning of year	447,741	1,248,623
Cost of share based payments	183,427	133,131
Transfer to accumulated losses - cost of equity instruments expired unexercised	(314,610)	(934,013)
Balance at end of year	<u>316,558</u>	<u>447,741</u>

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences for the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

In FY2016, the surrender of the Seruway and South Madura Production Sharing Contracts were formalised during the year. Exchange differences of \$2,264,862 previously recognised in other comprehensive income and accumulated in the foreign currency translation reserve were reclassified from the reserve to profit or loss on cessation of the foreign operation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 14 CONTRIBUTED EQUITY AND RESERVES (cont)

	Consolidated	
	2017	2016
	\$	\$
Balance at beginning of year	16,862	2,271,598
Exchange differences on translation of foreign operations	805	10,126
Transfer of foreign currency gain on closure of foreign operation	-	(2,264,862)
	<hr/>	<hr/>
Balance at end of year	<u>17,667</u>	<u>16,862</u>

NOTE 15 CASH FLOW STATEMENT RECONCILIATION

Reconciliation of net loss after tax to net cash flows used in operating activities

	Consolidated	
	2017	2016
	\$	\$
Net (loss)	(2,120,937)	(10,406,105)
<i>Adjustments for:</i>		
Exploration expenditure written-off/down	454,849	10,774,401
Depreciation and amortisation	24,803	84,636
Share based payments	183,427	133,131
Exchange rate adjustments on revaluation of foreign currency bank accounts	33,120	(30,105)
Foreign currency gain on closure of foreign operation	-	(2,264,862)
Deferred income tax expense	31,584	43,225
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	15,564	69,123
(Decrease)/increase in trade and other payables	20,916	(30,068)
(Decrease)/increase in provisions	70,460	152,056
	<hr/>	<hr/>
Net cash flows (used in) operating activities	<u>(1,286,214)</u>	<u>(1,474,568)</u>

NOTE 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits, the main purpose of which is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations. The main risks arising from the Group'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 they are not significant in terms of the Group's current activities. The Group also enters into derivative financial instruments, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations. Speculative trading in derivatives is not permitted. There are no derivatives outstanding at 30 June 2017 (2016: \$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.

Melbana Energy Limited (formerly MEO Australia Limited)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont)

Credit risk

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

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group'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.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group'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 group, 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 group.

Foreign currency risk

The Group's exposure to exchange rate risk relates primarily to trade payables and cash denominated in US dollars. Where a payable is significant, US dollars are purchased on incurring the liability or commitment. The Group also manages its currency risk through the active management of its exposures which may include entering into various forward currency contracts throughout the year.

The Group's exposure to its unhedged financial assets and liabilities is as follows:

	Consolidated	
USD	2017	2016
	\$	\$
Cash	554,470	985,817
Total Financial Assets	<u>554,470</u>	<u>985,817</u>
	2017	2016
	\$	\$
Trade Creditors	-	12,707
Total Financial Liabilities	<u>-</u>	<u>12,707</u>

The following sensitivity analysis is based on the foreign currency risk exposure in existence at the balance date, with all other variables remaining constant:

	Consolidated	
	Net Profit	
	2017	2016
	\$	\$
10% strengthening in AUD/USD rate (for 2017 from 0.7692 to 0.8461 and for 2016 from 0.7522 to 0.8274) with all other variables held constant	(65,531)	(117,608)
10% weakening in AUD/USD rate (for 2017 from 0.7692 to 0.6923 and 2016 from 0.7522 to 0.6770) with all other variables held constant	80,093	143,743

A sensitivity of 10% has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed both on a 5 year historical basis and market expectations for potential future movement.

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There is no impact on equity other than the above net profit sensitivities on retained earnings/accumulated losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont)

Liquidity Risk

The Group's exposure to financial obligations relating to corporate administration and exploration expenditure, are subject to budgeting and reporting controls, to ensure that such obligations do not exceed cash held and known cash inflows for a period of at least 1 year.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built in an appropriate liquidity risk framework for the management of the Group's short, medium and longer term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate equity funding through the monitoring of future cash flow forecasts of its operations, which reflect management's expectations of the settlement of financial assets and liabilities.

The Group has limited financial resources and will need to raise additional capital from time to time and such fund raisings may be subject to factors beyond the control of the Company and its directors. When Melbana requires further funding for its programs, then it is the Company's intention that the additional funds will be raised by any one or a combination of the following: placement of shares, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares to the public. Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the Company's intention to meet its obligations by either partial sale of the Company's interests or farmout, the latter course of action being part of the Company's overall strategy.

At balance date, the group holds \$311,550 (2016: \$219,622) of financial liabilities consisting of trade and other payables. All financial liabilities have a contractual maturity of 30 days. The fair values of the financial assets and liabilities approximate the carrying values in the statement of financial position.

NOTE 17 COMMITMENTS AND CONTINGENCIES

Commitments

	Consolidated	
	2017	2016
	\$	\$
Operating Lease		
Future minimum rentals payable under operating lease for office premises at balance date:		
Payable not later than one year	150,804	123,863
Payable later than one year but not later than five years	25,555	-
	<u>176,359</u>	<u>123,863</u>

Guarantee

The Group has provided guarantees of \$44,300 (2016: \$70,752) at 30 June 2017 for lease of premises.

Exploration Commitments

In order to maintain rights of tenure to petroleum exploration tenements, the Group 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 economic 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 \$21,848,000 include the minimum expenditure requirements that the Consolidated Entity is required to meet in order to retain its present permit interests. These obligations may be subject to renegotiation, may be farmed out or may be relinquished.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 17 COMMITMENTS AND CONTINGENCIES (cont)

The majority of Melbana's exploration permits are located in the jurisdiction of the Commonwealth of Australia and have been awarded on the basis of an exploration work program bid, although there is an increase in focus on international permits held in Cuba and NZ. 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 (Melbana 55%*)

AC/P50 was renewed for a further 5 year term commencing 19 May 2015 and the minimum work program requirement during the 3 year Primary Term consists of:-

Year 1 (ending 18 May 2016) - geological and geophysical studies; Status – Work program completed
Year 2 (ending 18 May 2017) - seismic data reprocessing; Status – Work program completed; and
Year 3 (ending 18 May 2018) - geological and geophysical studies.

As announced on 5 July 2016, Melbana will be "free-carried" through the Year 2 and Year 3 work programs following an agreement with Rouge Rock Pty Ltd which grants Rouge Rock an option to acquire a 45% interest in the Permit in exchange for undertaking and funding the remaining work program.

-AC/P51 (Melbana 55%*)

AC/P51 was renewed for a further 5 year term commencing 19 May 2015 and the minimum work program requirement during the 3 year Primary Term consists of:-

Year 1 (ending 18 May 2016) - geological and geophysical studies – Work program completed
Year 2 (ending 18 May 2017) - seismic data reprocessing – Work program completed
Year 3 (ending 18 May 2018) - geological and geophysical studies.

As announced on 5 July 2016, Melbana will be "free-carried" through the Year 2 and Year 3 work programs following an agreement with Rouge Rock Pty Ltd which grants Rouge Rock an option to acquire a 45% interest in the Permit in exchange for undertaking and funding the remaining work program.

- 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 2016.

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

Permit Year 2 - during FY2016 the Regulator approved a suspension of the Permit Year 2 work program conditions by twelve months to 21 November 2016 with the work program varied to include 150km 2D broadband reprocessing and 2D seismic inversion, and, in November 2016, the company was advised by the Regulator of approval to extend Permit Year 2 by 16 months to 21 March 2018. This additional time will provide an opportunity to undertake 330km of 2D seismic broadband reprocessing and additional studies including a stratigraphic interpretation study and an analogue field study.

Permit Year 3 - the potential drilling of the Beehive-1 exploration well has also been deferred 16 months with Permit Year 3 now commencing on 22 March 2018 and ending on 21 March 2019.

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**Assumes Rouge Rock receives regulatory approval for its option to acquire a 45% interest in the Permits and subject to a 5% option granted to Far Cape Energy Pte Ltd.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 17 COMMITMENTS AND CONTINGENCIES (cont)

-PEP51153 (Melbana 30% interest)

The minimum work program for PEP51153 is as follows:

Period	Work Commitment
No later than 23 March 2017	Acquire, process and interpret a minimum of 28.5km of gravity data across the permit Status - Work program completed
No later than 23 February 2018	Drill one well to an agreed location and depth

PEP51153 expires on 23 September 2018.

- 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 2016 the company announced that the national oil company Union Cuba Petrole (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 2017 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 2017 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 2017 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. In the event the Company enters into the second exploration sub-period (November 2017 to November 2019) the firm budget to reflect the minimum work program of one well is estimated to cost ~US\$5million.

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

Summary

Should Melbana proceed with its share of exploration commitments, they are currently estimated to be \$21,848,000 of which \$1,848,000 is estimated within one year and \$20,000,000 is estimated after one year but not more than five years.

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*** Subject to Petro Australis receiving the necessary Cuban regulatory approvals (including pre-qualification) for its 40% back-in option which Petro Australis notified Melbana that it was exercising on 25 August 2017*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 18 RELATED PARTY DISCLOSURES

Subsidiaries

The consolidated financial statements include the financial statements of Melbana Energy Limited, and the following subsidiaries.

	Country of Incorporation	Equity Interest	
		2017 %	2016 %
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
Drysdale Offshore Exploration Pty Ltd**		-	100
Gastech Systems Pty Ltd**		-	100
Offshore Methanol Pty Ltd**		-	100
Innovative Energy Pty Ltd**		-	100
Seruway Offshore Exploration Limited**		-	100
Rayong Offshore Exploration Limited**		-	100
MEO Malaysia Pty Ltd**		-	100

*MEO International Pty Ltd holds:-

- a 100% interest in MEO New Zealand Pty Limited

**Companies liquidated during FY2017

Compensation of key management personnel by category:

	Consolidated	
	2017 \$	2016 \$
Short term employee benefits and fees	933,091	855,082
Post-employment benefits	71,382	104,579
Share-based payments	106,880	90,231
Long service leave expense	23,975	37,842
	<hr/> 1,135,328	<hr/> 1,087,734
	<hr/> <hr/>	<hr/> <hr/>

During the year there were no payments for consulting services to non-executive directors, other than director fees, which were paid to entities controlled by directors (2016: nil).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19 SHARE BASED PAYMENT PLANS

Melbana Long Term Incentive Plan

Share Options

During the year 9,250,000 share options were granted to employees, excluding the managing director (2016: Nil). Each share option is an option to acquire one ordinary share in the Company. Any new shares which are issued in satisfaction of options will be issued at the prevailing market price at the time of issue.

Movements in share options on issue during the year:

	2017 Options	2016 Options
Outstanding at the beginning of the year	4,200,000	11,080,000
Granted during the year	9,250,000	-
Forfeited during the year	(4,200,000)	(6,880,000)
Exercised during the year	-	-
Outstanding at the end of the year	<u>9,250,000</u>	<u>4,200,000</u>
	=====	=====

- In March 2017, 9,250,000 share options were granted to employees exercisable at a price of 3.2 cents per option on or before 27 September 2020. These options vested 50% on 27 March 2018 and 50% on 27 March 2019.

The fair value of the options at date of grant was estimated to be 1.67 cents. The fair value was determined using a Binomial pricing model, taking into account the terms and conditions upon which the options were granted, and using the following inputs to the model:

Expected volatility	135%	Contractual life (years)	3.5
Risk-free interest rate	2.19%	Dividend yield	0%

The expense in the year relating to these share options was \$29,043.

Share Performance Rights

Movements in share performance rights on issue during the year:

	2017 Rights	2016 Rights
Outstanding at the beginning of the year	26,273,365	-
Granted during the year	-	26,273,365
Forfeited during the year	-	-
Outstanding at the end of the year	<u>26,273,365</u>	<u>26,273,365</u>
	=====	=====

In November 2015, 5,333,333 Exercisable Performance Rights were granted to the Managing Director and Chief Executive Officer, Mr Peter Stickland under the Company's Long Term incentive Plan. The vesting date for the Exercisable Performance Rights is 30 November 2016 and expiry date on 29 November 2018. The Exercisable Performance Rights vest and become exercisable after 12 months continuous service ending 29 November 2016. There is no price payable on exercising the Exercisable Performance Rights. The Exercisable Performance Rights are valued at \$80,000 of which \$33,333 was expensed in the year (FY2016: \$46,667).

In February 2016, the company implemented revised remuneration arrangements with its senior staff as part of the Company's ongoing cost reduction initiatives. Senior staff voluntarily agreed to a 20% reduction in the cash component of their annual remuneration packages in exchange for Exercisable Performance Rights. 20,940,032 Exercisable Performance Rights were granted. The vesting date for the Exercisable Performance Rights is 31 January 2017 and expiry date on 31 January 2019. The Exercisable Performance Rights vest and become exercisable after 12 months continuous service ending 31 January 2017. There is no price payable on exercising the Exercisable

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Performance Rights. The Exercisable Performance Rights are valued at \$207,515 of which \$121,051 was expensed in the year (FY2016: \$86,464).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	Consolidated	
	2017	2016
	\$	\$
NOTE 20 AUDITORS' REMUNERATION		
Amounts received or due and receivable by Ernst & Young (Australia) for:		
Audit and review of the financial reports	52,500	70,000
Tax services in relation to the entity and other entities in the consolidated group	7,810	4,471
	60,310	74,471
	60,310	74,471

NOTE 21 INTERESTS IN JOINT OPERATIONS

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.

Commitments related to joint operation assets

Commitments relating to the joint operation assets are set out in note 17 to the accounts.

Contingent liabilities

As at 30 June 2017, there are no contingent liabilities relating to PEP51153.

NOTE 22 PARENT ENTITY INFORMATION

	2017	2016
	\$	\$
<i>Information relating to Melbana Energy Limited</i>		
Current assets	3,735,451	4,117,462
Total assets	6,904,569	6,089,044
Current liabilities	594,609	383,450
Total liabilities	720,543	545,469
Issued capital	262,834,408	260,753,544
Share based payments reserve	316,557	447,741
Accumulated losses	(256,966,939)	(255,657,710)
Total shareholders' equity	6,184,026	5,543,575
Loss of the parent entity	(1,623,839)	(12,429,130)
Total comprehensive loss of the parent entity	(1,623,839)	(12,429,130)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries	n/a	n/a
Details of any contingent liabilities of the parent entity	n/a	n/a
Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment.	n/a	n/a

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

NOTE 23 EVENTS SUBSEQUENT TO BALANCE DATE

On 19 July 2017 the Company announced an amendment to the Cuba Block 9 work program with the deferral of the obligation to undertake a 200km 2D seismic survey in the second exploration sub-period starting November 2017 to the third exploration sub-period starting November 2019 and accelerating the obligation to drill an exploration well from the third exploration sub-period to the second exploration sub-period. The amendment was requested by the Company due to it being able to define a number of high quality drill targets from the data it received and further studies undertaken during the first exploration sub-period.

On 26 July 2017 it was announced that Rouge Rock Pty Ltd (“Rouge Rock”) had formally notified Melbana of the exercise of its options to acquire a forty five percent (45%) participating interest in the AC/P50 and AC/P51 exploration 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. The exercise of the farm-in by Rouge Rock follows its evaluation of reprocessed data and the resulting suite of enhanced technical products which are intended to further de-risk the identified prospects and leads, facilitating a potential further farm-out of the Permits to fund future discretionary exploration drilling.

On 31 July 2017 PEP51153 Operator (TAG Oil 70%) advised that the commencement of drilling of the Pukatea-1 exploration well had been delayed until mid - January, 2018 to provide additional time to undertake civil works on the primary access road and drilling pad and to undertake potential drill rig modifications. Under the terms of PEP51153 an exploration well is required to be drilled prior to 23 February 2018.

In August 2017 the Company announced that it had raised \$1,787,332 (before costs) from qualified institutional and sophisticated investors through the placement of 178,733,229 fully paid ordinary shares at \$0.01 per share together with the issue of 59,577,743 options on the basis of one unlisted option for every three shares subscribed. In addition to the share placement and to enable all Melbana shareholders to participate, the Company announced a 1 for 2 pro-rata non-renounceable entitlement offer of Shares to raise up to approximately \$4,766,000 (before costs). Hartleys Limited and Patersons Limited were Joint Lead Managers to the Placement and the Entitlement Offer, and Patersons Limited is partially underwriting the Entitlement Offer up to \$3,420,000. Proceeds from the Placement and the Entitlement Offer will be used primarily to allow the Company to undertake the necessary initial preparations for the planned Cuba drilling program in 2018 on onshore Block 9 (but excluding drilling itself). The net proceeds will also be used for corporate costs and for general working capital purposes.

On 28 August 2017, the Company advised that Petro Australis Limited (“Petro Australis”) had provided a notice to Melbana exercising its back-in right with respect to a 40% participating interest in Cuba Block 9 Production Sharing Contract (“Block 9 PSC”). Subject to Petro Australis receiving the necessary Cuban regulatory approvals (including pre-qualification) for this transfer, the Block 9 PSC Joint Venture would consist of Melbana 60% (and Operator) and Petro Australis 40%. Petro Australis is responsible for 40% of certain back costs as well as 40% of future costs associated with Block 9 PSC.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or state of affairs of the Group, in future financial years.

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DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Melbana Energy Limited, I state that:

1. In the opinion of the Directors:

- (a) The financial statements and notes of Melbana Energy Limited for the financial year ending 30 June 2017 are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
 - (ii) Complying with Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*.
- (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2 (a)(i).
- (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors from the Managing Director and Chief Executive Officer and Chief Financial Officer & Company Secretary in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2017.

On behalf of the Board



P J STICKLAND

Managing Director & Chief Executive Officer

Melbourne, 15 September 2017

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) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, 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 2017 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*.

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 judgement, 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. 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.

1. Ability for the Group to fund ongoing operations

Why significant

The Group does not yet generate revenue from any of its exploration oil and gas tenements. Additional funding will be required and expended on the tenements to ascertain whether they contain economically recoverable reserves.

The ability for the Group to generate future funding is dependent on either farm-out or partial sale of the Group's exploration interests or raising capital. Therefore an inherent risk in relation to the Group continuing as a going concern exists and, as such, is a significant aspect of our audit.

The Group's assessment of going concern is based on its ability to fund its committed and intended exploration activities along with its ongoing operating expenditure. Where sufficient funding is not available the going concern assessment is based on the expectations of, and the estimates made by, the Group in relation to a farm-out, partial sale or capital raise to meet future exploration commitments and its ability to fund operating expenditure.

The Group has concluded that the year-end cash balance of \$2,605,011 and the capital raising activities subsequent to year end, as disclosed in Note 23, is expected to be sufficient to fund the Group for at least one year from the date on which the financial statements are signed by the Board of Directors and the date of our auditor's report.

The Group's financial statements were prepared on a going concern basis. Refer to Note 2(d) to the financial statements for the basis of preparation and the Directors' Report for the Group's assessment of going concern.

How our audit addressed the key audit matter

In obtaining sufficient audit evidence we assessed the Group's going concern analysis, including:

- ▶ the projected Board approved cash flows;
- ▶ the Group's capital raising activities that were completed subsequent to the year end and prior to the issuance of our auditor's report;
- ▶ the accuracy and completeness of forecast exploration and evaluation expenditure commitments;
- ▶ the anticipated uses of funding, including contractually committed and intended expenditure on future exploration;
- ▶ projected administration overhead costs; and
- ▶ considered the impact of a range of cash flow sensitivities to the going concern model and to the conclusion reached by the Directors. We also assessed the possible mitigating actions identified by the Group in the event that actual cash flows are below forecast.

We assessed the consistency of the assumptions included within the going concern model with the statements related to future plans and commitments contained within the Annual Report, financial statements and other ASX announcements.

We assessed the adequacy of the Group's disclosures in Note 2(d) in relation to the going concern assumption included in the financial report as well as Note 23 which discloses the capital raising activity subsequent to year end.

2. 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 the Group's ability, and intention, to continue to explore the area. The carrying value may also be impacted by the results of exploration work indicating whether the mineral reserves are likely to be technically feasible and commercially viable for extraction. This creates a risk that the amounts stated in the financial statements may not be recoverable.

Refer to Note 11 *Exploration and evaluation costs* to the financial report for the amounts recognised on the consolidated statement of financial position by the Group as at 30 June 2017 and related disclosure.

How our audit addressed the key audit matter

In obtaining sufficient audit evidence in relation to the carrying value of capitalised exploration and evaluation costs, we:

- ▶ 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 continue to undertake significant exploration and evaluation activity in the relevant exploration area which included assessment of the Group's cash-flow forecast models and enquiries of 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.

We assessed the adequacy of the Group's disclosures in relation to capitalised exploration and evaluation costs included in the financial report.

Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Group's Annual Report for the year ended 30 June 2017, but does not include 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 accordingly we do not express any form of assurance conclusion thereon.

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 controls 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 controls.
- Obtain an understanding of internal controls 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 controls.
- 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 the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Melbana Energy Limited for the year ended 30 June 2017, 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.

The logo for Ernst & Young, featuring the company name in a cursive script.

Ernst & Young

A handwritten signature in cursive script, appearing to read 'Alison Parker'.

Alison Parker
Partner
Melbourne
15 September 2017