Melbana Energy Limited

ABN 43 066 447 952

Half Year Financial Report - 31 December 2018

Melbana Energy Limited
Corporate directory
31 December 2018

Directors	Andrew Purcell (Chairman) Michael Sandy Peter Stickland
Chief Executive Officer	Robert Zammit
Company secretary	Melanie Leydin
Registered office	Level 15, 500 Collin Street Melbourne, VIC 3000 Australia Telephone: +61 (3) 8625 6000
Principal place of business	Level 15, 500 Collin Street Melbourne, VIC 3000 Australia Telephone: +61 (3) 8625 6000
Share register	Link Market Services Limited Level 1, 333 Collins Street Melbourne, VIC 3000 Australia Telephone: +61 (3) 9615 9800
Auditor	Grant Thornton Audit Pty Ltd Collins Square, Tower 5 727 Collins Street Melbourne VIC 3008 Australia
Stock exchange listing	Melbana Energy Limited securities are listed on the Australian Securities Exchange (ASX code: MAY)

The directors present their report, together with the financial statements, on the Consolidated entity consisting of Melbana Energy Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2018.

Directors

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

Andrew Purcell (Chairman)
Michael Sandy
Peter Stickland

Principal activities

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

Dividends

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

Review of operations

The loss for the Consolidated entity after providing for income tax amounted to $1,966,000 (31 December 2017: $1,885,000).

INTERNATIONAL OPERATIONS

*Cuba- Block 9 (Melbana 100%)**

*Subject to conditional farmin agreement with Anhui Modestinner Energy Co., Ltd.

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 reporting period, the exploration potential of Block 9 was assessed by Independent expert McDaniel & Associates, who have significant Cuban experience certifying reserves for TSX listed Sherritt. In their report, McDaniel assessed Block 9 Prospective Resources as having approximately 15.7 billion barrels of Oil-in-Place with a Prospective (Recoverable) Resource of 718 million barrels (Best Estimate, 100% basis).

During the reporting period, Melbana announced that it had signed a binding definitive farmout agreement with Anhui Modestinner Energy Co., Ltd. (“AMEC”), a wholly owned and guaranteed subsidiary of Anhui Guangda Mining Investment Co. Ltd. (“AGMI”), with respect to its Block 9 Production Sharing Contract (“Block 9 PSC”) in Cuba. The binding agreement follows on from the Letter of Intent signed by Melbana and AGMI (see ASX Release 8 October 2018). Under the terms of the farmout agreement, AGMI has corporately guaranteed the performance of AMEC which will fully fund 100% of all costs associated with the Block 9 PSC from 1 January 2019, including the drilling of at least three wells. The first two of these wells will be drilled prior to 1 November 2019 on Melbana’s preferred exploration targets Alameda and Zapato. In the event of a discovery, the third well may be either an appraisal well on Alameda or Zapato or, if no discovery, an exploration well on the Piedra prospect. In all cases, the third well will be drilled prior to July 2020. AMEC is also responsible for providing any required guarantees and will provide Melbana with 12.5% of any Profit Oil. In the event of a development, Melbana will recoup its Block 9 back costs (approx. US$3.5M) over time from the Cost Oil in proportion to its relative spend versus AMEC. The farmout agreement has a number of conditions precedent, including Cuban and Chinese regulatory approvals, milestone related terms with respect to any required guarantees and finalization of a Joint Operating Agreement acceptable to both parties. Provisions in the agreement allow for an orderly transition of operatorship to AMEC once all contract conditions precedent have been met.

*New Zealand- PEP51153 (Melbana 30%)**

Melbana holds a 30%, non-Operator interest in PEP51153, located in the productive onshore Taranaki Basin of New Zealand.

During the reporting period, Melbana executed a binding agreement for the divestment of its 30% interest in the Permit to the current Operator and joint venture participant in the Permit (CX Oil Limited) for A$100,000. Closing of the transaction is pending New Zealand regulatory approval.

*****Interest holding as at 31 December 2018. Divestment approval is expected by end of March 2019.

AUSTRALIAN OPERATIONS

*WA-488-P (Melbana 100%)**

*Subject to options held by Total and Santos for an aggregate 80% participating interest.

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.

In December 2017 a Seismic Funding and Farmin Option Agreement was signed with French major Total and Australia's Santos to fully fund 100% of the cost of a 3D seismic survey over the Beehive prospect in consideration for which, they are granted an option (exercisable together or individually) to acquire a direct 80% participating interest in the permit. If the option is exercised, Total and/or Santos will fully fund the costs of all activities until completion of the first well in the WA-488-P permit. In the event of a commercial discovery, Melbana will repay carried funding from its share of cash flow from the Beehive field. Melbana will have no re-payment obligations for such carried funding in the event there is no commercial discovery and development in WA-488-P. During the reporting period, Independent expert McDaniel & Associates completed their independent assessment of prospective resources in Block 9 and the Beehive Prospect in Australia. The assessment confirmed the giant potential of the Beehive Prospect, with best estimate Prospective Resources of 388 million barrels of oil equivalent (100%, best estimate basis).

Santos and Total fast-tracked the Beehive 3D Seismic Survey such that it was commenced in July and completed safely and without incident on 14 August 2018 by Polarcus using their vessel Polarcus Naila. During the planning of the Beehive 3D Seismic Survey, a new lead was identified and the survey area was extended by ~100km^2 (~16%) to provide coverage over the newly identified lead (Egret) that is partially within the boundary of WA-488-P. The Beehive 3D Seismic Survey, including the extension over the Egret lead, was fully funded by Santos and Total. The National Offshore Petroleum Titles Administrator (NOPTA) approved Melbana's application for a WA-488-P work program credit for the Beehive 3D Seismic Survey, resulting in the survey being officially credited against meeting the Permit Year 4 work commitment to acquire a new 400km^2 3D seismic survey.

During the reporting period Melbana reached an agreement with Total and Santos to modify the commercial agreement between the parties to accelerate the work required to ensure readiness for potential drilling of the Beehive-1 exploration well in 3Q 2020. The agreement provides for Total and Santos to undertake preliminary well planning activities between February and July 2019 as required to ensure the viability of spudding the Beehive-1 exploration well during the third quarter of 2020, in case of option exercise, including drafting of an environment plan, well concept identification and commencement of rig selection activity. The requirement of Total and Santos to undertake additional advanced seismic processing has been removed as it was regarded as no longer necessary to prepare for drilling and would have been on the critical path, which would have delayed readiness for drilling. Melbana, Total and Santos also agreed to lock in a firm backstop date for acceptance of the seismic data to trigger the start of the 6 month window for exercise of their option. Currently, data is expected to be received early in 2019.

AC/P50 & 51

During the year, Melbana executed binding agreements with Rouge Rock Pty Ltd ("Rouge Rock") for the sale of its wholly owned subsidiary that holds the Permits, Vulcan Exploration Pty Ltd. The agreements provide for Melbana retaining exposure to the upside outcomes of a subsequent sale or farmout of either of the Permits by Rouge Rock.

The agreements are structured such that if Rouge Rock enters into an arrangement in future for cash, Melbana earns 10% of the cash benefit received by Rouge Rock. If Rouge Rock enters into an arrangement in future that provides for a full or partial carry on a well, Melbana has the right to back-in for a 5% interest after the well is drilled, effectively providing a carried interest during the drilling process and avoiding costs associated with the drilling process.

Tassie Shoal 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. These projects uniquely provide a development option for discovered but undeveloped gas resources in the region. During the year, the competition between Evans Shoal Joint Venture and the Barossa Joint Venture to back fill Darwin LNG increased. Melbana remains ready to engage with the titleholders on using Tassie Shoal Projects as an LNG or methanol development path once there is a decision made on the successful Joint Venture to supply Darwin LNG.

Tassie Shoal Methanol Project (TSMP, Melbana 100%)

Melbana proposes the staged construction of two large methanol production plants, each with an annual production capacity of 1.75 million tonnes on its own concrete gravity structure (CGS). Each TSMP requires ~200 – 220 Million Standard Cubic Feet per day (MMSCFD) of raw gas, preferably with up to 25% CO_2, resulting in a potential total requirement of up to 440 MMSCFD and ~4 Trillion Cubic Feet (TCF) of gas over an initial 25 year period.

Melbana continues to work with all stakeholders in its efforts to commercialise the proposed projects.

Timor Sea LNG Project (TSLNGP, Melbana 100%)

The TSLNGP requires approximately 3 Tcf of low CO_2 (<3%) 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 and high domestic construction costs.

The LNG Project environmental approval continues until 2052, aligned with the Methanol Project.

Corporate

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

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

Significant changes in the state of affairs

On 6 July 2018, the Consolidated entity issued 5,333,333 shares to Mr Peter Stickland following the exercise of performance rights. The performance rights were issued to Mr Stickland when he held the position of Managing Director and had an exercise price of $Nil.

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

On 13 August 2018, the Consolidated entity issued 3,141,226 shares upon the exercise of unlisted options with an exercise price of $0.02. This included 2,004,507 shares issued to Directors of the Consolidated entity.

On 13 August 2018, the Consolidated entity issued 80,000,000 unquoted options to Mr Andrew Purcell, the Chairman of the Consolidated entity. Each option is an option to acquire a fully paid ordinary share in the Consolidated entity. The options were issued to Mr Purcell as compensation for providing a personal guarantee over the Loan Agreement pursuant to Resolution 3, approved by shareholders at the Consolidated entity's General Meeting held on 9 August 2018. The options will vest seven months after the repayment of the loan and will expire twelve months after the vesting date. The loan was repaid on 3 January 2019, therefore, the options will vest on 3 August 2019 and will expire on 3 August 2020. The options have an exercise price of $0.022 (2.2 cents) each. The Consolidated entity will receive $1,760,000 cash from Mr. Purcell if all options are exercised.

On 14 August 2018, the Consolidated entity announced that the acquisition of the Beehive 3D Seismic Survey had been completed safely and without incident and that during the planning of the Beehive 3D Seismic Survey, a new lead was identified (Egret) and the survey area was extended by ~100km^2 (~16%) to provide coverage over the portion of Egret that is partially within the boundary of WA-488-P. The extension of the survey area was within the approved scope and operational envelope of the Beehive 3D Seismic Survey. The Beehive 3D Seismic Survey, including the extension over the Egret lead, was fully funded by Santos and Total.

On 21 August 2018, the Consolidated entity issued 4,761,215 shares upon the exercise of unlisted options with an exercise price of $0.02.

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

On 28 August 2018, the Consolidated entity issued 1,247,988 shares upon the exercise of unlisted options with an exercise price of $0.02.

On 5 September 2018, the Consolidated entity issued 827,228 shares upon the exercise of unlisted options with an exercise price of $0.02.

On 21 September 2018, the Consolidated entity announced that it had accepted commitments to raise up to $3.5 million (before costs) through a placement to qualified institutional and sophisticated investors of 194 million fully paid ordinary shares at $0.018 per share plus an accompanying one unlisted share option per three shares placed exercisable at $0.03 per option expiring 18 months from grant date.

On completion,188,817,582 fully paid ordinary shares and 62,939,202 free attaching options were issued on 27 September 2018.

On 8 October 2018, the Consolidated entity announced that it had signed a non-binding Letter of Intent ("LOI") with Anhui Guangda Mining Investment Co Ltd ("AGMI") with respect to Block 9 Production Sharing Contract ("Block 9 PSC") in Cuba. The terms of the LOI stated that AGMI will:

1. Fully fund the drilling of a minimum of three exploration wells in Block 9, one on each of Melbana’s three highest ranked and high impact targets (Alameda, Zapato and Piedra) prior to July 2020, with two exploration wells to be drilled prior to November 2019;

2. Replace the current cash backed bank guarantee for US$2.275Million provided by Melbana for the benefit of Cupet with an equivalent bank guarantee using its own banking facilities;

3. Fully fund 100% of all exploration, appraisal, development and production activity and costs and provide any required bank guarantees for Block 9 while AGMI remains a participant in the Block 9 PSC (20+ years remaining);

4. At its election, assume operatorship of Block 9.

In the event of a successful development, Melbana would recover its back costs of ~US$3.5million from the authorized cost recovery pool as well as 12.5% of the profit oil.

On 19 October 2018, the Consolidated entity announced that it has executed a binding agreement for the sale of its 30% interest in the non-core New Zealand Permit PEP51153 to the current operator and joint venture participant (CX Oil Limited) for A$100,000. The sale is subject to a number of customary conditions, including regulatory approval.

On 21 November 2018, the Consolidated entity issued 5,626,863 shares and 1,875,621 unlisted options (exercisable at $0.03, expiry 27 March 2020), pursuant to the terms of the Share Placement announced 21 September 2018 and subsequent shareholder approval at the Annual General Meeting held 15 November 2018.

On 3 December 2018, the Consolidated entity announced that it had reached an agreement with Total and Santos to modify the current commercial agreement between the parties to accelerate the work required to ensure readiness for potential drilling of the Beehive-1 exploration well in 3Q 2020.

On 5 December 2018, the Consolidated entity announced that it had finalised a long term binding Incremental Oil Recovery Production Sharing Contract with the national oil company of Cuba, CubaPetroleo. This contract is subject to standard Cuban regulatory approvals. This provides the Consolidated entity with a long term right to share in any enhanced production from the Santa Cruz oil field.

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

Matters subsequent to the end of the financial half-year

On 2 January 2019, the Consolidated entity announced that late on 31 December 2018 it signed a binding definitive farmout agreement with Anhui Modestinner Energy Co., Ltd. (“AMEC”), a wholly owned and guaranteed subsidiary of Anhui Guangda Mining Investment Co. Ltd. (“AGMI”), with respect to its Block 9 Production Sharing Contract (“Block 9 PSC”) in Cuba. The binding agreement follows on from the Letter of Intent signed by Melbana and AGMI.

Under the terms of the farmout agreement, AGMI has corporately guaranteed the performance of AMEC which will, amongst other things, fully fund 100% of all costs associated with the Block 9 PSC from 1 January 2019, including the drilling of at least three wells and will replace the Block 9 bank guarantee or provide another alternative acceptable to CubaPetroleo. As of the date of this report, the bank guarantee or equivalent for Block 9 has not been provided by AMEC and a waiver has been granted to Melbana by Cupet until 30 April 2019 to provide the Block 9 bank guarantee or equivalent.

On 3 January 2019, the Consolidated entity repaid in full the loan facility it entered into on 13 April 2018, one week earlier than the scheduled repayment date of 10 January 2019, being the date when the cash backed Finance Guarantee was released by the National Bank of Canada.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Consolidated entity's operations, the results of those operations, or the Consolidated entity's state of affairs in future financial years.

Rounding of amounts

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

Auditor's independence declaration

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

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Andrew Purcell
Chairman

14 March 2019
Melbourne

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Auditor's Independence Declaration

To the Directors of Melbana Energy Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Melbana Energy Limited for the half-year ended 31 December 2018, I declare that, 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 review; and

b no contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton Audit Pty Ltd
Chartered Accountants

B A Mackenzie
Partner – Audit & Assurance

Melbourne, 14 March 2019

Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2018

	Note	Consolidated 31 December 2018 $'000	31 December 2017 $'000
Other income	4	315	-
Interest income		31	14
Expenses			
Legal settlement costs		-	(300)
Exploration expenditure written off/expensed		(38)	(314)
Net administration costs	5	(1,034)	(1,117)
Net foreign exchange loss		-	(96)
Finance costs	6	(1,240)	-
Loss before income tax expense		(1,966)	(1,813)
Income tax expense		-	(72)
Loss after income tax expense for the half-year attributable to the owners of Melbana Energy Limited		(1,966)	(1,885)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(1)	(9)
Other comprehensive income for the half-year, net of tax		(1)	(9)
Total comprehensive income for the half-year attributable to the owners of Melbana Energy Limited		(1,967)	(1,894)
		Cents	**Cents**
Basic earnings per share	15	(0.11)	(0.14)
Diluted earnings per share	15	(0.11)	(0.14)

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

Melbana Energy Limited
Consolidated statement of financial position
As at 31 December 2018

	Note	Consolidated 31 December 2018 $'000	30 June 2018 $'000
Assets			
Current assets			
Cash and cash equivalents		8,031	3,047
Other receivables		744	63
Financial assets at amortised cost	7	-	3,073
		8,775	6,183
Non-current assets held for sale		100	-
Total current assets		8,875	6,183
Non-current assets			
Plant and equipment		87	102
Exploration and evaluation	8	4,826	4,470
Total non-current assets		4,913	4,572
Total assets		13,788	10,755
Liabilities			
Current liabilities			
Trade and other payables		867	454
Borrowings	9	3,525	3,099
Provisions		153	453
Total current liabilities		4,545	4,006
Non-current liabilities			
Provisions		29	54
Total non-current liabilities		29	54
Total liabilities		4,574	4,060
Net assets		9,214	6,695
Equity			
Issued capital	10	276,332	272,790
Reserves	11	1,428	495
Accumulated losses		(268,546)	(266,590)
Total equity		9,214	6,695

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

Melbana Energy Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2018

Consolidated	Issued capital $'000	Share-based payment reserve $'000	Foreign currency reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2017	265,934	317	18	(260,490)	5,779
Loss after income tax expense for the half-year	-	-	-	(1,885)	(1,885)
Other comprehensive income for the half-year, net of tax	-	-	(9)	-	(9)
Total comprehensive income for the half-year	-	-	(9)	(1,885)	(1,894)
Transactions with owners in their capacity as owners:					
Cost of share based payments	-	62	-	-	62
Share placement	1,787	-	-	-	1,787
Partially underwritten entitlement offer	3,420	-	-	-	3,420
Share placement	2,100	-	-	-	2,100
Cost of issues (net of tax)	(665)	-	-	-	(665)
Share issue as part settlement of Block 9 commercial dispute	250	-	-	-	250
Issue of options in exchange for services	(244)	244	-	-	-
Exercise of equity instruments	208	(208)	-	-	-
Balance at 31 December 2017	272,790	415	9	(262,375)	10,839

Consolidated	Issued capital $'000	Share-based payment reserve $'000	Foreign currency reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2018	272,790	476	19	(266,590)	6,695
Loss after income tax expense for the half-year	-	-	-	(1,966)	(1,966)
Other comprehensive income for the half-year, net of tax	-	-	(1)	-	(1)
Total comprehensive income for the half-year	-	-	(1)	(1,966)	(1,967)
Share options lapsed	-	(10)	-	10	-
Share- based payments (options)	-	20	-	-	20
Share- based payments (performance rights)	-	30	-	-	30
Exercise of performance rights	80	(80)	-	-	-
Exercise of options	199	-	-	-	199
Shares issued	3,500	-	-	-	3,500
Share issue costs	(237)	-	-	-	(237)
Share- based payments (finance costs) (note 6)	-	974	-	-	974
Balance at 31 December 2018	276,332	1,410	18	(268,546)	9,214

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

Melbana Energy Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2018

	Note	Consolidated 31 December 2018 $'000	Consolidated 31 December 2017 $'000
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(1,478)	(1,198)
Interest received		30	16
Other revenue		127	-
Net cash used in operating activities		(1,321)	(1,182)
Cash flows from investing activities			
Payments for plant and equipment		(2)	(3)
Payments for exploration and evaluation	8	(456)	(1,507)
Net cash used in investing activities		(458)	(1,510)
Cash flows from financing activities			
Proceeds from issue of shares	10	3,700	7,307
Share issue transaction costs		(237)	(711)
Bank guarantee - Cuba Block 9		-	(2,917)
Net cash from financing activities		3,463	3,679
Net increase in cash and cash equivalents		1,684	987
Cash and cash equivalents at the beginning of the financial half-year		3,047	2,605
Short-term deposits		3,245	-
Effects of exchange rate changes on cash and cash equivalents		55	(96)
Cash and cash equivalents at the end of the financial half-year		8,031	3,496

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

Note 1. General information

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

Melbana Energy Limited is a listed public company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange.

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 14 March 2019.

Note 2. Significant accounting policies

These condensed interim financial statements for the interim half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These condensed interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Going concern

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

At 31 December 2018, the consolidated entity:
- had, for the financial half-year ending on that date, incurred a net loss after tax of $1,966,000 (2017: $1,885,000);
- had, for the financial half-year ending on that date, net cash outflows from operating activities of $1,321,000 (2017: $1,182,000);
- had cash and cash equivalents of $8,031,000 (30 June 2018: $3,047,000); and
- had a net working capital position of $4,330,000 (30 June 2018: $2,177,000).
- had a short term loan facility of $3,525,000 which was subsequently repaid on 3 January 2019 (refer to note 9)

The Consolidated entity is contractually committed with Anhui Modestinner Energy Co., Ltd. (“AMEC”), a wholly owned and guaranteed subsidiary of Anhui Guangda Mining Investment Co. Ltd. (“AGMI”), with respect to its Block 9 Production Sharing Contract (“Block 9 PSC”) in Cuba. Under the terms of the farmout agreement, AGMI has corporately guaranteed the performance of AMEC which will, amongst other things, fully fund 100% of all costs associated with the Block 9 PSC from 1 January 2019, including the drilling of at least three wells and will replace the Block 9 bank guarantee or provide another alternative acceptable to CubaPetroleo. As of the date of this report, the bank guarantee or equivalent for Block 9 has not been provided by AMEC and a waiver has been granted to Melbana by Cupet until 30 April 2019 to provide the Block 9 bank guarantee or equivalent.

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

Note 2. Significant accounting policies (continued)

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

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

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the Consolidated entity:

AASB 9 Financial Instruments
The Consolidated entity has adopted AASB 9 from 1 July 2018. AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 Financial Instruments resulted in changes in accounting policies. There were no changes to the classification of financial instruments in the financial statements. The new accounting policies are set out below. In accordance with the transitional provisions in AASB 9 (7.2.15) and (7.2.26), comparative figures have not been restated. There is no impact on the groups opening retained earnings as at 1 July 2018.

(i) Trade Receivables
Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value.

The Consolidated entity holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the group's impairment policies and the calculation of the loss allowance are provided in (ii) below.

(ii) Allowance for expected credit loss
The consolidated entity applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

(iii) Trade and other payables
Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

iv) Loans and borrowings
Loans and borrowings are recognised initially at fair value, being the consideration received, less directly attributable transaction costs, with subsequent measurement at amortised cost using the effective interest rate method. Any gains or losses arising from non - substantial modifications are recognised immediately in the statement of profit and loss and the financial liability continues to amortise using the original effective interest rate.

AASB 15 Revenue from Contracts with Customers
The Consolidated entity has adopted AASB 15 from 1 July 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Note 2. Significant accounting policies (continued)

The Consolidated entity has elected to adopt AASB 15 using the cumulative effect method, with any adjustment required when transitioning to the new standard being recognised on the 1 July 2018 (date of initial application) in retained earnings. Comparative figures have not been restated. The consolidated entity has not generated any revenue from contracts with customers. Therefore, there are no changes in the consolidated entity's revenue recognition which means there have been no adjustments made to the opening retained earnings balance.

Note 3. Operating segments

The Consolidated entity operates in the petroleum exploration industry within Australia and Cuba.

The Board of Directors receive regular consolidated cash flow information as well as Consolidated Statement of Financial Position and Statement of Comprehensive Income information that are 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 8.

Note 4. Other income

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
Net foreign exchange gain	72	-
Net refund from projects	243	-
Other income	315	-

Note 5. net administration expenses

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
Consultants fees and expenses	117	214
Directors remuneration (excluding share based payments)	128	88
Salaries and on-costs	396	941
Share based payments	50	62
Administration and other expenses	360	150
Accounting and audit costs	61	25
Securities exchange, share registry and reporting costs	85	77
Operating lease expenses	139	78
Investor relations and corporate promotion costs	31	57
Travel costs	107	15
Depreciation and amortisation expense	16	10
Less allocation to exploration activities	(456)	(600)
	1,034	1,117

Note 6. Finance costs

	Consolidated	
	31 December 2018 $'000	31 December 2017 $'000
Interest	266	-
Share based payment on finance cost*	974	-
	1,240	-

*During the previous financial year, the Chairman of the Company, Mr Andrew Purcell, provided a personal guarantee in connection with a loan made by a third party to the Company (refer to note 9). As consideration for the provision of the personal guarantee, the Company issued 80,000,000 options to Mr Purcell on 13 August 2018, following shareholders approval at a General Meeting held on 9 August 2018.

The options were independently valued by external expert and the full non-cash valuation of $973,600 was booked as finance cost for the period ending 31 December 2018, and measured in accordance with AASB 2.

The options have an exercise price of $0.022 (2.2 cents) each. The Consolidated entity will receive $1,760,000 cash from Mr. Purcell if all options are exercised.

Note 7. Current assets - financial assets at amortised cost

	Consolidated	
	31 December 2018 $'000	30 June 2018 $'000
Security deposits	-	3,073

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

Note 8. Non-current assets - exploration and evaluation

	Consolidated	
	31 December 2018 $'000	30 June 2018 $'000
Exploration and evaluation Block 9 Cuba - at cost	4,826	4,370
Exploration and evaluation PEP51153 - at cost	-	100
	4,826	4,470

The Consolidated entity has executed a binding agreement for the sale of its 30% interest in the Permit to the current Operator and joint venture participant in the Permit (CX Oil Limited) for A$100,000. The sale is subject to a number of customary conditions, including regulatory approval. One of the key conditions to the earlier signed Letter of Intent, the extension of the current permit by New Zealand Government, has been satisfied.

As at 31 December 2018, exploration and evaluation assets associated with PEP51153 were reclassified as Non-current assets held for sale.

Note 9. Current liabilities - borrowings

	Consolidated	
	31 December 2018 $'000	30 June 2018 $'000
Short term loan payable	3,525	3,099

During the 2018 financial year, the Company obtained a US$2.5 million loan facility from a third party (refer ASX announcement dated 19 April 2018). The key terms of the loan were:
1. Annualised interest rate of 15%;
2. Maturity Date of the loan is January 10, 2019;
3. Secured by first ranking security over the Company's cash security deposit used to support the Bank Guarantee in relation to Block 9 Cuba;
4. A personal guarantee from Melbana's Chairman, Mr Purcell, in favour of the lender.

The Consolidated entity repaid the facility in full on 3 January 2019. Further details are contained in note 14.

Note 10. Equity - issued capital

	Consolidated			
	31 December 2018 Shares	30 June 2018 Shares	31 December 2018 $'000	30 June 2018 $'000
Ordinary shares - fully paid	1,875,505,915	1,665,750,480	276,332	272,790

Movements in ordinary share capital

Details	**Date**	**Shares**	**Issue price**	**$'000**
Balance	1 July 2018	1,665,750,480		272,790
Shares issued upon exercise of performance rights	6 July 2018	5,333,333	-	80
Shares issued upon exercise of options	13 August 2018	3,141,226	$0.020	63
Shares issued upon exercise of options	21 August 2018	4,761,215	$0.020	95
Shares issued upon exercise of options	28 August 2018	1,247,988	$0.020	25
Shares issued upon exercise of options	5 September 2018	827,228	$0.020	16
Share placement	27 September 2018	188,817,582	$0.018	3,399
Share placement	21 November 2018	5,626,863	$0.018	101
Share issue costs (net of tax)		-	-	(237)
Balance	31 December 2018	1,875,505,915		276,332

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

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

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

Note 11. Equity - reserves

	Consolidated	
	31 December 2018 $'000	30 June 2018 $'000
Foreign currency reserve	18	19
Share-based payments reserve	1,410	476
	1,428	495

Note 12. Equity - dividends

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

Note 13. Commitments and contingent liabilities

On 3 January 2019, the Block 9 bank guarantee provided by National Bank of Canada had expired. Under the terms of the farmout agreement between Melbana and Anhui Modestinner Energy Co., Ltd. ("AMEC"), AGMI has corporately guaranteed the performance of AMEC which will, amongst other things, fully fund 100% of all costs associated with the Block 9 PSC from 1 January 2019, including the drilling of at least three wells and will replace the Block 9 bank guarantee or provide another alternative acceptable to CubaPetroleo. As of the date of this report, the bank guarantee or equivalent for Block 9 has not been provided by AMEC and a waiver has been granted to Melbana by Cupet until 30 April 2019 to provide the Block 9 bank guarantee or equivalent.

There is no indication that AMEC will not fulfil its obligation under the farmout agreement to provide the Block 9 bank guarantee or equivalent.

There have been no other material changes to commitments and contingent liabilities since the annual financial statements that were issued for the year ended 30 June 2018.

Note 14. Events after the reporting period

On 2 January 2019, the Consolidated entity announced that late on 31 December 2018 it signed a binding definitive farmout agreement with Anhui Modestinner Energy Co., Ltd. (“AMEC”), a wholly owned and guaranteed subsidiary of Anhui Guangda Mining Investment Co. Ltd. (“AGMI”), with respect to its Block 9 Production Sharing Contract (“Block 9 PSC”) in Cuba. The binding agreement follows on from the Letter of Intent signed by Melbana and AGMI.

Under the terms of the farmout agreement, AGMI has corporately guaranteed the performance of AMEC which will, amongst other things, fully fund 100% of all costs associated with the Block 9 PSC from 1 January 2019, including the drilling of at least three wells and will replace the Block 9 bank guarantee or provide another alternative acceptable to CubaPetroleo. As of the date of this report, the bank guarantee or equivalent for Block 9 has not been provided by AMEC and a waiver has been granted to Melbana by Cupet until 30 April 2019 to provide the Block 9 bank guarantee or equivalent.

On 3 January 2019, the Consolidated entity repaid in full the loan facility it entered into on 13 April 2018, one week earlier than the scheduled repayment date of 10 January 2019, being the date when the cash backed Finance Guarantee was released by the National Bank of Canada.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Consolidated entity's operations, the results of those operations, or the Consolidated entity's state of affairs in future financial years.

Note 15. Earnings per share

	Consolidated	
	31 December 2018 $'000	**31 December 2017 $'000**
Loss after income tax attributable to the owners of Melbana Energy Limited	(1,966)	(1,885)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	1,777,402,322	1,308,333,655
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,777,402,322	1,308,333,655
	Cents	**Cents**
Basic earnings per share	(0.11)	(0.14)
Diluted earnings per share	(0.11)	(0.14)

Note 16. Related party transactions

During the financial half year, the Consolidated entity issued 80,000,000 unquoted options to Mr Andrew Purcell, the Chairman of the Board. The options were issued to Mr Purcell as compensation for providing a personal guarantee over the Loan Agreement, pursuant to Resolution 3 approved by shareholders at the Consolidated entity's General Meeting held on 9 August 2018.

The options were independently valued by external expert and the full non-cash valuation of $973,600 was booked as finance cost for the period ending 31 December 2018 (refer Note 6). The options have an exercise price of $0.022 (2.2 cents) each. The Consolidated entity will receive $1,760,000 cash from Mr. Purcell if all options are exercised.

Melbana Energy Limited
Directors' declaration
31 December 2018

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Consolidated entity's financial position as at 31 December 2018 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Consolidated entity will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Andrew Purcell
Chairman

14 March 2019
Melbourne

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Independent Auditor's Review Report

To the Members of Melbana Energy Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Melbana Energy Limited (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Melbana Energy Limited does not give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Material uncertainty related to going concern

We draw attention to Note 2 in the financial statements, which indicates that the Group incurred a net loss after tax of $1,966,000, had net cash outflows from operating activities of $1,321,000, had cash and cash equivalents of $8,031,000, had a net current asset position of $4,330,000 and borrowings of $3,525,000. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Melbana Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

Grant Thornton Audit Pty Ltd
Chartered Accountants

B A Mackenzie
Partner – Audit & Assurance

Melbourne, 14 March 2019