

## Block 9, Cuba – Operations Update

### Highlights:

- Contract awarded for supply of long lead inventory items required for drilling operations
- January cash calls received - cash on hand of ~\$16.5 million to fund operations
- Cuban work visas received for expatriate project management staff
- Construction of first well pad mostly complete
- Drilling contract amended to provide additional flexibility to manage possible future COVID related travel and operating restrictions. Contract to be awarded shortly.
- Block 9 drilling program is for the drilling of two exploration wells testing four separate targets with a total Prospective Resource of 236 million barrels of oil (Best Estimate)<sup>1</sup>
  - First well (Alameda-1) now expected to commence drilling in mid-2021 and take about 75 days. Three targets with a combined Prospective Resource of 143 million barrels of oil (Best Estimate)<sup>1</sup> to be tested, each of which have previously recovered hydrocarbons and the best of which has an independently assessed 32% chance of success.
  - Second well (Zapato-1) to immediately follow Alameda-1 and take about 55 days. Single target near to the shallower Motembo oil field (which has historically produced a high-quality light oil) with a Prospective Resource of 95 million barrels of oil (Best Estimate)<sup>1</sup>.
- Melbana has a significant (30%) interest in this opportunity and is carried for 85% of the costs of this drilling program

<sup>1</sup> Prospective Resources Cautionary Statement - The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) related to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Future exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. All quoted volumes have been taken from Independent Expert McDaniel & Associates Competent Persons Report, released to ASX on 7 August 2018, as adjusted by Melbana for area relinquishment. Melbana is not aware of any new information or data that materially affects the information included in that announcement and that all the material assumptions and technical parameters underpinning the estimates in the announcement continue to apply and have not materially changed.

## **MELBOURNE, AUSTRALIA (8 February 2021)**

Melbana Energy Limited (ASX: MAY) (**Melbana**) is pleased to provide this update on progress made towards the drilling of its two high impact exploration wells onshore Cuba in its Block 9 contract area ("Block 9 PSC").

Melbana has a 30% interest in the 236 million barrels of Prospective Resource (Best Estimate)<sup>1</sup> being tested in this drilling program projected to start mid-year.

### **Inventory for Drilling Operations**

Contracts have been signed for the manufacture and supply of the steel pipe required to drill both wells in this campaign. The availability of these items lie on the critical path to the commencement of drilling so this is an important milestone and one that begins the countdown to testing the potential of the target prospects in Block 9. Contracts for the supply of other key items of inventory are being finalised and expected to be signed shortly. There has been considerable upward pressure on prices and shipping times for the supply of key inventory items over the past few months, but these have not had a material impact on either the drilling budget or the supply lead times due to the efforts of Melbana's preferred supplier to remain as close as possible to their original terms.

### **Mobilisation of Key Project Management Personnel**

Melbana is now preparing to deploy the first member of its expatriate project management team to Cuba to prepare for the commencement of drilling operations. Cuba work visas for these people have been received and the Drilling Manager is expected to arrive in Cuba in the next month. Several senior members of Sonangol's technical team will also form part of the project management team and will relocate to Cuba as required over the coming months. Melbana's Cuban personnel will continue to manage local administrative requirements, regulatory and community liaison and other important local issues associated with this drilling program.

### **Site Preparations**

As was reported recently<sup>1</sup>, work on the well pad and related site infrastructure is now more than half complete. Work has been proceeding without any material interruption nor has there been any lost time due to injury. Site access protocols and health monitoring have thus far been successful in ensuring no incidence of COVID-19 amongst the personnel working on site.

### **Appointment of Drilling Contractor**

Negotiations with Melbana's preferred drilling contractor, selected following an international tender for the provision of these services, were concluded in November 2020 and formal documentation mostly agreed shortly thereafter. Prior to execution, it was decided to amend this contract to establish clearer protocols in the event of a significant disruption to the movement of people during the drilling program were significant COVID related border restrictions to be implemented at that time. These amendments are now largely complete, with some remaining points pertaining to liability

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<sup>1</sup> See ASX announcement dated 29 January 2021

and insurances still to be resolved. It is expected that the agreement with the drilling contractor will be signed and announced in the near future.

### **Economic Environment**

Effective 1 January 2021, Cuba eliminated the Cuban Convertible Peso (CUC) leaving the Cuban Peso (CUP) as the only official currency of Cuba. This change necessitated a review of contracts that had been denominated in CUC to amend them for the CUP consistent with regulations. This took some time but these changes are now largely complete. This currency change is not expected to materially impact the drilling schedule or the projected cost of the two well drilling program.



*Figure 1 – Civil works are more than half complete for Alameda-1*

### **COVID-19**

Cuban authorities have announced that as of tomorrow, 6 February 2021, tourists and Cubans arriving from abroad will be required to present a recent negative COVID-19 test upon arrival and then serve a short period of quarantine at a Government approved hotel whilst awaiting the results of a test that will be given on their 5<sup>th</sup> day in the country. The arrival protocol for people travelling to

Cuba on business may be more relaxed but, in any case, this development is not expected to cause any delay to the drilling program. Cuba has a competent health system and its management of COVID-19 has been amongst the best internationally – particularly regionally.

### Political Environment

The result of the U.S. election is generally considered to be a positive development for Cuba. Under the previous administration, existing elements of the sanctions the U.S. had in place against Cuba (that had previously been in suspension) were made active and other elements were more rigorously enforced. The economic impact on Cuba was severe. Operations for Melbana’s two well drilling program was able to continue, regardless, and is expected to be able to continue to do so going forward assuming the scope and severity of these sanctions are not increased. This would seem to be a reasonable assumption given the softer rhetoric coming from the new U.S. administration towards Cuba, which would be consistent with the more conciliatory line taken by the previous administration of which the current U.S. President was a member.

### Funding

Melbana has received the funds from a January cash call made on its partner in the Block 9 drilling program. These funds, along with Melbana’s contribution for its working interest (which has been mostly funded by Melbana having being reimbursed its Past Costs for Block 9<sup>2</sup>), are being used to advance planning, civil works and the procurement of long lead items of inventory.

The joint venture has cash on hand of about \$16.5 million and the next cash call is projected to be made in about two months’ time to align with payments expected to be made upon the appointment of other contractors.

### Project Timeline

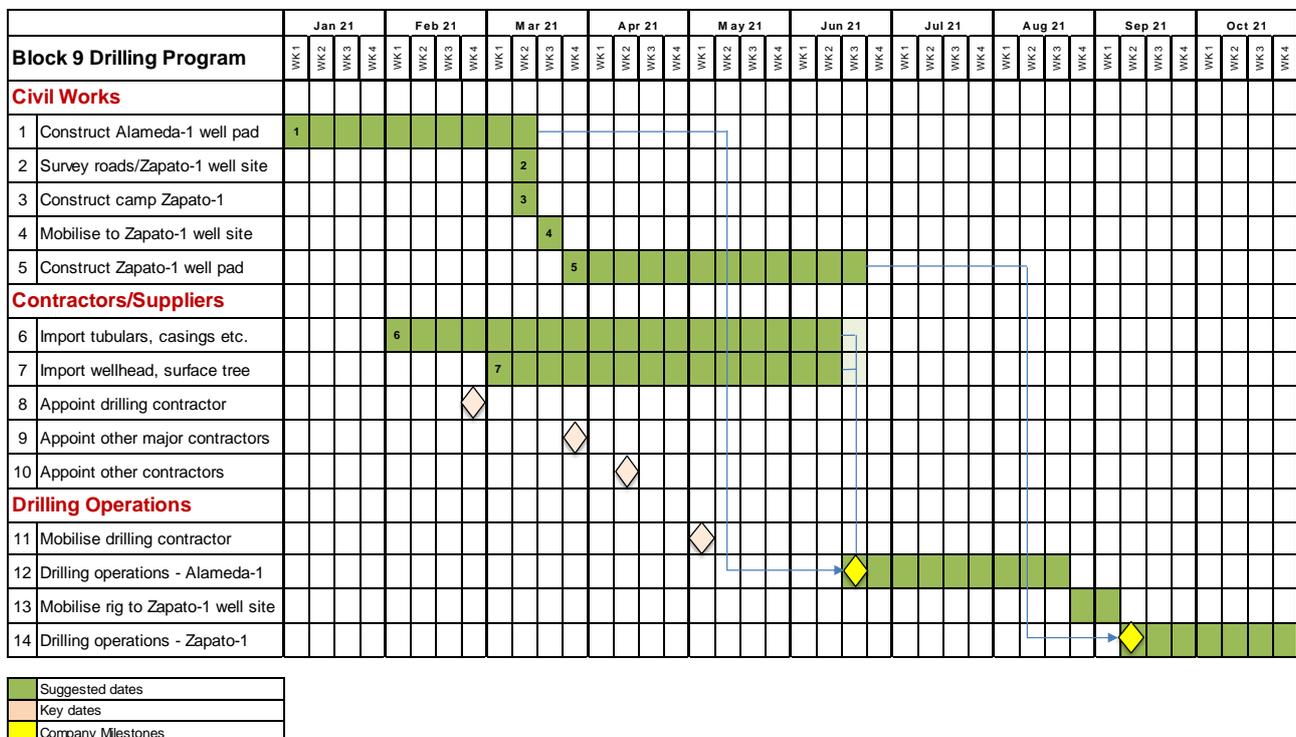


Figure 2 – Projected timeline for drilling operations in Block 9, Cuba

<sup>2</sup> See ASX announcement dated 22 October 2020

**Melbana Energy's Executive Chairman, Andrew Purcell, said:**

*"The ordering of long lead items marks the beginning of a defined timeline to the commencement of drilling operations in Cuba. The operational plan Melbana has developed with its partners and contractors, which have been recently enhanced to make them more robust in the face of potential challenges presented by COVID-19, gives us high confidence that the first results from this drilling campaign should be known in the second half of 2021. It is pleasing that this appears to be occurring in a firmer and more stable oil price environment."*

**For and on Behalf of the Board of Directors:**

Mr Andrew Purcell  
Executive Chairman

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**For further information please contact**

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