MELBANA ENERGY LIMITED

ABN 43 066 447 952

HALF-YEAR FINANCIAL REPORT AND DIRECTORS' REPORT

31 DECEMBER 2017

Contents

Corporate Information

Directors
Andrew G Purcell (Chairman)
Michael J Sandy
Peter J Stickland

Chief Executive Officer
Robert J Zammit

Company Secretary
Colin H Naylor

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Auditors
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8 Exhibition Street
Melbourne, Victoria 3000 Australia

Securities Exchange Listing
ASX Limited
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Melbana Energy Limited shares are listed on the Australian Securities Exchange (ASX).
ASX Code: MAY
Website www.melbana.com

Incorporated 14 September 1994
Victoria, Australia

Directors' report

The Directors of Melbana Energy Limited (variously the "Company" and "Melbana") submit their report for the half-year ended 31 December 2017.

DIRECTORS

The Directors of the Company during the half-year ended 31 December 2017 and until the date of this report (in office for the entire period unless otherwise stated) are:

Chairman: Andrew G Purcell, B Eng; MBA (Appointed a director, 30 July 2015 and Chairman 25 November 2015)

***Non-Executive Directors*:**

Michael J Sandy, BSc Hons (Geology), MAICD (Appointed 30 July 2015)

Peter J Stickland BSc, Hons (Geology), GDipAppFin (Finsia), GAICD (Appointed 30 January 2015)
(*resigned as Managing Director & Chief Executive Officer - 11 January 2018)*

REVIEW AND RESULTS OF OPERATIONS

The loss after tax for the half-year was $1,885,587 (Dec 2016: loss after tax $1,108,722) mainly due to net administration costs ($1,117,493).

The net loss after tax for the 2016 half year of $1,108,722 was mainly due to net administration costs ($915,391).

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.

The exploration potential of Block 9 has been assessed by Melbana as approximately 12 billion barrels of Oil-in-Place with a Prospective (Recoverable) Resource of 612 million barrels (Best Estimate, 100% basis). See *Prospective Resources Cautionary Statement*. Melbana has identified multiple high priority drilling prospects including the preferred drilling targets Alameda and Zapato.

During the half-year Melbana announced that it had successfully completed the first exploration sub-period work program and had committed to enter the second exploration sub-period. Regulatory approval was received to amend the Block 9 exploration work program, resulting in the deferment of the obligation to undertake a 200km 2D seismic survey (from the second exploration sub-period starting November 2017 to the third exploration sub-period starting November 2019), and the acceleration of the obligation to drill an exploration well (from the third sub-period to the second). The amendment was requested to better align the work program to Melbana's goal of proceeding directly to drilling up to two exploration wells in Block 9.

***Prospective Resources Cautionary Statement**: 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. Future exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.*

Directors' report (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

A drilling planning coordinator was hired into our Cuba office to progress drilling preparations. Progress was made in permitting for two wells and sourcing potential drilling rigs and associated services to support the Block 9 drilling program. Field work commenced in Block 9, with local contractors undertaking initial site surveys of the area around the proposed Alameda-1 well location, the nearby supporting campsite and local access roads. The Company has initiated field work with experienced local Cuban contractors to undertake the engineering design for the surface facilities associated with the well and facilitate the permitting process, including environmental approvals required to begin exploration drilling.

During the reporting period, Melbana advised that it had reached a commercial settlement relating to the 40% back-in right held by Petro Australis Limited resulting in the Company retaining its 100% interest in the Block 9 Production Sharing Contract.

New Zealand

- **PEP51153 (Melbana 30%)**

Melbana holds a 30%, non-Operator interest in PEP51153, located in the productive onshore Taranaki Basin of New Zealand. PEP51153 contains the Pukatea prospect (formerly Shannon).

During the reporting period the PEP51153 Joint Venture completed a technical reassessment of the Pukatea-1 objectives, which identified a secondary objective in the shallower Mt. Messenger sands within the Puka field in addition to the primary objective Tikorangi limestone. This reassessment demonstrated an increased likelihood (estimated at ~50% probability) of Pukatea-1 intersecting moveable hydrocarbons within the Mt. Messenger sands. Site civil and construction works to upgrade the existing drill pad to drill the Pukatea-1 exploration well were completed.

Pukatea Prospective Resource Summary is set out in the table below:

100% MMboe*	COS**	Low	Best	Mean	High
Pukatea -100%	19%	1.3	12.4	17.1	40

**** Prospective Resources Cautionary Statement:*** *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. Future exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.*

***** COS** means "Chance of Success"*

Australia

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

WA-488-P is located in the southern Bonaparte Gulf and covers an area of 4,105 km^2 and contains the giant multi-billion barrel Beehive prospect, one of the largest undrilled hydrocarbon prospects in Australia. The permit was awarded to Melbana in May 2012 as part of the acreage Gazettal Round.

Directors' report (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

During the reporting period, Melbana executed a seismic funding and farmin option agreement with Santos and French company Total. The agreement provides for Total and 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.

**** Subject to regulatory approvals and tendered cost of seismic acquisition being within an acceptable range*

- **AC/P50 & 51 (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 reporting period Rouge Rock Pty Ltd 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. The indicative value of the reprocessing work undertaken by Rouge Rock to earn the options was approximately $1.15 million. Melbana's preliminary assessment of the subsequent 3D seismic broadband reprocessing results identified the potential for additional prospectivity in the Permits resulting from improved data quality, including an amplitude-supported objective immediately above the existing Ramble On prospect. In the right conditions, an amplitude anomaly can be a direct indicator of hydrocarbons.

Both permits are also subject to an option agreement for Far Cape Energy Pte Ltd ("Far Cape") to acquire a 5% interest in each permit. Far Cape is the successor to Red Rock Pte Ltd who was granted this option in 2010 at the time Melbana acquired AC/P50 and AC/P51. 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.

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.

- **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 (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.

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 CO2 (<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.

Directors' report (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

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 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.

In August 2017, the Company advised that senior staff exercised 20,940,032 Exercisable Performance Rights ("Rights"). These Rights were issued on 4 February 2016 in exchange for the senior staff agreeing to a 20% reduction in the cash component of their remuneration package. There is no exercise price payable on exercise of the Rights.

The Company also announced in August 2017 that it had raised $1,787,332 (before costs) from qualified institutional and sophisticated investors ("Placement") through a Placement of 178,733,229 fully paid ordinary shares at $0.01 per share, together with 59,577,757 Unlisted Options on the basis of one (1) free attaching option for every three (3) shares subscribed. In addition, the Company announced a 1 for 2 pro-rata non-renounceable entitlement offer which was partially underwritten to $3,420,000 (before costs). At the completion of the entitlement offer and partial underwriting the company had issued 342,000,000 fully paid ordinary shares at $0.01 per share together with 114,000,298 Unlisted Options. Net proceeds from the Placement and Entitlement Offer are being used to undertake initial preparations for the planned Cuba drilling program in 2018 on the Company's 100% owned onshore Block 9 PSC (but excluding drilling itself), corporate costs and for general working capital purposes.

In December 2017, the Company announced it had raised $2,100,000 (before costs) through a placement of 150,000,000 ordinary shares at 1.4 cents per share to qualified institutional and sophisticated investors. Proceeds from the Placement are being used primarily for the Company's Cuba and New Zealand projects, corporate costs and general working capital purposes.

In December 2017 the Company advised that it had reached a commercial settlement relating to the Block 9 40% back-in right held by Petro Australis Limited, thereby retaining a 100% interest. As part consideration for the settlement the Company issued 20,833,333 shares.

In January 2018, the Company advised that Mr. Peter Stickland had tendered his resignation as Managing Director of Melbana for health reasons. Mr. Stickland will continue to support the Company in a part-time capacity and to that end has been invited to remain on the Board as non-executive director and has agreed to consult to the Company as required. Mr. Robert Zammit, previously Executive Manager, Commercial & Business Development, was appointed Chief Executive Officer effective 12 January 2018. Mr Zammit joined the Company in 2011.

Auditor's Independence Declaration

The Company has obtained an independence declaration from our auditor, Ernst & Young, a copy of which is attached to this financial report.

Signed in accordance with a resolution of the Directors.

Andrew G Purcell
Chairman
Melbourne, 8th March 2018

Notes regarding Contingent and Prospective resource estimates

1. *The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.*
2. *The assessments are based on, and fairly represent, information and supporting documentation prepared by Mr. Dean Johnstone, who is an employee of the company and has more than 34 years of relevant experience. Mr. Johnstone is a member of the American Association of Petroleum Geologists. Mr. Johnstone consents to the publication of the resource assessments contained herein.*
3. *Total Liquids = oil + condensate*
4. *6 Bcf gas equals 1 MMboe; 1 MMbbl condensate equals 1 MMboe*

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

As lead auditor for the review of Melbana Energy Limited for the half-year ended 31 December 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 review*;* and

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

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

Ernst & Young

Ernst & Young

Tony Morse

Tony Morse
Partner
8 March 2018

Consolidated statement of comprehensive income
For the half-year ended 31 December 2017

	Notes	Consolidated	
		31/12/2017	**31/12/2016**
		$	**$**
Interest income		13,998	41,447
Total income		**13,998**	**41,447**
Net administration costs	4	(1,117,493)	(915,391)
Exploration expenditure written-off / expensed		(314,368)	(245,163)
Legal settlement		(300,000)	-
Foreign exchange (losses)/gains		(95,763)	28,562
(Loss) before income tax		**(1,813,626)**	**(1,090,545)**
Income tax expense		(71,961)	(18,177)
Net (loss) for the period		**(1,885,587)**	**(1,108,722)**
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(9,142)	921
Other comprehensive income/ (loss) for the period, net of tax		**(9,142)**	**921**
Total comprehensive (loss) for the period		**(1,894,729)**	**(1,107,801)**
Basic (loss) per share (cents per share)		(0.14)	(0.12)
Diluted (loss) per share (cents per share)		(0.14)	(0.12)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position
As at 31 December 2017

		Consolidated	
	Note	**31/12/2017**	**30/06/2017**
CURRENT ASSETS		**$**	**$**
Cash and cash equivalents	5	3,496,014	2,605,011
Other receivables		60,858	33,740
Other financial assets	6	2,916,666	-
TOTAL CURRENT ASSETS		6,473,538	2,638,751
NON-CURRENT ASSETS			
Property, plant and equipment		64,911	72,656
Exploration and evaluation costs	7	4,985,190	3,817,191
TOTAL NON-CURRENT ASSETS		5,050,101	3,889,847
TOTAL ASSETS		**11,523,639**	**6,528,598**
CURRENT LIABILITIES			
Trade and other payables		247,697	311,550
Provisions		320,455	311,630
TOTAL CURRENT LIABILITIES		568,152	623,180
NON-CURRENT LIABILITIES			
Provisions		116,869	125,934
TOTAL NON-CURRENT LIABILITIES		116,869	125,934
TOTAL LIABILITIES		**685,021**	**749,114**
NET ASSETS		**10,838,618**	**5,779,484**
EQUITY			
Contributed equity	8	272,790,175	265,934,973
Reserves		423,744	334,225
Accumulated losses		(262,375,301)	(260,489,714)
TOTAL EQUITY		**10,838,618**	**5,779,484**

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

Consolidated statement of cash flows
For the half-year ended 31 December 2017

	Note	Consolidated 31/12/2017 $	31/12/2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(1,198,403)	(812,084)
Interest received		16,582	41,046
Net cash (used in) operating activities		**(1,181,821)**	**(771,038)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditure on property, plant and equipment		(2,744)	(15,520)
Expenditure on exploration tenements		(1,507,944)	(1,078,225)
Proceeds from sale of plant & equipment		-	13,212
Net cash from (used in) investing activities		**(1,510,688)**	**(1,080,533)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issues		7,307,332	2,233,400
Transaction costs on issue of shares		(711,391)	(128,194)
Bank guarantee – Cuba Block 9		(2,916,666)	-
Net cash from (used in) financing activities		**3,679,275**	**2,105,206**
Net increase (decrease) in cash and cash equivalents		**986,766**	**253,635**
Cash and cash equivalents at beginning of period		**2,605,011**	**4,135,989**
Net foreign exchange differences		(95,763)	28,562
Cash and cash equivalents at end of period		**3,496,014**	**4,418,186**

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

Consolidated statement of changes in equity
For the half-year ended 31 December 2017

	Issued capital $	Share based payments reserve $	Foreign Currency Translation Reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2017	**265,934,973**	**316,558**	**17,667**	**(260,489,714)**	**5,779,484**
Net loss for the period	-	-	-	(1,885,587)	(1,885,587)
Other comprehensive income/(loss)	-	-	(9,142)	-	(9,142)
Total comprehensive loss for the half year	**-**	**-**	**(9,142)**	**(1,885,587)**	**(1,894,729)**
Transactions with owners in their capacity as owners:					
Cost of share based payments	-	61,902	-	-	61,902
Share placement	1,787,332	-	-	-	1,787,332
Partially underwritten entitlement offer	3,420,000	-	-	-	3,420,000
Share placement	2,100,000	-	-	-	2,100,000
Costs of issues (net of tax)	(665,371)	-	-	-	(665,371)
Share issue as part settlement of Block 9 commercial dispute	250,000	-	-	-	250,000
Issue of options in exchange for services	(244,275)	244,275	-	-	-
Exercise of equity instruments	207,516	(207,516)	-	-	-
At 31 December 2017	**272,790,175**	**415,219**	**8,525**	**(262,395,301)**	**10,838,618**

	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 for the period	-	-	-	(1,108,722)	(1,108,722)
Other comprehensive income/(loss)	-	-	921	-	921
Total comprehensive loss for the year	**-**	**-**	**921**	**(1,108,722)**	**(1,107,801)**
Transactions with owners in their capacity as owners:					
Cost of share based payments	-	137,092	-	-	137,092
Share placement	1,688,400	-	-	-	1,688,400
Share purchase plan	545,000	-	-	-	545,000
Costs of issues (net of tax)	(110,017)	-	-	-	(110,017)
Transfer of lapsed equity instruments	-	(314,610)	-	314,610	-
At 31 December 2016	**265,945,908**	**270,223**	**17,783**	**(259,477,499)**	**6,756,415**

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

Notes to the financial statements
For the half-year ended 31 December 2017

NOTE 1 CORPORATE INFORMATION

The interim condensed financial report of Melbana Energy Limited ("Melbana", or the "Company") for the half-year ended 31 December 2017 was authorised for issue in accordance with a resolution of the directors on 8th March 2018.

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

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

NOTE 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim financial statements for the six months ended 31 December 2017 have been prepared in accordance with *AASB 134* "*Interim Financial Reporting*" and the *Corporations Act 2001.*

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2017 and considered together with any public announcements made by Melbana Energy Limited and its controlled entities during the half-year ended 31 December 2017 in accordance with the continuous disclosure obligations of the ASX listing rules.

Changes in accounting policy, accounting standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2017.

These standards had no material impact on the Group's financial position and performance, however it may impact the nature and extent of disclosures in the year-end financial statements.

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.

As at 31 December 2017 the Group had cash reserves of $3,496,014. The cash reserves may not be sufficient to meet the Group's planned exploration commitments and activities for the 12 months from the date of this report. To meet its funding requirements the Group will rely on taking appropriate steps, including:

- Meeting its additional obligations by either farm-out or partial sale of the Group's exploration interests;
- Raising 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;
- 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.

Notes to the financial statements
For the half-year ended 31 December 2017 (continued)

NOTE 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont.)

The half-year 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 Group's exploration commitments, the interest in some or all of the Group'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 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 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.

NOTE 3 SEGMENT INFORMATION

The Group operates in the petroleum exploration industry within Australia, New Zealand 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 7.

	Consolidated	
	31/12/2017	**31/12/2016**
	$	**$**
NOTE 4 ADMINISTRATION EXPENSES		
Consultants fees and expenses	214,341	74,230
Directors remuneration (excluding share based payments)	87,500	62,500
Salaries and on-costs	941,408	785,526
Share based payments	61,902	137,092
Administration and other expenses	150,524	213,357
Audit costs	24,800	20,000
Securities exchange, share registry and reporting costs	76,917	100,809
Operating lease expenses	78,039	74,886
Investor relations and corporate promotion costs	57,140	54,858
Travel costs	14,597	29,747
Depreciation and amortisation expense	10,489	13,095
Office relocation costs	-	57,379
Gross administration costs	1,717,657	1,623,479
Less allocation to exploration activities	(600,164)	(708,088)
Net administration costs	**1,117,493**	**915,391**

Notes to the financial statements
For the half-year ended 31 December 2017 (continued)

NOTE 5 CASH AND CASH EQUIVALENTS

For the purpose of the half-year statement of cash flows, cash and cash equivalents comprise:

	Consolidated	
	31/12/2017	**30/6/2017**
	$	**$**
Cash at bank	3,002,193	590,690
Short term bank deposits	493,821	2,014,321
Total cash and cash equivalents	**3,496,014**	**2,605,011**

NOTE 6 FINANCIAL INSTRUMENTS

	Consolidated	
	31/12/2017	**30/6/2017**
	$	**$**
Cash backed bank guarantee for Block 9 Cuba*	**2,916,666**	**-**

* Bank guarantee for the second exploration sub-period in accordance with the Block 9 Production Sharing Contract.

The Group's financial assets and liabilities include cash and cash equivalents, other financial assets, other receivables and trade and other payables. The carrying value of the Group's financial assets and liabilities approximate their fair value.

NOTE 7 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 capitalised exploration and evaluation expenditure. In the judgement of the Directors, at 31 December 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 in AC/P50, AC/P51 and Block 9 Cuba areas of interest. Nothing has come to the attention of the Directors to indicate future economic benefits will not be achieved in these areas of interest. In the event where ongoing activities or committed minimum work requirements cannot be funded by existing financial resources the Group will either meet its obligations by farm-out, partial or full sale of the Group's exploration interests, or subject to negotiation and approval, vary the minimum work requirements, or raise additional capital. 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. In the event these alternatives are not able to be achieved, the Groups interest in permit areas may be forfeited and impairments of expenditure will be required at that time.

Notes to the financial statements
For the half-year ended 31 December 2017 (continued)

NOTE 7 EXPLORATION AND EVALUATION COSTS (cont.)

Capitalised exploration and evaluation costs at 31 December 2017 are $4,985,190 (June 2017: $3,817,191) which relate to:

Area of Interest	31 Dec 2017	30 June 2017
Block 9 Cuba	$3,905,813	$3,096,453
AC/P50 & AC/P51	$632,500	$632,500
PEP 51153	$446,877	$88,238
TOTAL	**$4,985,190**	**$3,817,191**

NOTE 8 CONTRIBUTED EQUITY

	31/12/2017 Shares	30/6/2017 Shares	31/12/2017 $	30/6/2017 $
Issued and Paid Up Capital				
Ordinary shares fully paid	1,665,750,480	953,243,886	272,790,175	265,934,973
	===========	=========	=========	=========

Dividends

No dividends were declared or paid during the half-year (Dec 2016: Nil).

NOTE 9 COMMITMENTS & CONTINGENT LIABILITIES

The material change to exploration commitments reported in the June 2017 Annual Report is set out below:-

- *Block 9 PSC – Cuba (Melbana 100% interest)*

In September 2017 the Company announced it had provided official notification to Cuban regulatory authorities of its commitment to the second exploration sub-period for Block 9 which commenced on 3 November 2017 and continues for two years. The minimum work program for the second sub-period includes the drilling of one exploration well.

Summary

Should Melbana proceed with its share of exploration commitments, they are now estimated to be $28,076,000 of which $2,090,000 is estimated to be incurred prior to 30 June 2018 and $25,986,000 is estimated after one year (i.e. after 30 June 2018) but not more than five years (i.e. 30 June 2022). This compares to Melbana's share of exploration commitments reported in the 2017 Annual Report, 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.

Other than the above, there have been no material changes to commitments and contingent liabilities since the annual financial statements that were issued for the year ended 30 June 2017.

NOTE 10 EVENTS SUBSEQUENT TO BALANCE DATE

In January 2018, the Company advised that Mr. Peter Stickland had tendered his resignation as Managing Director of Melbana for health reasons. Mr. Stickland will continue to support the Company in a part-time capacity and to that end has been invited to remain on the Board as non-executive director and has agreed to consult to the Company as required. Mr. Robert Zammit, previously Executive Manager, Commercial & Business Development, was appointed Chief Executive Officer effective 12 January 2018. Mr Zammit joined the Company in 2011.

There were no other significant matters that arose subsequent to 31 December 2017 and up until the date of this report.

Directors' declaration

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

In the opinion of the Directors:

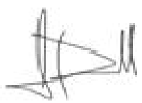
(a) The financial statements and notes of the consolidated entity for the half-year ended 31 December 2017 are in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Andrew G Purcell
Chairman
Melbourne, 8th March 2018

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To the members of Melbana Energy Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Melbana Energy Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2017, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, 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 the Group is not 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 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

Emphasis of Matter – Material Uncertainty Related to Going Concern

Without qualification of our opinion, we draw attention to Note 2 *Going Concern*, which sets out the basis by which the Directors believe the consolidated entity will be able to continue as a going concern, including the ability of the consolidated entity to take the appropriate steps set out in Note 2 *Going Concern* to raise further funding or vary expenditure commitments. However, if further funding is not available or expenditure commitments are not able to be varied, there is a material uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

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 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, anything has come to our attention that causes us to 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 consolidated financial position as at 31 December 2017 and its consolidated financial 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 the Group, 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*.

Ernst & Young

Ernst & Young

Tony Morse
Partner

Melbourne
8 March 2018