

Melbana Energy Limited

ABN 43 066 447 952

Annual Report - 30 June 2019

Directors	Andrew Purcell (Non-executive Director and Chairman) Michael Sandy (Executive Director and Interim Chief Executive Officer) Peter Stickland (Non-executive Technical Director)
Company secretary	Melanie Leydin
Registered office	Level 3, 350 Collins Street Melbourne, Victoria 3000 Australia Telephone +61 (3) 8625 6000
Principal place of business	Level 3, 350 Collins Street Melbourne, Victoria 3000 Australia Telephone +61 (3) 8625 6000
Share register	Link Market Services Limited Level 1, 333 Collins Street Melbourne, Victoria 3000 Australia Telephone +61 (3) 9615 9800
Auditor	Grant Thornton Audit Pty Ltd Collins Square, Tower 5 727 Collins Street Melbourne VIC 3008
Stock exchange listing	Melbana Energy Limited securities are listed on the Australian Securities Exchange (ASX code: MAY)
Website	www.melbana.com
Corporate Governance Statement	Corporate governance statements are available in Group's website. Please refer to http://www.melbana.com/site/About-Us/corporate-governance

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Melbana Energy Limited (referred to hereafter as 'Melbana', the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

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

Andrew Purcell (Chairman)
Michael Sandy (Appointed Interim Chief Executive Officer on 19 July 2019)
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 year.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$3,357,696 (30 June 2018: \$6,100,290).

Environment, Health and Safety

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

Your Board is pleased to advise there were no reported Lost Time Injuries or environmental incidents during the year.

INTERNATIONAL OPERATIONS

Cuba - Block 9 (Melbana 100%)

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

Melbana has identified Block 9 as one of the world's most exciting exploration plays with an independent assessment by McDaniel & Associates identifying exploration potential of approximately 14.8 billion barrels of Oil-in-Place with a Prospective Resource of 676 million barrels (Best Estimate, 100% basis)¹.

In October 2018, Melbana agreed commercial terms with Anhui Guangda Mining Investment Co Ltd (AGMI) for it to take an interest in Block 9 PSC in return for agreeing to, amongst other things, fund the drilling of the first three exploration wells. A formal agreement was executed in December 2018 but in April 2019 Melbana decided to terminate it given the lack of progress AGMI was making towards satisfying the conditions precedent. Melbana subsequently reopened its farmout process and is currently in negotiations with several interested parties. As at 30 June 2019, the Block 9 Cuban asset is currently without a farmout partner. Work is ongoing to secure an alternative farmout partner following the termination of the AGMI arrangement. An extension to the sub period has been approved by CUPET and forwarded to a higher competent authority for consideration.

¹ This estimate should be read with reference to the footnote "Notes regarding Contingent and Prospective resource estimates" on page 17

Cuba - Santa Cruz (Melbana 100%, subject to receiving final regulatory approvals)

The Santa Cruz oil field has produced at least 7.4 million barrels from 18 wells since its discovery in 2004. In December 2018, Melbana finalised a binding contract with CUPET and is now working to clarify some commercial issues before seeking final regulatory approval. Santa Cruz would give Melbana a long term opportunity to develop new oil production from the field area and therefore the potential for early revenue.

In April 2019, the United States (U.S.) of America announced that it would no longer suspend Title III of the Helms-Burton Act, effective 2 May 2019. This enables U.S. nationals to sue any person who traffics in property expropriated from a U.S. national by the Cuban Government on or after 1 January 1959. Your Board considers it unlikely that this development could directly affect its interests in Cuba.

New Zealand - PEP51153

The Company completed the divestment of its interest in PEP51153 in April 2019 following receipt of the necessary regulatory consent. The Company therefore has no further interest or liability associated with New Zealand.

AUSTRALIAN OPERATIONS

WA-488-P (Melbana 100%)

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

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

The Beehive 3D Seismic Survey was completed in August 2018 safely and without incident, having been extended by ~100km² (~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. In December 2018 Melbana Energy reached an agreement with Total and Santos to modify the commercial agreement between the parties to provide for Total and Santos to undertake preliminary well planning activities, to ensure the viability of drilling the Beehive-1 exploration well during the third Quarter of 2020, in case of option exercise. This included the drafting of an environment plan, well concept identification and commencement of rig selection activity.

The processed data from the Beehive 3D Seismic Survey was received and accepted on 3 April 2019, giving Santos and Total until 2 October 2019 to notify Melbana of their intention to exercise their option to farm-in and drill the Beehive-1 well. The 3D seismic data set is currently being interpreted and will be used to update resource assessment of the Beehive prospect.

Tassie Shoal Gas Processing Projects

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

Tassie Shoal Methanol Project (TSMP, Melbana 100%)

Melbana proposes the staged construction of two large methanol production plants, each with an annual production capacity of 1.75 million tonnes on its own concrete gravity structure. Each TSMP methanol plant requires ~200 to 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.

In May 2019, Santos announced the contract to supply the subsea production system and associated installation support had been awarded for the Barossa Gas Field. The following month, the Barossa Joint Venture entered into exclusive commercial negotiations with the Darwin LNG Joint Venture for the supply of backfill gas, thus firming as favourite to be selected to backfill Darwin LNG. A Final Investment Decision (FID) is expected early next year. This leaves the Evans Shoal Gas field (~28% CO₂) without a publicly stated development path. Melbana remains ready to engage with the Evans Shoal Joint Venture on using the Tassie Shoal Projects as an LNG and/or methanol development path once a FID has been made on the successful Joint Venture to supply Darwin LNG.

Tassie Shoal LNG Project (TSLNG, Melbana 100%)

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

The environmental approvals for TSLNG are valid to 2052.

Results for the year

The net loss after tax of the consolidated entity for the financial year was \$3,357,696 (2018: net loss after tax of \$6,100,290). The loss for the year was mainly due to:

- net administration costs of \$2,484,647 (2018: \$2,353,690)
- an increase in finance costs, to \$1,246,320 for the year ended 30 June 2019 from \$96,105 for the year ended 30 June 2018, mainly due to share options of \$973,600 recognised as finance cost measured in accordance with AASB 2
- increase interest expense of \$272,270 (2018: \$96,105)

However, overall loss after tax for the financial year decreased significantly compared to previous financial year. Net losses after tax was higher in 2018 financial year due to exploration expenditure write-offs of \$3,691,000 and settlement cost of \$300,000. During 2018 financial year, the consolidated entity write-off costs for the AC/P50-AC/P51 permits and PEP51153 venture.

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

Review of financial position

At reporting date the consolidated entity held cash and cash equivalents of \$3,363,168 (2018: \$3,047,017), a net decrease of \$316,151 (2018: net decrease of \$442,000), while its net assets were \$7,852,718 (2018: \$6,694,997), a net increase of \$1,157,721 (2018: net increase of \$916,000). The main determinants of the consolidated entity's financial condition were:

- loss after tax of \$3,357,696 (2018: \$6,100,290);
- repayment of short term borrowings of \$3,583,847 and realization of term deposit of \$3,271,381;
- net proceeds from share issue of \$3,460,491 (2018: 6,569,999)
- cash flows as follows: net operating cash outflows of \$2,757,996 (2018: \$2,327,159), net investing cash inflows of \$2,827,996 (2018: out flows of \$6,703,251) and net financing cash outflows of \$123,356 (2018: inflows of \$9,418,432)

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.

During the reporting period, the Company examined listing its shares on the London Stock Exchange. The conclusion drawn was that this may be a better market for an oil and gas company like Melbana Energy but that it would probably only make economic sense to pursue this route once the Company has at least doubled in size.

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 Company'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 4 January 2019, therefore, the options will vest on 4 August 2019 and will expire on 4 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 ~100km² (~16%) to provide coverage over the portion of Egret that is partially within the boundary of WA-488-P. The extension of the survey area was within the approved scope and operational envelope of the Beehive 3D Seismic Survey. The Beehive 3D Seismic Survey, including the extension over the Egret lead, was fully funded by Santos and Total.

On 21 August 2018, the 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. However, on 26 April 2019, the Company terminated the farmout agreement due to lack of progress by the farminee towards satisfying the Conditions Precedent.

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 was completed and proceeds were received on 26 April 2019.

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 3 April 2019, the Company announced that the final processed 3D seismic survey data was received and accepted by Total, Santos and Melbana. Based on this acceptance Total and Santos now have 6 months to notify Melbana of the intention to exercise their option to farm-in and drill the first exploration well which is planned to be the Beehive-1 exploration well. If the option is exercised, Melbana (20%) will be fully carried through drilling.

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 formal award of this contract is subject to standard Cuban regulatory approvals and clarifying certain commercial issues. Should this contract be formally awarded it would provide 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 year.

Matters subsequent to the end of the financial year

On 15 July 2019, the Company made a conditional intention to make a takeover offer (Offer) for 100% of the ordinary shares in Metgasco Limited (ASX: MEL) (Metgasco). On 25 July 2019, the Offer was made unconditional following ASIC granting a modification of section 629 of the Corporations Act 2001 (Cth) to include as a defeating condition of the Offer the receipt of Melbana shareholder approval for the purposes of Listing Rule 10.1 to permit M&A Advisory Pty Ltd (being a Metgasco shareholder associated with Andrew Purcell, a director of Melbana) to participate under the Offer (or a waiver of that requirement or confirmation shareholder approval is not required) (Listing Rule 10.1 Condition).

The last day of employment of Robert Zammit, Chief Executive Officer of the Company, was 19 July 2019.

No other matters or circumstances have arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

During FY2020, Melbana is advancing negotiations with potential partners to fund the drilling of up to 2 wells in Block 9 Cuba, seeking to finalise a PSC for the Santa Cruz oil field and awaiting a decision by Santos and Total regarding the Beehive-1 exploration well in WA-488-P. The Company also looks forward to satisfactorily concluding the offmarket offer it has made to the shareholders of Metgasco in order to move forward with testing the exploration potential of both company's portfolios. Non-core assets will be considered for divestment on a case by case basis and the Company will also continue with farmout/partial sale opportunities and pursue attractive new venture opportunities.

Environmental regulation

Within the last year there have been zero incidents, zero lost time injuries and zero significant spills within the Company and joint operations.

Information on Directors

Name: Andrew Purcell
Title: Non-executive Director and Chairman
Qualifications: B Eng; MBA
Experience and expertise: Mr Purcell founded the Lawndale Group (formerly Teknix Capital) in Hong Kong over 15 years ago, a company specialising in the development and management of projects in emerging markets across the heavy engineering, petrochemical, resources and infrastructure sectors. Prior to this, Mr Purcell spent 12 years working in investment banking across the region for Macquarie Bank then Credit Suisse. Mr Purcell also has significant experience as a public company director, both in Australia and across Asia.

Other current directorships: AJ Lucas Group Limited (ASX: AJL)
Former directorships (last 3 years): Metgasco Limited (ASX:MEL)
Special responsibilities: Chairman of the Remuneration & Nomination Committee and a member of the Audit & Risk Committee

Interests in shares: 62,666,307 fully paid ordinary shares
Interests in options: 80,000,000 unlisted options expiring 4 August 2020
1,875,621 unlisted options expiring 27 March 2020

Name: Peter Stickland
Title: Non-Executive Technical Director
Qualifications: BSc, Hons (Geology), GDipAppFin (Finsia), GAICD
Experience and expertise: Peter Stickland has over 25 years global experience in oil and gas exploration. Mr Stickland was CEO and subsequently Managing Director of Melbana from December 2014 until he resigned from his executive role in January 2018 and became a non-executive director. Previously, Mr Stickland was CEO and subsequently Managing Director of Tap Oil Limited (ASX: TAP) from 2008 until late 2010 during which time he oversaw the evolution of the Company into a South East Asia/Australia focused E&P company. Prior to joining Tap Oil, Mr Stickland had a successful career with BHP Billiton including a range of technical and management roles. Mr Stickland is also a life member of the Australian Petroleum Production and Exploration Association Limited (APPEA).

Other current directorships: XCD Energy Limited (ASX:XCD), Talon Petroleum Limited (ASX:TDP)
Former directorships (last 3 years): None
Special responsibilities: Member of the Remuneration & Nomination Committee, a member of the Audit and Risk Committee and Chairman of the Reserves Committee

Interests in shares: 16,597,279 fully paid ordinary shares
Interests in options: 3,000,000 unlisted options expiring 27 September 2020

Name: Michael Sandy
Title: Executive Director and Interim Chief Executive Officer (Appointed as Interim Chief Executive Officer on 19 July 2019)
Qualifications: BSC Hons (Geology), MAICD
Experience and expertise: Michael Sandy is a geologist with 40 years' experience in the resources industry – mostly focused on oil and gas. Mr. Sandy had a varied early career with roles in minerals exploration and research and a role with the PNG Government based in Port Moresby. In the early 1990s he was Technical Manager of Oil Search Limited also based in Port Moresby. Mr. Sandy was involved in establishing Novus Petroleum Ltd and preparing that company for its \$186m IPO in April 1995. Over 10 years, he held various senior management roles with Novus including manager of assets in Australia, Asia, the Middle East and the USA and as Business Development Manager was involved in numerous acquisitions and divestments. He co-managed the defence effort in 2004 when Novus was taken over by Medco Energi.

For the last 15 years, Mr Sandy has been the principal of energy consultancy company Sandy Associates P/L and was previously a director of Tap Oil Limited (ASX:TAP), Hot Rock Ltd (ASX:HRL), Caspian Oil and Gas (ASX:CIG) and Pan Pacific Petroleum (ASX:PPP)

Other current directorships: MEC Resources Limited (Chairman) (ASX:MMR)
Former directorships (last 3 years): Tap Oil Limited (ASX: TAP), Burleson Energy Limited (ASX: BUR)
Special responsibilities: Chairman of the Audit & Risk Committee, a member of the Remuneration & Nomination Committee and member of the Reserves Committee.
Interests in shares: 5,400,000 fully paid ordinary shares

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

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

Company secretary

Ms Melanie Leydin, CA

Ms Leydin has 25 years' experience in the accounting profession including 13 years in the Corporate Secretarial profession and is a company secretary and finance officer for a number of entities listed on the Australian Securities Exchange. She is a Chartered Accountant and a Registered Company Auditor. Since February 2000, Ms Leydin has been the principal of LeydinFreyer. The practice provides outsourced company secretarial and accounting services to public and private companies specialising in ASX listed entities.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each Director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Andrew Purcell	7	7	2	2	2	2
Michael Sandy	7	7	2	2	2	2
Peter Stickland	7	7	2	2	2	2

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

Remuneration report (audited)

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

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

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

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

Principles used to determine the nature and amount of remuneration

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

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

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

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

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

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

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

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

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

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

Non-executive directors remuneration

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

The Remuneration and Nomination Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Remuneration and Nomination Committee did not use the services of a remuneration consultant during the year.

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

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

Generally non-executive directors do not receive share options or other incentives. However, from time to time, the Board may grant share options subject to specified criteria are met. There has not been an increase in director remuneration during the 2019 FY.

The Constitution and the ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The most recent determination was at the Annual General Meeting held on 18 November 2010, where the shareholders approved a maximum annual aggregate remuneration of \$500,000. The combined payment to all non-executive directors does not exceed this aggregate amount.

Executive remuneration

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

The executive remuneration and reward framework has the following components:

- Fixed remuneration
- Variable remuneration consisting of Short Term Incentive ('STI'); and Long Term Incentive ('LTI').

The combination of these comprises the executive's total remuneration. The mix between fixed and variable remuneration is established for the Executive by the Remuneration and Nomination Committee.

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

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive. Fixed remuneration is reviewed annually by the Remuneration and Nomination Committee having regard to company-wide and individual performance, relevant comparative remuneration in the market and internally, and where appropriate, external advice on policies and practices. As noted above, the Remuneration and Nomination Committee has access to external advice independent of management.

The STI program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

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

Consolidated entity performance and link to remuneration

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

Voting and comments made at the Company's 2018 Annual General Meeting ('AGM')

At the 15 November 2018 AGM, 34.7% of the votes were cast against the adoption of the remuneration report for the year ended 30 June 2018.

Details of remuneration

Amounts of remuneration

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

Directors:

- Andrew Purcell - Non-Executive Chairman
- Michael Sandy - Executive Director and Interim Chief Executive Officer (Appointed as Interim Chief Executive Officer on 19 July 2019)
- Peter Stickland - Non-Executive Technical Director

Executives:

- Robert Zammit - Chief Executive Officer (until 19 July 2019)

Changes since the end of the reporting period:

The last day of Mr Zammit's employment with the Company was 19 July 2019. Mr Michael Sandy - Executive Director and Interim Chief Executive Officer is acting as Chief Executive Officer on an interim basis.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Termination benefit	Total
	Salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled		
2019	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Andrew Purcell	100,000	-	-	-	-	-	-	100,000
Michael Sandy	75,000	-	-	-	-	-	-	75,000
Peter Stickland	75,000	-	-	-	-	6,874	-	81,874
<i>Other Key Management Personnel:</i>								
Robert Zammit	265,873	30,000	-	20,129	11,681	6,279	-	333,962
	515,873	30,000	-	20,129	11,681	13,153	-	590,836

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

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

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

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

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2019	2018	2019	2018	2019	2018
<i>Non-Executive Directors:</i>						
Andrew Purcell	100%	100%	-	-	-	-
Michael Sandy	100%	100%	-	-	-	-
Peter Stickland *	93%	100%	-	-	7%	-
<i>Executive Directors:</i>						
Peter Stickland *	-	94%	-	-	-	6%
<i>Other Key Management Personnel:</i>						
Robert Zammit	89%	93%	9%	-	2%	7%
Colin Naylor	-	96%	-	-	-	4%

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

Service agreements

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

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

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

He was granted 2,584,949 performance rights on 10 May 2018, which vested on 30 April 2019. These performance rights were issued on consideration for Mr Zammit accepting a reduction in his cash salary.

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

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

* Mr Zammit's last day of employment with the Company was 19 July 2019.

Share-based compensation

Issue of shares

There were no shares issued to Directors and other key management personnel as part of compensation during the year ended 30 June 2019.

Options

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

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Andrew Purcell	80,000,000	13 Aug 2018	13 Aug 2018	4 Aug 2020	\$0.0220	\$0.0121
Robert Zammit	1,000,000	28 Mar 2017	28 Mar 2018	27 Sep 2020	\$0.0320	\$0.0160
Robert Zammit	1,000,000	28 Mar 2017	28 Mar 2019	27 Sep 2020	\$0.0320	\$0.0160
Peter Stickland	1,500,000	23 Nov 2017	28 Mar 2018	27 Sep 2020	\$0.0320	\$0.0080
Peter Stickland	1,500,000	23 Nov 2017	28 Mar 2019	27 Sep 2020	\$0.0320	\$0.0080

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by Directors and other key management personnel as part of compensation during the year ended 30 June 2019 are set out below:

Name	Number of options granted during the year 2019	Number of options granted during the year 2018	Number of options vested during the year 2019	Number of options vested during the year 2018
Colin Naylor*	-	-	-	1,000,000
Peter Stickland	-	3,000,000	1,500,000	1,500,000
Robert Zammit	-	-	1,000,000	1,000,000

* Mr Naylor ceased employment with the Company during July 2018.

Performance rights

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

Name	Number of rights granted	Grant date	Vesting date and exercisable date	Expiry date	Fair value per right at grant date
Robert Zammit	2,584,949	10 May 2018	30 April 2019	30 April 2021	\$0.0090

Performance rights granted carry no dividend or voting rights.

The number of performance rights over ordinary shares granted to and vested by Directors and other key management personnel as part of compensation during the year ended 30 June 2019 are set out below:

Name	Number of rights granted during the year 2019	Number of rights granted during the year 2018	Number of rights vested during the year 2019	Number of rights vested during the year 2018
Robert Zammit	-	2,584,949	-	-

Additional information

The earnings of the consolidated entity for the five years to 30 June 2019 are summarised below:

	2019 \$	2018 \$	2017 \$	2016 \$	2015 \$
Profit/(loss) after income tax	(3,357,696)	(6,100,290)	(2,121,000)	(10,406,000)	(10,042,000)

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

	2019	2018	2017	2016	2015
Share price at financial year end (\$)	0.01	0.01	0.02	0.02	0.02
Basic earnings per share (cents per share)	(0.18)	(0.41)	(0.26)	(1.31)	(1.34)

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Exercise of performance rights / options	Additions	Disposals	Balance at the end of the year
<i>Ordinary shares</i>					
Andrew Purcell	54,032,297	-	8,634,010	-	62,666,307
Michael Sandy	3,685,001	656,112	1,058,887	-	5,400,000
Peter Stickland	9,915,551	6,681,728	-	-	16,597,279
Robert Zammit	7,788,501	-	-	(3,248,889)	4,539,612
Colin Naylor*	5,592,186	-	-	(5,592,186)	-
	81,013,536	7,337,840	9,692,897	(8,841,075)	89,203,198

* Colin Naylor resigned from the Company in July 2018.

Option holding

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

	Balance at the start of the year	Options granted pursuant to a placement	Options granted for other services**	Exercised / expired	Balance at the end of the year
<i>Options over ordinary shares</i>					
Andrew Purcell	17,048,033	1,875,621	80,000,000	(17,048,033)	81,875,621
Michael Sandy	656,112	-	-	(656,112)	-
Peter Stickland	4,348,395	-	-	(1,348,395)	3,000,000
Robert Zammit	2,000,000	-	-	-	2,000,000
Colin Naylor*	2,000,000	-	-	(2,000,000)	-
	26,052,540	1,875,621	80,000,000	(21,052,540)	86,875,621

* Colin Naylor resigned from the Company in July 2018.

** 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. As a 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.

Performance rights holding

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

	Balance at the start of the year	Received as part of remuneration	Exercised	Expired	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
Peter Stickland	5,333,333	-	(5,333,333)	-	-
Robert Zammit	2,584,949	-	-	-	2,584,949
	7,918,282	-	(5,333,333)	-	2,584,949

This concludes the remuneration report, which has been audited.

Shares under option

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

Grant date	Expiry date	Exercise price \$	Number under option
03 November 2016	3 November 2019	\$0.0650	4,000,000
28 March 2017	27 September 2020	\$0.0320	8,250,000
23 November 2017	23 November 2020	\$0.0180	20,000,000
23 November 2017	27 September 2020	\$0.0320	3,000,000
13 August 2018	4 August 2020	\$0.0220	80,000,000
27 September 2018	27 March 2020	\$0.0300	62,939,202
21 November 2018	27 March 2020	\$0.0300	1,875,621
			180,064,823

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

Shares under performance rights

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

Grant date	Expiry date	Exercise price	Number under rights
10 May 2018	30 April 2021	\$0.0000	4,178,209

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

Shares issued on the exercise of options

The following ordinary shares of Melbana Energy Limited were issued during the year ended 30 June 2019 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price \$	Number of shares issued
Granted on 13 September 2017 (shares were issued on 13 August 2018)	\$0.0200	3,141,226
Granted on 13 September 2017 (shares were issued on 21 August 2018)	\$0.0200	4,761,215
Granted on 13 September 2017 (shares were issued on 28 August 2018)	\$0.0200	1,247,988
Granted on 13 September 2017 (shares were issued on 5 September 2018)	\$0.0200	827,228
		9,977,657

Shares issued on the exercise of performance rights

The following ordinary shares of Melbana Energy Limited were issued during the year ended 30 June 2019 and up to the date of this report on the exercise of performance rights granted:

Date performance rights granted	Exercise price	Number of shares issued
7 December 2015 (shares were issued on 6 July 2018)	\$0.0000	5,333,333
10 May 2018 (shares were issued on 24 July 2019)	\$0.0000	2,584,949
		7,918,282

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 24 to the financial statements.

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

The Directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Officers of the Company who are former partners of Grant Thornton Audit Pty Ltd

There are no officers of the Company who are former partners of Grant Thornton Audit Pty Ltd.

Auditor's independence declaration

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

Auditor

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

Notes regarding Contingent and Prospective resource estimates

1. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.
2. The information that relates to Prospective Resources for Melbana is based on, and fairly represents, information and supporting documentation compiled by Peter Stickland, a director of Melbana Energy. Mr Stickland B.Sc (Hons) has over 25 years of relevant experience, is a member of the European Association of Geoscientists & Engineers and the Petroleum and Exploration Society of Australia, and consents to the publication of the resource assessments contained herein. The Prospective Resource estimates are consistent with the definitions of hydrocarbon resources that appear in the Listing Rules.
3. Total Liquids = oil + condensate
4. 6 Bcf gas equals 1 MMboe; 1 MMbbl condensate equals 1 MMboe
5. Melbana share can be derived by pro-rating the resource ranges described in the tables above by its percentage equity.

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

On behalf of the Directors

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

Andrew Purcell
Chairman

30 August 2019

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 audit of Melbana Energy Limited for the year ended 30 June 2019, 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 audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



Grant Thornton Audit Pty Ltd
Chartered Accountants



B A Mackenzie
Partner – Audit & Assurance

Melbourne, 30 August 2019

Melbana Energy Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019



	Note	Consolidated 2019 \$	2018 \$
Other income	5	324,667	392,711
Interest income		48,604	19,966
Expenses			
Settlement costs	6	-	(300,000)
Exploration expenditure written off/down	14	-	(3,691,211)
Net administration costs	7	(2,484,647)	(2,353,690)
Finance costs	8	<u>(1,246,320)</u>	<u>(96,105)</u>
Loss before income tax expense		(3,357,696)	(6,028,329)
Income tax expense	9	<u>-</u>	<u>(71,961)</u>
Loss after income tax expense for the year attributable to the owners of Melbana Energy Limited		(3,357,696)	(6,100,290)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>(674)</u>	<u>1,130</u>
Other comprehensive income for the year, net of tax		<u>(674)</u>	<u>1,130</u>
Total comprehensive income for the year attributable to the owners of Melbana Energy Limited		<u><u>(3,358,370)</u></u>	<u><u>(6,099,160)</u></u>
		Cents	Cents
Basic earnings per share	32	(0.18)	(0.41)
Diluted earnings per share	32	(0.18)	(0.41)

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

Melbana Energy Limited
Statement of financial position
As at 30 June 2019



	Note	Consolidated 2019 \$	2018 \$
Assets			
Current assets			
Cash and cash equivalents	10	3,363,168	3,047,017
Other receivables	11	107,014	63,133
Other financial assets	12	72,018	3,073,078
Total current assets		<u>3,542,200</u>	<u>6,183,228</u>
Non-current assets			
Plant and equipment	13	40,765	101,241
Exploration and evaluation	14	4,842,424	4,470,011
Total non-current assets		<u>4,883,189</u>	<u>4,571,252</u>
Total assets		<u>8,425,389</u>	<u>10,754,480</u>
Liabilities			
Current liabilities			
Trade and other payables	15	387,582	453,944
Borrowings	16	-	3,098,829
Provisions	17	185,089	453,077
Total current liabilities		<u>572,671</u>	<u>4,005,850</u>
Non-current liabilities			
Provisions	18	-	53,633
Total non-current liabilities		<u>-</u>	<u>53,633</u>
Total liabilities		<u>572,671</u>	<u>4,059,483</u>
Net assets		<u>7,852,718</u>	<u>6,694,997</u>
Equity			
Issued capital	19	276,330,665	272,790,174
Reserves	20	1,459,285	494,824
Accumulated losses		(269,937,232)	(266,590,001)
Total equity		<u>7,852,718</u>	<u>6,694,997</u>

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

Melbana Energy Limited
Statement of changes in equity
For the year ended 30 June 2019



Consolidated	Issued capital \$	Share based payment reserve \$	Foreign currency reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2017	265,934,973	316,558	17,667	(260,489,711)	5,779,487
Loss after income tax expense for the year	-	-	-	(6,100,290)	(6,100,290)
Other comprehensive income for the year, net of tax	-	-	1,130	-	1,130
Total comprehensive income for the year	-	-	1,130	(6,100,290)	(6,099,160)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity (note 19)	7,307,332	-	-	-	7,307,332
Share issue costs (note 19)	(909,647)	-	-	-	(909,647)
Share issue as part settlement of Block 9 commercial dispute (note 19)	250,000	-	-	-	250,000
Share based payments (performance rights) (note 20)	-	122,711	-	-	122,711
Share based payments (options) (note 20)	-	244,274	-	-	244,274
Exercise of performance rights (note 20)	207,516	(207,516)	-	-	-
Balance at 30 June 2018	<u>272,790,174</u>	<u>476,027</u>	<u>18,797</u>	<u>(266,590,001)</u>	<u>6,694,997</u>

Consolidated	Issued capital \$	Share based payment reserve \$	Foreign currency reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2018	272,790,174	476,027	18,797	(266,590,001)	6,694,997
Loss after income tax expense for the year	-	-	-	(3,357,696)	(3,357,696)
Other comprehensive income for the year, net of tax	-	-	(674)	-	(674)
Total comprehensive income for the year	-	-	(674)	(3,357,696)	(3,358,370)
<i>Transactions with owners in their capacity as owners:</i>					
Shares issued (note 19)	3,500,000	-	-	-	3,500,000
Share issue cost (note 19)	(239,063)	-	-	-	(239,063)
Exercise of options (note 19)	199,554	-	-	-	199,554
Exercise of performance rights (note 19)	80,000	(80,000)	-	-	-
Share options lapsed (note 20)	-	(10,465)	-	10,465	-
Share based payments (options and performance rights) (note 20)	-	82,000	-	-	82,000
Share based payments on finance cost (note 20)	-	973,600	-	-	973,600
Balance at 30 June 2019	<u>276,330,665</u>	<u>1,441,162</u>	<u>18,123</u>	<u>(269,937,232)</u>	<u>7,852,718</u>

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

Melbana Energy Limited
Statement of cash flows
For the year ended 30 June 2019



	Note	Consolidated	
		2019 \$	2018 \$
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(2,533,880)	(2,708,817)
Interest received		48,604	24,342
Interest paid		(272,720)	-
Research and development tax incentive received		-	357,316
Net cash used in operating activities	31	<u>(2,757,996)</u>	<u>(2,327,159)</u>
Cash flows from investing activities			
Payments for property, plant and equipment	13	(1,954)	(50,058)
Payments for exploration and evaluation	14	(472,413)	(3,715,813)
Payments for security deposits for bank guarantee		(72,018)	(2,937,380)
Proceeds from sale of exploration interest	14	100,000	-
Proceeds from disposal of property, plant and equipment		3,000	-
Proceeds from security deposits for bank guarantee		3,271,381	-
Net cash from/(used in) investing activities		<u>2,827,996</u>	<u>(6,703,251)</u>
Cash flows from financing activities			
Proceeds from issue of shares	19	3,699,554	7,307,332
(Repayment of) / Proceeds from borrowings		(3,583,847)	2,848,433
Share issue transaction costs		(239,063)	(737,333)
Net cash from/(used in) financing activities		<u>(123,356)</u>	<u>9,418,432</u>
Net increase/(decrease) in cash and cash equivalents		(53,356)	388,022
Cash and cash equivalents at the beginning of the financial year		3,047,017	2,605,008
Effects of exchange rate changes on cash and cash equivalents		369,507	53,987
Cash and cash equivalents at the end of the financial year	10	<u><u>3,363,168</u></u>	<u><u>3,047,017</u></u>

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

Note 1. General information

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2019.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

Going concern

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

At 30 June 2019, the consolidated entity:

- had, for the financial year ending on that date, incurred a net loss after tax of \$3,357,696 (2018: \$6,100,290);
- had, for the financial year ending on that date, net cash outflows from operating and investing activities of \$70,000 (2018: \$9,030,410);
- had cash and cash equivalents on hand of \$3,363,168 (2018: \$3,047,017); and
- had a net working capital position of \$2,969,529 (2018: \$2,177,378).

The consolidated entity 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. The cash reserves as at 30 June 2019 may not be sufficient to meet the consolidated entity's planned exploration commitments and activities for the 12 months from the date of this report. To meet its funding requirements the consolidated entity will rely on taking appropriate steps, including:

- Meeting its additional obligations by either farm-out or partial sale of the consolidated entity'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 consolidated entity.

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.

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Melbana Energy Limited ('Company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Melbana Energy Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

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

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

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

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

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

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

Note 2. Significant accounting policies (continued)

Foreign currency translation

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

Foreign currency transactions

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

Foreign operations

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

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

Revenue recognition

The consolidated entity recognises revenue as follows:

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.

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.

Other income

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

Interest income

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

Research and development tax credits

Research and Development tax credits are recognised in accordance with AASB 120: Accounting for Government Grants and Government Assistance. The Research and development tax credit is recognised when there is reasonable assurance that the grant will be received and all conditions have been complied with. The Grant has been recognised as other income within the period, unless the grant received is related to a capital asset in which case the grant is deducted against the carrying amount of the asset.

Income tax

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

Note 2. Significant accounting policies (continued)

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

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

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

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

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

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

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

Current and non-current classification

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

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

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

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

Note 2. Significant accounting policies (continued)

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

Cash and cash equivalents

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

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

Joint operations

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

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

Note 2. Significant accounting policies (continued)

Plant and equipment

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

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

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

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

Impairment

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

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

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

Exploration and evaluation assets

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

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

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

Impairment of exploration and evaluation costs

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

Farm-outs

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

Employee benefits

Short-term employee benefits

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

Note 2. Significant accounting policies (continued)

Other long-term employee benefits

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

Share-based payments

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

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

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

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

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

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

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

Fair value measurement

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

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

Issued capital

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

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

Note 2. Significant accounting policies (continued)

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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

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

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

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

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The consolidated entity will adopt this standard from 1 July 2019. As at reporting date, the Group has assessed the impact of the standard and the expected impacts are as follows:

1. Increase in assets and liabilities amounting to \$177,048 and \$178,786 respectively.
2. Increase in the accumulated losses amounting of \$1,737.
3. It is not expected that there will be any net impact on the consolidated statement of cash flows.

Note 3. Critical accounting judgements, estimates and assumptions

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

Exploration and evaluation costs

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

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

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

In the judgement of the Directors, at 30 June 2019 exploration activities in Cuba Block 9 has not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. Active and significant operations in relation to Cuba Block 9 is continuing and nothing has come to the attention of the Directors to indicate future economic benefits will not be achieved. The Directors are continually monitoring the areas of interest and are exploring alternatives for funding the development of areas of interest when economically recoverable reserves are confirmed. If new information becomes available that suggests the recovery of expenditure is unlikely, the amounts capitalised will need to be reassessed at that time.

Share-based payment transactions

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

Fair value measurement hierarchy

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

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

Note 4. Operating segments

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

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

The Board does not currently receive segmented Statement of Financial Position and Statement of Comprehensive Income information. The Board manages exploration activities of each permit area through review and approval of budgets, joint venture cash calls and other operational information. Information regarding exploration expenditure capitalised for each area is contained in Note 14.

Note 5. Other income

	Consolidated	
	2019	2018
	\$	\$
Net foreign exchange gain	83,466	35,395
R&D tax incentive	-	357,316
Net refunds from project	241,201	-
	<u>324,667</u>	<u>392,711</u>
Other income	<u>324,667</u>	<u>392,711</u>

R&D tax incentive

Government grant income relates to Research and Development tax incentive received during the financial year. The R&D Tax Incentive is an entitlement program to help businesses offset some of the costs of conducting research and development. It is jointly managed by AusIndustry and the Australian Taxation Office.

Other revenue

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

Note 6. Settlement costs

	Consolidated	
	2019	2018
	\$	\$
Settlement costs	-	300,000
	<u>-</u>	<u>300,000</u>

Note 7. Net administration expenses

	Consolidated	
	2019	2018
	\$	\$
Consultants fees and expenses	460,950	498,031
Employee benefits expense excluding superannuation and share-based payments	1,116,879	1,736,568
Defined contribution superannuation expense	64,429	120,709
Share based payments	82,000	122,711
Administration and other expenses	323,980	315,533
Audit costs	68,500	58,600
Securities exchange, share registry and reporting costs	140,821	106,118
Operating lease and outgoing expenses	160,260	149,330
Investor relations and corporate promotion costs	49,296	84,913
Travel costs	89,273	105,251
Depreciation and amortisation expense	29,116	21,473
Less: Allocation to exploration activities	(100,857)	(965,547)
	<u>2,484,647</u>	<u>2,353,690</u>

Note 8. Finance costs

	Consolidated	
	2019	2018
	\$	\$
Share based payment on finance cost	973,600	-
Interest expenses	272,720	96,105
	<u>1,246,320</u>	<u>96,105</u>

Share based payment on finance cost

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 16). 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 an external expert and the full non-cash valuation of \$973,600 was booked as a finance cost during the year 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 9. Income tax expense

	Consolidated	
	2019	2018
	\$	\$
<i>Income tax expense</i>		
Deferred tax	-	71,961
Aggregate income tax expense	<u>-</u>	<u>71,961</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(3,357,696)	(6,028,329)
Tax at the statutory tax rate of 27.5%	(923,366)	(1,657,790)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	290,290	33,746
Write off/impairment of overseas exploration expenses	-	735,786
Non-deductible expenses	-	944
	<u>(633,076)</u>	<u>(887,314)</u>
Current year tax losses not recognised	633,076	959,275
Income tax expense	<u>-</u>	<u>71,961</u>

Note 10. Current assets - cash and cash equivalents

	Consolidated	
	2019	2018
	\$	\$
Cash at bank	3,363,168	3,002,717
Short term deposits	-	44,300
	<u>3,363,168</u>	<u>3,047,017</u>

Note 11. Current assets - other receivables

	Consolidated	
	2019	2018
	\$	\$
Other receivables	7,500	33,630
Prepayments	83,070	-
	<u>90,570</u>	<u>33,630</u>
GST receivable	16,444	29,503
	<u>107,014</u>	<u>63,133</u>

Note 12. Current assets - other financial assets

	Consolidated	
	2019	2018
	\$	\$
Term deposits	72,018	3,073,078

Security deposits represent

- a term deposit of \$27,718 (2018: Nil) lodged as security for the short term lease.

- The security deposit of \$3,073,000 was made, during the 30 June 2018 financial year, as security for a bank guarantee provided on the Company's behalf for the second exploration sub-period in accordance with the Block 9 Production Sharing Contract. During the year, the Company used the proceeds from cash security deposit to repay the short-term loan from Trans Asia Private Capital Limited.

Note 13. Non-current assets - plant and equipment

	Consolidated	
	2019	2018
	\$	\$
Office equipment - at cost	251,007	645,566
Less: Accumulated depreciation	(210,242)	(544,325)
	<u>40,765</u>	<u>101,241</u>

Reconciliations

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

Consolidated	Plant & equipment \$
Balance at 1 July 2017	72,656
Additions	50,058
Depreciation expense	<u>(21,473)</u>
Balance at 30 June 2018	101,241
Additions	1,954
Disposals	(33,314)
Depreciation expense	<u>(29,116)</u>
Balance at 30 June 2019	<u>40,765</u>

Note 14. Non-current assets - exploration and evaluation

	Consolidated	
	2019	2018
	\$	\$
Exploration and evaluation Block 9 Cuba - at cost	4,842,424	4,370,011
Exploration and evaluation PEP51153 - at cost	-	100,000
	<u>4,842,424</u>	<u>4,470,011</u>

Note 14. Non-current assets - exploration and evaluation (continued)

Reconciliations

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

Consolidated	Block 9 Cuba	AC/P50 & AC/P51	PEP 51153	Other	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2017	3,096,453	632,500	88,238	-	3,817,191
Expenditure during the year	1,273,558	-	2,475,558	628,216	4,377,332
Exchange differences	-	-	(33,302)	-	(33,302)
Write off/impairment of assets	-	(632,500)	(2,430,494)	-	(3,062,994)
Costs expensed	-	-	-	(628,216)	(628,216)
Balance at 30 June 2018	4,370,011	-	100,000	-	4,470,011
Expenditure during the year	472,413	-	-	-	472,413
Disposals	-	-	(100,000)	-	(100,000)
Balance at 30 June 2019	<u>4,842,424</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,842,424</u>

Significant judgement is required in determining whether it is likely that future economic benefits will be derived from capitalised exploration and evaluation expenditure. In the judgement of the Directors, at 30 June 2019 exploration activities in each area of interest, where costs are carried forward, have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. Active and significant operations in relation to each area of interest are continuing and nothing has come to the attention of the Directors to indicate future economic benefits will not be achieved. The Directors are continually monitoring the areas of interest and are exploring alternatives for funding the development of areas of interest when economically recoverable reserves are confirmed.

Following review by the Directors and management, the book value of PEP 51153 was written down to \$100,000 as at 30 June 2018. On 26 April 2019 the consolidated entity completed sale of PER 51153 to a subsidiary of TAG Oil for a cash consideration of \$100,000.

As at 30 June 2019, the Block 9 Cuban asset is currently without a farmout partner. Work is ongoing to secure an alternative farmout partner following the termination of the AGMI arrangement. An extension to the sub period has been approved by CUPET and forwarded to a higher competent authority for consideration.

Note 15. Current liabilities - trade and other payables

	Consolidated	
	2019	2018
	\$	\$
Trade payables	166,773	406,194
Other payables	220,809	47,750
	<u>387,582</u>	<u>453,944</u>

Refer to note 22 for further information on financial instruments.

Note 16. Current liabilities - borrowings

	Consolidated	
	2019	2018
	\$	\$
Short term loan payable	-	3,098,829

Refer to note 22 for further information on financial instruments.

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

1. Annualised interest rate of 15%;
2. Maturity Date of the loan was January 10, 2019;
3. Secured by first ranking security over the Company's cash security deposit used to support the Bank Guarantee in relation to Block 9 Cuba;
4. A personal guarantee from Melbana's Chairman, Mr Purcell, in favour of the lender. Refer also Note 26 Related party transactions.

The Company repaid this loan in full on 4 January 2019 using proceeds from cash security deposit used to support the Bank Guarantee in relation to Block 9 Cuba.

Note 17. Current liabilities - provisions

	Consolidated	
	2019	2018
	\$	\$
Annual leave	89,255	88,819
Long service leave	95,834	112,336
Employee benefits	-	251,922
	<u>185,089</u>	<u>453,077</u>

Employee benefits

The provision represents the obligation to pay a termination payment in relation to an executive who ceased employment with the consolidated entity in the previous financial year.

Note 18. Non-current liabilities - provisions

	Consolidated	
	2019	2018
	\$	\$
Long service leave	-	53,633

Note 19. Equity - issued capital

	Consolidated			
	2019	2018	2019	2018
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>1,875,505,915</u>	<u>1,665,750,480</u>	<u>276,330,665</u>	<u>272,790,174</u>

Note 19. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2017	953,243,886		265,934,973
Share issue upon exercise of performance rights	18 August 2017	20,940,032	\$0.0000	207,516
Share placement	23 August 2017	178,733,229	\$0.0100	1,787,332
Entitlement offer	13 September 2017	152,185,161	\$0.0100	1,521,852
Shares issued to underwriters	15 September 2017	189,814,839	\$0.0100	1,898,148
Share issue as part settlement of commercial dispute	6 December 2017	20,833,333	\$0.0000	250,000
Share placement	21 December 2017	150,000,000	\$0.0140	2,100,000
Share issue costs (net of tax)		-	\$0.0000	(909,647)
Balance	30 June 2018	1,665,750,480		272,790,174
Share issue upon exercise of performance rights	6 July 2018	5,333,333	\$0.0000	80,000
Share issue upon exercise of options	13 August 2018	3,141,226	\$0.0200	62,825
Share issue upon exercise of options	21 August 2018	4,761,215	\$0.0200	95,224
Share issue upon exercise of options	28 August 2018	1,247,988	\$0.0200	24,960
Share issue upon exercise of options	5 September 2018	827,228	\$0.0200	16,545
Share placement*	27 September 2018	188,817,582	\$0.0180	3,398,716
Share placement*	21 November 2018	5,626,863	\$0.0180	101,284
Share issue costs (net of tax)		-	\$0.0000	(239,063)
Balance	30 June 2019	1,875,505,915		276,330,665

Ordinary shares

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

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

*The Company issued 62,938,202 options and 1,875,621 options as part of the share placement during the year. Refer to note 33 Share based payments for further details on these and other options issued.

Share issue costs

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

Share buy-back

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

Capital risk management

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

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

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

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

Note 19. Equity - issued capital (continued)

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

The capital risk management policy remains unchanged from the 2018 Annual Report.

Note 20. Equity - reserves

	Consolidated	
	2019	2018
	\$	\$
Foreign currency reserve	18,123	18,797
Share-based payments reserve	1,441,162	476,027
	<u>1,459,285</u>	<u>494,824</u>

Foreign currency reserve

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

Share-based payments reserve

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

Movements in reserves

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

Consolidated	Share based payment reserve	Foreign currency reserve	Total
	\$	\$	\$
Balance at 1 July 2017	316,558	17,667	334,225
Foreign currency translation	-	1,130	1,130
Cost of share based payments	122,711	-	122,711
Exercise of performance rights	(207,516)	-	(207,516)
Issues of options to service providers	244,274	-	244,274
Balance at 30 June 2018	476,027	18,797	494,824
Foreign currency translation	-	(674)	(674)
Share options lapsed	(10,465)	-	(10,465)
Exercise of performance rights	(80,000)	-	(80,000)
Share based payments (options and performance rights)	82,000	-	82,000
Share based payments on finance cost	973,600	-	973,600
Balance at 30 June 2019	<u>1,441,162</u>	<u>18,123</u>	<u>1,459,285</u>

Note 21. Equity - dividends

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

Note 22. Financial instruments

Financial risk management objectives

The consolidated entity's principal financial instruments comprise cash and short term deposits, the main purpose of which is to finance the consolidated entity's operations. The consolidated entity has various other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations and, as at 30 June 2019. The main risks arising from the consolidated entity's financial instruments are credit risk, interest rate risk, exchange rate risk and liquidity risk. The Board of Directors has reviewed each of those risks and has determined that, overall, they are not significant in terms of the consolidated entity's current activities. The consolidated entity may also enter into derivative financial instruments, principally forward currency contracts. The purpose is to manage the currency risks arising from the consolidated entity's operations. Speculative trading in derivatives is not permitted. There are no derivatives outstanding at 30 June 2019 (2018: \$nil).

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

Market risk

Foreign currency risk

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

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

	Consolidated 2019 \$	2018 \$
USD financial assets		
Cash on hand and at bank	1,378,571	1,895,779
Term deposit	-	3,073,078
	<u>1,378,571</u>	<u>4,968,857</u>
	Consolidated 2019 \$	2018 \$
USD financial liabilities		
Trade creditors	217,287	65,973
Short term loan payable	-	3,098,829
	<u>217,287</u>	<u>3,164,802</u>
	Consolidated 2019 \$	2018 \$
NZD financial assets		
Cash on hand and at bank	63	62,646
	<u>63</u>	<u>62,646</u>
	Consolidated 2019 \$	2018 \$
EUR financial assets		
Cash on hand and at bank	1,617	851
	<u>1,617</u>	<u>851</u>

Note 22. Financial instruments (continued)

	Consolidated 2019 \$	2018 \$
EUR financial liabilities		
Trade creditors	-	31,809

The consolidated entity had net assets denominated in foreign currencies of \$1,162,964 as at 30 June 2019 (2018: of \$1,835,743). Based on this exposure, had the Australian dollars strengthened by 5%/weakened by 5% (2018: strengthened by 5%/weakened by 5%) against these foreign currencies with all other variables held constant, the consolidated entity's profit before tax for the year would have been \$55,379 lower/\$61,208 higher (2018: \$96,618 lower/\$87,416 higher) and equity would have been \$55,379 lower/\$61,208 higher (2018: \$96,618 lower/\$87,416 higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months each year and the spot rate at each reporting date.

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

Consolidated - 2019	% change	AUD strengthened Effect on profit before tax		% change	AUD weakened Effect on profit before tax	
		Effect on equity	Effect on equity			
US dollars net financial assets/liabilities	5%	(55,299)	(55,299)	5%	61,120	61,120
NZ dollars net financial assets/liabilities	5%	(3)	(3)	5%	3	3
Euros net financial assets/liabilities	5%	(77)	(77)	5%	85	85
		<u>(55,379)</u>	<u>(55,379)</u>		<u>61,208</u>	<u>61,208</u>

Consolidated - 2018	% change	AUD strengthened Effect on profit before tax		% change	AUD weakened Effect on profit before tax	
		Effect on equity	Effect on equity			
US dollars net financial assets/liabilities	5%	85,907	85,907	5%	(94,950)	(94,950)
NZ dollars net financial assets/liabilities	5%	2,983	2,983	5%	(3,297)	(3,297)
Euros net financial assets/liabilities	5%	(1,474)	(1,474)	5%	1,629	1,629
		<u>87,416</u>	<u>87,416</u>		<u>(96,618)</u>	<u>(96,618)</u>

Price risk

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

Interest rate risk

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

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

Note 22. Financial instruments (continued)

The consolidated entity had no interest bearing liabilities at 30 June 2019. However, at 30 June 2018 the consolidated entity had in place a significant short term loan payable, which had a fixed interest rate of 15% per annum. This loan was repaid in full during the year. The consolidated entity also had in place a significant short term deposit with a fixed interest rate of 1.75% per annum (2018: 0.72%).

Credit risk

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

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

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

Liquidity risk

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

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

Remaining contractual maturities

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

Consolidated - 2019	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
	%	\$	\$	\$	\$	\$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	387,582	-	-	-	387,582
Employee provision	-	185,089	-	-	-	185,089
Total non-derivatives		572,671	-	-	-	572,671

Note 22. Financial instruments (continued)

Consolidated - 2018	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	453,944	-	-	-	453,944
Employee provision	-	453,077	-	-	-	453,077
<i>Interest-bearing - fixed rate</i>						
Other loans	15.00%	3,098,829	-	-	-	3,098,829
Total non-derivatives		4,005,850	-	-	-	4,005,850

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

Fair value of financial instruments

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

Note 23. Key management personnel disclosures

Compensation

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

	Consolidated	
	2019	2018
	\$	\$
Short-term employee benefits	545,873	1,039,456
Post-employment benefits	20,129	60,147
Long-term benefits	11,681	(24,689)
Termination benefits	-	251,922
Share-based payments	13,153	62,680
	<u>590,836</u>	<u>1,389,516</u>

Note 24. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the Company:

	Consolidated	
	2019	2018
	\$	\$
<i>Audit services - Grant Thornton Audit Pty Ltd (2018: Ernst & Young)</i>		
Audit or review of the financial statements	56,000	58,600
<i>Other services - Grant Thornton Audit Pty Ltd (2018: Ernst & Young)</i>		
Tax services	7,500	9,000
	<u>63,500</u>	<u>67,600</u>

Audit and tax fees paid for the year ended 30 June 2018 were paid to Ernst & Young. Grant Thornton was appointed as the Company auditor on 29 January 2019 following the resignation of Ernst & Young.

Note 25. Commitments

	Consolidated	
	2019	2018
	\$	\$
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	67,828	131,000
One to five years	124,223	-
	192,051	131,000

Operating lease commitments comprises contracted amounts for office rental under a non-cancellable operating lease expiring within 3 year with an option to extend. The lease has an escalation clause.

Guarantee

The consolidated entity has provided guarantees of \$27,718 (2018: \$44,300) at 30 June 2019 for lease of premises.

Exploration Commitments

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

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

WA-488-P (Melbana 100%)

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

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

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

Permit Year 3 work program (ending 21 December 2020) drilling of an exploration well. French major Total and Australia's Santos have an option (expiring 2 October 2019) to fully fund the first well in the WA-488-P permit in return for an 80% participating interest in the permit.

Note 25. Commitments (continued)

Cuba Block 9 (Melbana 100% interest)

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

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

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

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

In May 2019, the Company applied to CUPET to extend the second exploration sub-period by one year to November 2020 and to also extend the waiver of the requirement to provide a financial guarantee for 50% of the work commitments for this sub-period to the requested extension date. CUPET has agreed to these requests and forwarded the proposed amendments to a higher competent authority whose approval is required for such changes.

As at 30 June 2019, the Block 9 Cuban asset is currently without a farmout partner. Work is ongoing to secure an alternative farmout partner following the termination of the AGMI arrangement. An extension to the sub period has been approved by CUPET and forwarded to a higher competent authority for consideration.

Summary

For the current sub-period of Block 9 the remaining committed activity is the drilling of one well. The cost of this activity is not defined and depends on whether the current active farmout process for Block 9 is successful.

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

Note 26. Related party transactions

Parent entity

Melbana Energy Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 28.

Key management personnel

Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the Directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2019	2018
	\$	\$
Payment for goods and services:		
Payment for consulting services*	15,500	-

Note 26. Related party transactions (continued)

- * Payments for consulting services represent the payments made to Springhead Petroleum Pty Ltd, an entity associated with Mr Peter Stickland.

During the year ended 30 June 2018 the Chairman of the Company, Mr Andrew Purcell, provided a personal guarantee in favour of TransAsia Private Capital Limited ("TransAsia") in connection with a loan made by TransAsia to the Company. Details of the loan are set out in Note 16. As consideration for the provision of the personal guarantee, the Company issued 80,000,000 options to Mr Purcell on 13 August 2018. 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 recognised as finance cost for the year ended 30 June 2019 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.

Receivable from and payable to related parties

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

Loans to/from related parties

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

Terms and conditions

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

Note 27. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2019	2018
	\$	\$
Loss after income tax	<u>(7,338,216)</u>	<u>(6,567,397)</u>
Total comprehensive income	<u>(7,338,216)</u>	<u>(6,567,397)</u>

Statement of financial position

	Parent	
	2019	2018
	\$	\$
Total current assets	<u>3,541,146</u>	<u>10,234,642</u>
Total assets	<u>8,424,343</u>	<u>10,591,379</u>
Total current liabilities	<u>572,670</u>	<u>3,978,407</u>
Total liabilities	<u>572,670</u>	<u>4,032,040</u>
Equity		
Issued capital	273,158,138	269,617,648
Share-based payments reserve	1,441,162	476,027
Accumulated losses	<u>(266,747,627)</u>	<u>(263,534,336)</u>
Total equity	<u><u>7,851,673</u></u>	<u><u>6,559,339</u></u>

Note 27. Parent entity information (continued)

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

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2019 and 30 June 2018.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

Significant accounting policies

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

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

Note 28. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2019 %	2018 %
North West Shelf Exploration Pty Ltd*	Australia	-	100%
Methanol Australia Pty Ltd	Australia	100%	100%
LNG Australia Pty Ltd	Australia	100%	100%
TSP Arafura Petroleum Pty Ltd*	Australia	-	100%
Oz-Exoil Pty Ltd*	Australia	-	100%
Vulcan Exploration Pty Ltd*	Australia	-	100%
MEO International Pty Ltd	Australia	100%	100%
Finniss Offshore Exploration Pty Ltd	Australia	100%	100%
MEO New Zealand Pty Limited	New Zealand	100%	100%

* These entities were dormant and had no assets for distribution. The Company liquidated these entities during the year.

Note 29. Interests in joint operations

Name	Principal place of business / Country of incorporation	Ownership interest	
		2019 %	2018 %
PEP51153*	New Zealand	-	30%

* Melbana Energy, through its wholly-owned subsidiary, MEO New Zealand Pty Limited, held a 30% interest in the PEP51153 in New Zealand. The principal activity of the joint operation was exploration, development and production of hydrocarbons. On 26 April 2019 the consolidated entity sold PEP 51153 to a subsidiary of TAG Oil.

Note 30. Events after the reporting period

On 15 July 2019, the Company made a conditional intention to make a takeover offer (Offer) for 100% of the ordinary shares in Metgasco Limited (ASX: MEL) (Metgasco). On 25 July 2019, the Offer was made unconditional following ASIC granting a modification of section 629 of the Corporations Act 2001 (Cth) to include as a defeating condition of the Offer the receipt of Melbana shareholder approval for the purposes of Listing Rule 10.1 to permit M&A Advisory Pty Ltd (being a Metgasco shareholder associated with Andrew Purcell, a director of Melbana) to participate under the Offer (or a waiver of that requirement or confirmation shareholder approval is not required) (Listing Rule 10.1 Condition).

The last day of employment of Robert Zammit, Chief Executive Officer of the Company, was 19 July 2019.

No other matters or circumstances have arisen since 30 June 2019 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 31. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2019	2018
	\$	\$
Loss after income tax expense for the year	(3,357,696)	(6,100,290)
Adjustments for:		
Depreciation and amortisation	29,116	21,473
Net loss on disposal of property, plant and equipment	30,314	-
Share-based payments	82,000	372,717
Foreign exchange differences	(83,466)	(34,266)
Exploration expenditure written-off/down	-	3,062,994
Deferred income tax expense	-	71,961
Interest expense capitalised to loan account	-	96,105
Share based payment on finance cost	973,600	-
Change in operating assets and liabilities:		
Increase in other receivables	(56,940)	(40,025)
Decrease in prepayments	13,059	10,633
Increase/(decrease) in trade and other payables	(66,362)	142,393
Increase/(decrease) in provisions	(321,621)	69,146
Net cash used in operating activities	<u>(2,757,996)</u>	<u>(2,327,159)</u>

Note 32. Earnings per share

	Consolidated	
	2019	2018
	\$	\$
Loss after income tax attributable to the owners of Melbana Energy Limited	<u>(3,357,696)</u>	<u>(6,100,290)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>1,825,745,057</u>	<u>1,484,600,383</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>1,825,745,057</u>	<u>1,484,600,383</u>
	Cents	Cents
Basic earnings per share	(0.18)	(0.41)
Diluted earnings per share	(0.18)	(0.41)

Note 32. Earnings per share (continued)

For financial years ended 30 June 2019 and 30 June 2018 outstanding options and performance rights are anti-dilutive and are therefore excluded from the calculation of diluted earnings per share.

Note 33. Share based payments (options and rights)

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

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

In addition to options issued under the Plan, the consolidated entity may also issue options to service providers as consideration for services provided to the consolidated entity.

During the 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 16). 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 during the year, and measured in accordance with AASB 2. The options have an exercise price of \$0.022 (2.2 cents) each.

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

2019

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Forfeited	Balance at the end of the year
03/11/2016	03/11/2019	\$0.0650	4,000,000	-	-	-	4,000,000
28/03/2017	27/09/2020	\$0.0320	9,250,000	-	-	(1,000,000)	8,250,000
23/11/2017	23/11/2020	\$0.0180	20,000,000	-	-	-	20,000,000
24/11/2017	27/09/2020	\$0.0320	3,000,000	-	-	-	3,000,000
09/08/2018	04/08/2020	\$0.0220	-	80,000,000	-	-	80,000,000
27/09/2018	27/03/2020	\$0.0300	-	62,939,202	-	-	62,939,202
21/11/2018	27/03/2020	\$0.0300	-	1,875,621	-	-	1,875,621
			36,250,000	144,814,823	-	(1,000,000)	180,064,823
Weighted average exercise price			\$0.0260	\$0.0250	\$0.0000	\$0.0320	\$0.0260

2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Forfeited	Balance at the end of the year
03/11/2016	03/11/2019	\$0.0650	4,000,000	-	-	-	4,000,000
28/03/2017	27/09/2020	\$0.0320	9,250,000	-	-	-	9,250,000
23/11/2017	23/11/2020	\$0.0180	-	20,000,000	-	-	20,000,000
24/11/2017	27/09/2020	\$0.0320	-	3,000,000	-	-	3,000,000
			13,250,000	23,000,000	-	-	36,250,000
Weighted average exercise price			\$0.0420	\$0.0190	\$0.0000	\$0.0000	\$0.0280

Note 33. Share based payments (options and rights) (continued)

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

Grant date	Expiry date	2019 Number	2018 Number
03/11/2016	03/11/2019	4,000,000	4,000,000
28/03/2017	27/09/2020	8,250,000	4,625,000
23/11/2017	23/11/2020	20,000,000	20,000,000
24/11/2017	27/09/2020	3,000,000	1,500,000
27/09/2018	27/03/2020	62,939,202	-
21/11/2018	27/03/2020	1,875,621	-
		100,064,823	30,125,000

The weighted average share price during the financial year was \$0.0155 (2018: \$.0132).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1 year (2018: 2.23 years).

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

2019

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Forfeited	Balance at the end of the year
07/12/2015	29/11/2018	\$0.0000	5,333,333	-	(5,333,333)	-	-
10/05/2018	30/04/2021	\$0.0000	6,763,158	-	-	-	6,763,158
			12,096,491	-	(5,333,333)	-	6,763,158

2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Forfeited	Balance at the end of the year
07/12/2015	29/11/2018	\$0.0000	5,333,333	-	-	-	5,333,333
04/02/2016	31/01/2019	\$0.0000	20,940,032	-	(20,940,032)	-	-
10/05/2018	30/04/2021	\$0.0000	-	6,763,158	-	-	6,763,158
			26,273,365	6,763,158	(20,940,032)	-	12,096,491

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

Grant date	Expiry date	2019 Number	2018 Number
07/12/2015	29/11/2018	-	5,333,333
11/05/2018	30/04/2021	6,763,158	-
		6,763,158	5,333,333

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.84 years (2018: 1.77 years).

Note 33. Share based payments (options and rights) (continued)

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
10/05/2018	30/04/2021	\$0.0100	\$0.0000	191.900%	-	2.175%	\$0.0090

In the Directors' opinion:

- the attached financial statements and notes, and the Remuneration report contained in the accompanying Directors' report, comply with the Corporations Act 2001, Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors

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

Andrew Purcell
Chairman

30 August 2019

Independent Auditor's Report

To the Members of Melbana Energy Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Melbana Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- a giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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 of \$3,357,696 and had net cash outflows from operating and investing activities of \$70,000 during the year ended 30 June 2019. 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 opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Exploration and Evaluation Assets – valuation (Note 14)</p> <p>The assessment of the carrying value of the capitalised exploration and evaluation costs is subjective based on Melbana Energy Limited’s ability, and intention, to continue to explore the asset. As per AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i>, the carrying value may also be impacted by the results of exploration work indicating whether the mineral reserves are likely to be commercially viable for extraction. This creates a risk that the amounts stated in the financial statements may not be recoverable.</p> <p>The Company is required to assess at each reporting date if there are any triggers for impairment which may suggest the carrying value is in excess of the recoverable value. Any impairment losses are then measured in accordance with AASB 136 <i>Impairment of Assets</i>.</p> <p>AASB 6 requires exploration and evaluation asset to be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. AASB 6 provides a list of 4 indicators, however that list is not exhaustive and therefore subjectivity is involved in the assessment.</p> <p>This area is a key audit matter as significant judgement is required in determining whether the facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, and then consequently in measuring any impairment loss.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Obtaining management’s reconciliation of capitalised exploration and evaluation expenditure and agreeing to the general ledger; • Evaluating the accuracy of capitalised costs by substantively testing a sample of capitalised expenditure for the period, and assessing whether the capitalisation was in line with AASB 6; • Conducting a detailed review of management’s assessment of trigger events prepared in accordance with AASB 6 including tracing projects to statutory registers, exploration licenses and third party confirmations to determine whether a right of tenure existed and enquiring of management regarding their intentions to carry out exploration and evaluation activity in the relevant exploration area; • Understanding whether any data exists to suggest that the carrying value of these exploration and evaluation assets are unlikely to be recovered through development or sale; and • Reviewing the appropriateness of the related disclosures within the financial statements.
<p>Valuation of share-based payments (Notes 19 and 20)</p> <p>AASB 2 <i>Share-based payments</i> requires share-based payments issued to be valued at the date of grant and recognised over the vesting period. The valuation of share-based payments is a risk due to the complex basis upon which the value at the grant date is determined.</p> <p>During the period, the Group issued share options and performance rights to Directors and employees. In addition, during the prior year, the Group issued share options and performance rights with multiple vesting conditions. The Group engaged a valuation expert during the current period to provide a valuation of these share-based payments.</p> <p>This area is a key audit matter due to the inherent subjectivity involved in the Group making judgments relating to the key inputs and assumptions used to value the options, as well as the judgements required relating to vesting conditions.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Agreeing the issue of instruments to relevant option and right agreements, and evaluating the awards and their accounting treatment for compliance with AASB 2; • Evaluating the qualifications, expertise and objectivity of the external specialist in order to assess their professional competence and capabilities as they relate to the work undertaken; • Reviewing and testing the assumptions applied by: (a) verifying the reasonableness and historical accuracy and (b) agreeing certain key inputs to the relevant terms within the share option agreement; • Testing the mathematical accuracy of the valuation provided by the specialist and utilising an auditor’s valuation specialist to review the appropriateness of the model used in the valuation of the share-based payments; • Evaluating and challenging management’s judgements regarding vesting conditions; and • Assessing the adequacy of the Group’s disclosures in respect to share-based payments.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Melbana Energy Limited, for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



B A Mackenzie
Partner – Audit & Assurance

Melbourne, 30 August 2019

The shareholder information set out below was applicable as at 28 August 2019.

Distribution of equity securities

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

	Number of holders of performance rights	Number of holders of options over ordinary shares	Number of holders of ordinary shares
1 to 1,000	-	-	432
1,001 to 5,000	-	-	1,094
5,001 to 10,000	-	-	1,089
10,001 to 100,000	-	-	2,664
100,001 and over	2	49	1,613
	<u>2</u>	<u>49</u>	<u>6,892</u>
Holding less than a marketable parcel	-	-	<u>4,393</u>

Equity security holders

Twenty largest quoted equity security holders

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

	Number held	Ordinary shares % of total shares issued
HSBC Custody Nominees (Australia) Limited	113,917,478	6.07
M&A Advisory Pty Ltd	62,666,307	3.34
Mr John Oldani	26,111,111	1.39
Ms Hong Nhung Nguyen	25,623,183	1.37
Mr Matthew Dean Marshall	25,288,889	1.35
Tets Pty Ltd	25,000,000	1.33
Five Elements Design Pty Ltd	24,200,000	1.29
Mr Jason Meinhardt	23,150,431	1.23
Mrs Danielle Gordon	21,005,000	1.12
Mrs Cathy Ann Bender	20,622,531	1.10
BNP Paribas Nominees Pty Ltd	19,384,094	1.03
Miss Anita Tsang & Mr Bradley Garth Wright	19,253,947	1.03
Mrs Susan Jane Stickland	16,597,279	0.88
Esselmont Pty Limited	16,000,000	0.85
Budworth Capital Pty Ltd	15,555,556	0.83
Mr David Coghill	13,714,551	0.73
Valui Pty Ltd	13,691,242	0.73
Mr Aaron Francis Quirk	13,233,833	0.71
North West Six Pty Ltd	12,751,757	0.68
First Growth Funds Limited	12,000,000	0.64
	<u>519,767,189</u>	<u>27.70</u>

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares	180,064,823	49
Performance rights	4,178,209	2

The following persons hold 20% or more of unquoted equity securities (options over ordinary shares):

Name	Class	Number held
Andrew Purcell	Options over ordinary shares	81,875,621
Zenix Nominees Pty Ltd	Options over ordinary shares	24,000,000

Substantial holders

There are no substantial holders in the Company.

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

Voting rights

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

Ordinary shares

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

Options and performance rights

Options and performance rights do not carry voting rights.

There are no other classes of equity securities.

Current on-market buy-back

There is no current on-market buy-back.