

Melbana Energy Limited

ABN 43 066 447 952

Half Year Financial Report - 31 December 2020

Melbana Energy Limited
Corporate directory
31 December 2020

Directors	Andrew Purcell (Executive Chairman) Michael Sandy (Non-Executive Director) Peter Stickland (Non-Executive Director)
Company secretary	Melanie Leydin
Registered office	Level 3, 350 Collins Street Melbourne, VIC 3000 Australia Telephone: +61 (3) 8625 6000
Principal place of business	Level 3, 350 Collins Street Melbourne, VIC 3000 Australia Telephone: +61 (3) 8625 6000
Share register	Link Market Services Limited Level 1, 333 Collins Street Melbourne, VIC 3000 Australia Telephone: +61 (3) 9615 9800
Auditor	Grant Thornton Audit Pty Ltd Collins Square, Tower 5 727 Collins Street Melbourne VIC 3008 Australia
Stock exchange listing	Melbana Energy Limited securities are listed on the Australian Securities Exchange (ASX code: MAY)
Website	www.melbana.com

Melbana Energy Limited
Directors' report
31 December 2020

The Directors present their report, together with the financial statements, on the Consolidated Entity consisting of Melbana Energy Limited (referred to hereafter as the 'Company' or 'Parent Entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

Directors

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

Andrew Purcell (Executive Chairman)
Michael Sandy (Non-Executive Director)
Peter Stickland (Non-Executive Director)

Principal activities

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

Dividends

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

Review of operations

The loss for the Consolidated Entity after providing for income tax amounted to \$136,488 (31 December 2019: \$1,418,518).

Cuba - Block 9 (Melbana 30%, Operator)

During the current reporting period, Melbana reached the following milestones in relation to its Cuban Block 9 drilling program:

- Formal regulatory approval received for the entry of Sonangol into the Block 9 Production Sharing Contract (**Block 9 PSC**). Following satisfaction of other Conditions Precedent of the Farm-In Agreement Sonangol received a 70% participating interest (85% working interest) in Block 9 PSC and its 2 well drilling program (Melbana as operator).
- Construction of the well pads and related civil works are advanced, with work at the Alameda-1 (first) well site now almost completed and projected to be completed well off the critical path. Work at the second (Zapato-1) well site is expected to commence soon, with required permits for the commencement of civil works having been secured.
- The contractors performing these works under Melbana's supervision have also spent time improving the roads of the local community. Melbana also voluntarily commissioned additional environmental baseline studies.
- The Company elected to enhance the near finalised drilling contract to accommodate possible changes to the operational environment that may result from the COVID-19 pandemic. The work plan is now more robust in the face of possible travel or border restrictions that may occur during the drilling program.
- Contracts for the supply of various long lead items (tubulars, well pads, liners etc.) on the critical path to the commencement of drilling operations have been awarded.
- The work program and budget for the two well drilling program has received all partner and regulatory approvals. Timing and amount of proposed cash calls in support of the projected expenditure profile for the drilling of these two wells has similarly received all necessary approvals and funds requested to date have been received.
- Land access agreement for the second well, Zapato-1, has been received and permits required to commence civil works secured. Civil works will commence there immediately following the completion of works at Alameda-1.

Australia - WA-488-P (Beehive Prospect), WA-544-P, NT/P87 (Melbana 100%)

During the period, the Company was awarded two additional petroleum exploration permits offshore northern Australia on a 100% basis. Application was made for these permit areas under the Australian Government's 2019 Offshore Petroleum Exploration Acreage Release. The location of the permits, designated as WA544-P and NT/P87, are adjacent to Melbana's existing WA-488-P permit area that contains the giant Beehive Prospect and have been awarded for an initial 6-year period.

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The Company reviewed its volumetric analysis of the Beehive Prospect based on the results of a comprehensive assessment of the 3D seismic data acquired. This resulted in a 7% increase of Best Estimate Prospective Resource to 416 million barrels of oil equivalent (BOE) compared to the assessment conducted in 2018 by independent reserves expert McDaniel & Associates based on the pre-existing 2D seismic data. The Company continues to engage closely with a number of interested parties who are now conducting their own analysis using the materials provided in the data room and raw data from the 3D seismic acquired, with guidance and support of Melbana's technical team.

Corporate

The Company continues to explore new business opportunities. Gaining exposure to projects with production or appraised discoveries is considered desirable by the board, subject to their acquisition being possible with Melbana's existing cash resources.

Melbana's future prospects are centred on continuing to secure quality exploration, development and production opportunities whilst seeking to maximise the value to shareholders of its current portfolio. Work to identify and secure additional value-accretive projects, either directly or via a corporate transaction, are ongoing.

Significant changes in the state of affairs

On 17 August 2020, the Company received Cuban formal regulatory approval for the entry of Sonangol into the Block 9 Production Sharing Contract. Effective 17 August 2020, Sonangol's participating interest in Block 9 PSC is 70% and Melbana's is 30%.

On 24 August 2020, the Company reported a modest increase in the Best Estimate Prospective Resource of the Beehive Prospect, located in WA-488-P (Melbana 100%) based on the results of a comprehensive assessment of the Beehive 3D seismic data acquired across the prospect.

On 28 September 2020, the Company announced the lapse of 8,500,000 Unlisted Options exercisable at \$0.032.

On 24 November 2020, the Company announced the lapse of 20,000,000 Unlisted Options exercisable at \$0.018.

On 26 November 2020, the Company was awarded two additional petroleum exploration permits offshore northern Australia on a 100% basis. Application was made for these permit areas under the Australian Government's 2019 Offshore Petroleum Exploration Acreage Release. The permits, designated as WA-544-P and NT/P87, were awarded for an initial period of six years and are located adjacent to Company's existing WA-488-P permit area that contains the giant Beehive Prospect.

On 29 December 2020, the Company received 3,998,274 shares in Byron Energy Limited (ASX: BYE), pursuant to the in-specie distribution conducted by Metgasco Limited (ASX: MEL).

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

Matters subsequent to the end of the financial half-year

On 8 February 2021, the Company provided a Block 9 Cuba operations update. Contracts were signed for the manufacture and supply of the steel pipe required to drill both wells. Other key items of inventory were finalised and ordered shortly thereafter. The Company, as Operator, received funds from January 2021 cash calls made on the partners. The joint venture had cash on hand of about AUD16.5 million which will be used to advance planning, civil works and the procurement of long lead items of inventory.

On 5 March 2021, the Company received 36,650,949 bonus options in Metgasco Limited (ASX: MEL) for no consideration as they were issued to all shareholders in Metgasco as one option for every three shares held as of the record date. These options will expire on 31 December 2021 and are exercisable at \$0.04 (4 cents) per share.

No other matter or circumstance has arisen since 31 December 2020 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.

Melbana Energy Limited
Directors' report
31 December 2020

Auditor's independence declaration

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

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

On behalf of the Directors



Andrew Purcell
Executive Chairman

12 March 2021
Melbourne

Auditor's Independence Declaration

To the Directors of Melbana Energy Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Melbana Energy Limited for the half-year ended 31 December 2020, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



Grant Thornton Audit Pty Ltd
Chartered Accountants



T S Jackman
Partner – Audit & Assurance

Melbourne, 12 March 2021

Melbana Energy Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2020

		Consolidated	
	Note	31 December 2020	31 December 2019
		\$	\$
Other income	4	423,124	22,577
Interest income		127	7,043
Expenses			
Exploration expenditure written off/expensed		(7,371)	(19,459)
Administration costs	5	(548,617)	(1,423,161)
Finance costs		(3,751)	(5,518)
		<u>(136,488)</u>	<u>(1,418,518)</u>
Loss before income tax expense		(136,488)	(1,418,518)
Income tax expense		-	-
		<u>-</u>	<u>-</u>
Loss after income tax expense for the half-year attributable to the owners of Melbana Energy Limited		(136,488)	(1,418,518)
Other comprehensive loss			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Loss on revaluation of equity instruments at fair value through other comprehensive income, net of tax		(8,356)	-
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		-	45
		<u>(8,356)</u>	<u>45</u>
Other comprehensive loss for the half-year, net of tax		(8,356)	45
Total comprehensive loss for the half-year attributable to the owners of Melbana Energy Limited		<u>(144,844)</u>	<u>(1,418,473)</u>
		Cents	Cents
Basic earnings per share	14	(0.01)	(0.08)
Diluted earnings per share	14	(0.01)	(0.08)

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

Melbana Energy Limited
Consolidated statement of financial position
As at 31 December 2020

		Consolidated	
	Note	31 December 2020 \$	June 2020 \$
Assets			
Current assets			
Cash and cash equivalents		6,873,165	1,752,263
Other receivables		60,631	87,487
Financial assets at amortised cost		51,852	28,385
Total current assets		<u>6,985,648</u>	<u>1,868,135</u>
Non-current assets			
Financial assets at fair value through other comprehensive income	6	3,828,812	3,149,272
Plant and equipment		19,283	28,482
Right-of-use assets		76,162	100,996
Exploration and evaluation	7	413,626	5,252,593
Total non-current assets		<u>4,337,883</u>	<u>8,531,343</u>
Total assets		<u>11,323,531</u>	<u>10,399,478</u>
Liabilities			
Current liabilities			
Trade and other payables		508,999	623,727
Lease liabilities		67,434	63,846
Provisions		134,754	124,347
Advances from farm-out arrangement	8	1,893,222	688,959
Total current liabilities		<u>2,604,409</u>	<u>1,500,879</u>
Non-current liabilities			
Lease liabilities		17,884	52,517
Total non-current liabilities		<u>17,884</u>	<u>52,517</u>
Total liabilities		<u>2,622,293</u>	<u>1,553,396</u>
Net assets		<u>8,701,238</u>	<u>8,846,082</u>
Equity			
Issued capital	9	280,302,775	280,302,775
Reserves	10	(768,327)	620,322
Accumulated losses		(270,833,210)	(272,077,015)
Total equity		<u>8,701,238</u>	<u>8,846,082</u>

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

Melbana Energy Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2020

Consolidated	Issued capital \$	Share based payments reserve \$	Foreign currency reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2019	276,330,665	1,441,162	18,123	(269,937,232)	7,852,718
Loss after income tax expense for the half-year	-	-	-	(1,418,518)	(1,418,518)
Other comprehensive income for the half-year, net of tax	-	-	45	-	45
Total comprehensive loss for the half-year	-	-	45	(1,418,518)	(1,418,473)
Exercise of performance rights	60,869	(60,869)	-	-	-
Balance at 31 December 2019	<u>276,391,534</u>	<u>1,380,293</u>	<u>18,168</u>	<u>(271,355,750)</u>	<u>6,434,245</u>

Consolidated	Issued capital \$	Share based payments reserve \$	Financial assets at fair value through other comprehensive income reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2020	280,302,775	1,380,293	(759,971)	(272,077,015)	8,846,082
Loss after income tax expense for the half-year	-	-	-	(136,488)	(136,488)
Other comprehensive loss for the half-year, net of tax	-	-	(8,356)	-	(8,356)
Total comprehensive loss for the half-year	-	-	(8,356)	(136,488)	(144,844)
Share options lapsed	-	(1,380,293)	-	1,380,293	-
Balance at 31 December 2020	<u>280,302,775</u>	<u>-</u>	<u>(768,327)</u>	<u>(270,833,210)</u>	<u>8,701,238</u>

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

Melbana Energy Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2020

	Consolidated	Consolidated
Note	31 December 2020	31 December 2019
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees (inclusive of GST)	(624,878)	(1,474,364)
Interest received	128	7,043
Government Grants - COVID-19	35,472	-
Interest paid on right of use asset lease	(5,466)	(5,518)
	<u>(594,744)</u>	<u>(1,472,839)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Investments in term deposits	(23,647)	-
Payments for investments	(67,706)	-
Payments for exploration and evaluation	7 (531,712)	(89,931)
Proceeds from disposal of investments	10,814	-
Advances from farm-out arrangement	6,594,943	-
	<u>5,982,692</u>	<u>(89,931)</u>
Net cash from/(used in) investing activities		
Cash flows from financing activities		
Repayment of lease liabilities	(46,478)	(5,031)
	<u>(46,478)</u>	<u>(5,031)</u>
Net cash used in financing activities		
Net increase/(decrease) in cash and cash equivalents	5,341,470	(1,567,801)
Cash and cash equivalents at the beginning of the financial half-year	1,780,645	3,363,168
Effects of exchange rate changes on cash and cash equivalents	(248,950)	22,622
	<u>6,873,165</u>	<u>1,817,989</u>
Cash and cash equivalents at the end of the financial half-year		

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

Melbana Energy Limited
Notes to the consolidated financial statements
31 December 2020

Note 1. General information

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 12 March 2021.

Note 2. Significant accounting policies

These interim financial statements for the interim half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

Going concern

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

At 31 December 2020, the consolidated entity:

- had, for the financial half-year ending on that date, incurred a net loss after tax of \$136,488 (2019: \$1,418,518);
- had, for the financial half-year ending on that date, net cash outflows from operating activities of \$594,744 (2019: \$1,472,839);
- had cash and cash equivalents on hand of \$6,873,165 (30 June 2020: \$1,752,263); and
- had a net working capital position of \$4,381,239 (30 June 2020: \$367,256).

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 31 December 2020 are expected to 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 any additional 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.

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Note 2. Significant accounting policies (continued)

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. Should the Consolidated Entity unable to obtain the funding as described above, there is a material uncertainty as to whether the Consolidated Entity will be able to continue as a going concern, and therefore, whether it will be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report. 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.

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

New or amended Accounting Standards and Interpretations adopted

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

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

Note 3. Operating segments

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

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

The Board does not currently receive segmented Statement of Financial Position and Statement of Comprehensive Income information. The Board manages exploration activities of each permit area through review and approval of budgets, joint venture cash calls and other operational information. Information regarding exploration expenditure capitalised for each area is contained in Note 7.

Note 4. Other income

	Consolidated	
	31 December 2020	31 December 2019
	\$	\$
Net foreign exchange (loss) / gain	(272,542)	22,577
Shares received in-specie distribution	660,194	-
COVID-19-related government grants	35,472	-
	<hr/>	<hr/>
Other income	<u>423,124</u>	<u>22,577</u>

Shares received in-specie distribution

On 29 December 2020, the Company received 3,998,274 shares in Byron Energy Limited (ASX: BYE), pursuant to the in-specie distribution conducted by Metgasco Limited (ASX: MEL). These shares are recognised as other income in the income statement.

Melbana Energy Limited
Notes to the consolidated financial statements
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Note 5. Administration costs

	Consolidated	
	31 December	31 December
	2020	2019
	\$	\$
Consultants fees and expenses	51,625	44,847
Directors remuneration (excluding share based payments)	281,071	242,165
Less allocation of Director remuneration capitalised to exploration and evaluation assets	(227,005)	-
Salaries and on-costs	181,752	359,997
Administration and other expenses	51,082	68,216
Accounting and audit costs	94,103	83,271
Securities exchange, share registry and reporting costs	43,783	58,438
Investor relations and corporate promotion costs	33,634	24,000
Travel costs	4,539	87,885
Depreciation and amortisation expense	9,199	10,797
Depreciation of right-of-use assets	24,834	24,833
Transaction costs paid for acquisition of an investment	-	418,712
	<u>548,617</u>	<u>1,423,161</u>

Note 6. Non-current assets - financial assets at fair value through other comprehensive income

	Consolidated	
	31 December	June
	2020	2020
	\$	\$
Ordinary shares	<u>3,828,812</u>	<u>3,149,272</u>
<i>Reconciliation</i>		
Reconciliation of the fair values at the beginning and end of the current and previous financial half-year are set out below:		
Opening fair value	3,149,272	3,911,241
Additions	67,706	-
Additions through in-specie distribution*	660,194	-
Disposals	(40,004)	(1,998)
Revaluation decrements	(8,356)	(759,971)
Closing fair value	<u>3,828,812</u>	<u>3,149,272</u>

*On 29 December 2020, the Company received 3,998,274 shares in Byron Energy Limited (ASX: BYE), pursuant to the in-specie distribution conducted by Metgasco Limited (ASX: MEL). These shares were initially recognised at \$660,194 through the income statement as other income and subsequently revalued at the reporting date.

Note 7. Non-current assets - exploration and evaluation

	Consolidated	
	31 December	June
	2020	2020
	\$	\$
Exploration and evaluation	<u>413,626</u>	<u>5,252,593</u>

Melbana Energy Limited
Notes to the consolidated financial statements
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Note 7. Non-current assets - exploration and evaluation (continued)

Reconciliations

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

Consolidated	NT/P87 \$	WA-544-P \$	Block 9 Cuba - at cost \$	Total \$
Balance at 1 July 2020	-	-	5,252,593	5,252,593
Expenditure during the half-year	10,000	10,000	531,712	551,712
Less past cost reimbursement*	-	-	(5,390,679)	(5,390,679)
Balance at 31 December 2020	<u>10,000</u>	<u>10,000</u>	<u>393,626</u>	<u>413,626</u>

* The Consolidated Entity received past cost reimbursement of AUD\$5,390,679 (USD\$3,833,258) as part of the Farm-In Agreement announced on 27 May 2020.

Farm-out in the exploration and evaluation phase

The Consolidated Entity does not record any expenditure made by the farminee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but re-designates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farminee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

Significant judgement is required in determining whether it is likely that future economic benefits will be derived from capitalised exploration and evaluation expenditure. In the judgement of the Directors, at 31 December 2020 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.

Note 8. Current liabilities - Advances from farm-out arrangement

	Consolidated	
	31 December 2020	June 2020
	\$	\$
Advances from farm-out arrangement	<u>1,893,222</u>	<u>688,959</u>

Advances from farm-out arrangement represent the funds from cash calls made from Sonangol in the Block 9 drilling program. These funds, along with the Company's contribution for its working interest are being used to advance planning, civil works, and the procurement of long lead items of inventory. These amounts are recognised as advances in the financial statements until such time they are disbursed for intended use.

Note 9. Equity - issued capital

	Consolidated			
	31 December 2020	June 2020	31 December 2020	June 2020
	Shares	Shares	\$	\$
Ordinary shares - fully paid	<u>2,316,851,413</u>	<u>2,316,851,413</u>	<u>280,302,775</u>	<u>280,302,775</u>

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Note 9. Equity - issued capital (continued)

Ordinary shares

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

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

Share buy-back

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

Note 10. Equity - reserves

	Consolidated	
	31 December	June
	2020	2020
	\$	\$
Share based payments reserve	-	1,380,293
Financial assets at fair value through other comprehensive income reserve	<u>(768,327)</u>	<u>(759,971)</u>
	<u><u>(768,327)</u></u>	<u><u>620,322</u></u>

Financial assets at fair value through other comprehensive income reserve

The reserve is used to recognise increments and decrements in the fair value of financial assets at fair value through other comprehensive income.

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.

Note 11. Equity - dividends

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

Note 12. Commitments and contingent liabilities

Exploration Commitments

In order to maintain rights of tenure to petroleum exploration tenements, the Consolidated Entity has minimum exploration requirements to fulfil. These requirements 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 \$883,005 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.

Cuba Block 9 (Melbana 30% interest)

In September 2015, Melbana executed the Cuba Block 9 Production Sharing Contract (PSC) with Cuba's national oil company Unión Cuba-Petróleo (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 September 2016, 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 2017 with a corresponding reduction in the term of future sub-periods. The work program in the first sub-period, consisting of evaluating existing exploration data in the block and reprocessing selected 2D seismic data, was unchanged and completed in October 2017.

In May 2017, CUPET approved a further amendment to the Block 9 PSC exploration work program, deferring the obligation to undertake a 200km 2D seismic survey in the second exploration sub-period starting November 2017 to the third subperiod starting November 2019 and accelerating the obligation to drill an exploration well from the third sub-period to the second sub-period. On 11 August 2017 Melbana announced it had provided official notice to the Cuban regulatory authority of its decision to enter 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 also to extend the waiver of the requirement to provide a financial guarantee for 50% of the work commitments for this sub-period. The extension was granted in October 2019 and the exploration period was also extended by 12 months.

The Company entered into an agreement with Sonangol with respect to Block 9 in December 2019. The agreement provided for the drilling of two exploration wells in Block 9, with Melbana as Operator.

In July 2020, CUPET approved the Company's application to have the second exploration sub-period extended by 8 months to 2 July 2021 and for the exploration work program for the third sub-period to be changed to the firm drilling of one exploration well (previously the acquisition of 200km of 2D seismic plus the optional drilling of one exploration well).

As at 31 December 2020, Melbana is advanced in its planning to drill two wells in Block 9. At the date of this report, significant progress has been made on well planning, permitting, contractor engagement, construction of roads and well pads and sourcing of inventory to allow commencement of drilling operations.

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) was to 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 had 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 2021) is the drilling of an exploration well. The Consolidated Entity is currently in discussions with several interested parties with a view to participating in the drilling of an exploration well.

Summary

For the current sub-period of Block 9, the remaining committed activity is the drilling of one well.
For the current permit year of WA-488-P, the remaining committed activity is the drilling of one well.

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

Melbana Energy Limited
Notes to the consolidated financial statements
31 December 2020

Note 13. Events after the reporting period

On 8 February 2021, the Company provided a Block 9 Cuba operations update. Contracts were signed for the manufacture and supply of the steel pipe required to drill both wells. Other key items of inventory were finalised and ordered shortly thereafter. The Company, as Operator, received funds from January 2021 cash calls made on the partners. The joint venture had cash on hand of about AUD16.5 million which will be used to advance planning, civil works and the procurement of long lead items of inventory.

On 5 March 2021, the Company received 36,650,949 bonus options in Metgasco Limited (ASX: MEL) for no consideration as they were issued to all shareholders in Metgasco as one option for every three shares held as of the record date. These options will expire on 31 December 2021 and are exercisable at \$0.04 (4 cents) per share.

No other matter or circumstance has arisen since 31 December 2020 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 14. Earnings per share

	Consolidated	
	31 December 2020	31 December 2019
	\$	\$
Loss after income tax attributable to the owners of Melbana Energy Limited	<u>(136,488)</u>	<u>(1,418,518)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>2,316,851,413</u>	<u>1,879,510,845</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>2,316,851,413</u>	<u>1,879,510,845</u>
	Cents	Cents
Basic earnings per share	(0.01)	(0.08)
Diluted earnings per share	(0.01)	(0.08)

Melbana Energy Limited
Directors' declaration
31 December 2020

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Consolidated Entity's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors



Andrew Purcell
Executive Chairman

12 March 2021
Melbourne

Independent Auditor's Review Report

To the Members of Melbana Energy Limited

Report on the review of the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Melbana Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, and 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 half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Melbana Energy Limited does not comply with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Melbana Energy Limited's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company 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 (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 2 in the financial report, which indicates that during the half-year ended 31 December 2020 the Group incurred a net loss after tax of \$136,488, had net cash outflows from operating activities of \$594,744. 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 significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



T S Jackman
Partner – Audit & Assurance

Melbourne, 12 March 2021