

## MELBANA ENERGY LTD (MAY)

### October the 2nd

Melbana Energy Ltd. ('MAY' or the 'Company') has had an active couple of months. We discussed in our latest research ('A Set-back in Cuba, Beehive Clock is Ticking' (15th May 2019)) the termination of its farmout agreement for Block 9 in Cuba, and the fact that STO/Total now have until the 2nd of October to exercise their option to farm in to WA-488-P and confirm the drilling of the first exploration well, which is expected to be Beehive-1. On top of this, the Company released in mid-June some preliminary interpretation of the Beehive 3D Seismic Survey. The images seem to confirm the presence of an isolated carbonate platform and supports MAY's confidence in structural closure.

In mid-July, the Company then announced their conditional intention to make a takeover offer for 100% of the ordinary shares in Metgasco Limited (MEL.asx). On the 25th of July, MAY announced their binding intention to make the takeover bid. In between on the 22nd of July, the Company announced that the CEO had left the Company effective 19th July 2019. Extensions have also been requested for both the work programme and guarantee obligation for Block 9 in Cuba.

The Company ended the June quarter with a cash balance of A\$3.43 million and no debt. Outgoings in the current September quarter are expected to be circa \$710,000. Funding for the US\$2.275m bank guarantee for Block 9 in Cuba will also likely be required.

### Upcoming Catalysts – Headlined by the Beehive Decision

Upcoming catalysts include a decision on Beehive (MAY have 20% post farm out) which Total and/or Santos has to make before the 2nd of October. In Cuba, Sherritt International are nearing the completion of their well in Block 10. Success here could re-rate exploration acreage (including Block 9) across Cuba. MAY have to secure extensions for both the work programme and guarantee obligation for Block 9 in Cuba.

### Maintain Speculative Buy – Beehive decision looming

The termination of the Block 9 farmout was obviously a major setback for MAY and oil exploration in Cuba generally. The Company also requires extensions to be granted for both the work programme and guarantee obligation for Block 9 in Cuba. The latter adds considerable financial risk given the current balance sheet position. The resignation of the CEO and takeover bid for MEL will likely have also added additional risk consideration for investors. The main potential positive catalyst and key reason for investors currently to be focused on the stock is the potential for STO and/or Total to announce that they will drill an exploration well in WA-488-P. That decision has to be made by the 2nd of October. The case for drilling the well is actually quite strong, and MAY would have a 20% fully carried interest. MAY has estimated the cost of the well to be in the US\$40-60m range with a best case recoverable prospective resource of 388mmboe (oil at 299mmbbl). We retain our 12-month target price of 2.2c per share and Speculative Buy Recommendation, with the option decision on Beehive the key event.

20 Aug 2019

Share Price:	\$0.010
Valuation	\$0.022
12-month target price	\$0.022

#### Brief Business Description:

MAY is an oil and gas explorer with projects in Cuba and Australia.

#### Hartleys Brief Investment Conclusion

At the core of our investment thesis is the Beehive-1 well option. In Australia, Santos and Total have a 6 month option to drill the Beehive prospect, offshore the Bonaparte Basin.

#### Chairman & CEO:

Andrew Purcell	Chairman
Michael Sandy	Interim CEO, NED
Peter Stickland	Non-Executive Director

#### Major Shareholders:

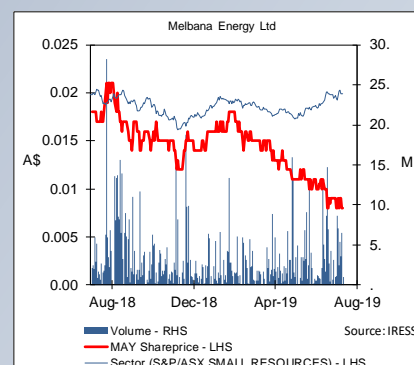
Cadence Asset Management	5.01%
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#### Company Address:

Level 3  
350 Collins Street  
Melbourne  
Victoria

Issued Capital:	1,878
- fully diluted	2,044
Market Cap:	\$18.8m
- fully diluted	\$20.4m
Current Debt *	\$0.0m
Cash (end June)	\$3.4m

\* Circa A\$3.3m required for Cuba Bank Guarantee



Source: Hartleys Research

#### Authors:

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Hartleys has completed a capital raising for Melbana Energy ("MAY") for which it has earned fees. Hartleys has a beneficial interest in unlisted options in MAY.

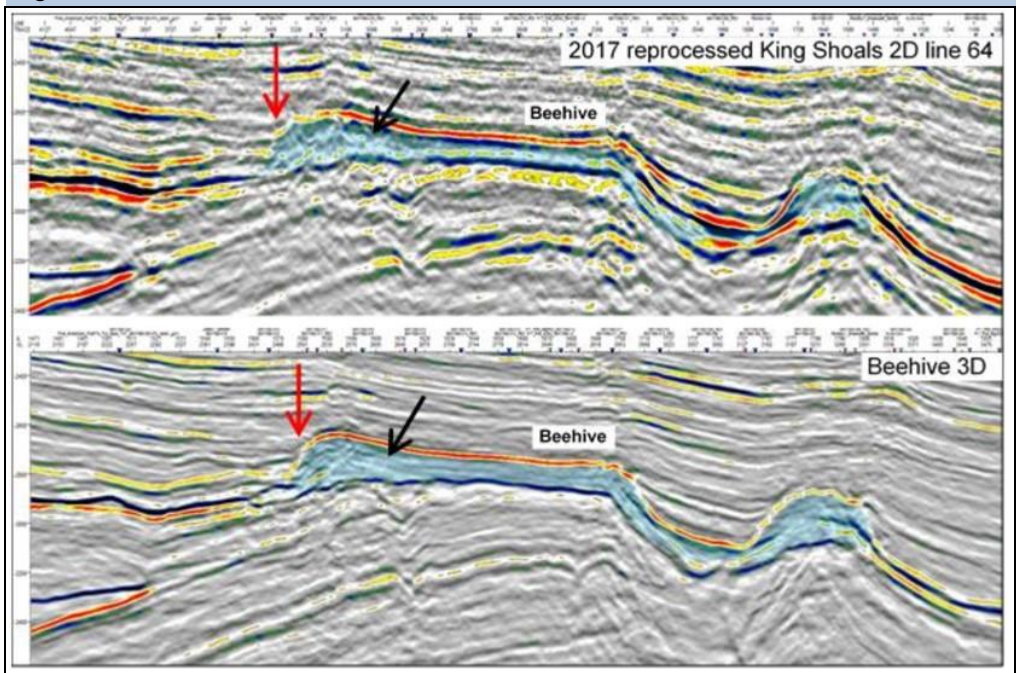


# HIGHLIGHTS

Melbana Energy Ltd. ('MAY' or the 'Company') has had an active couple of months. We discussed in our latest research ('A Set-back in Cuba, Beehive Clock is Ticking' (15<sup>th</sup> May 2019)) the termination of its farmout agreement for Block 9 in Cuba, and the fact that STO/Total now have until the 2<sup>nd</sup> of October to exercise their option to farm in to WA-488-P and drill the first exploration well, which is expected to be the Beehive-1 exploration well.

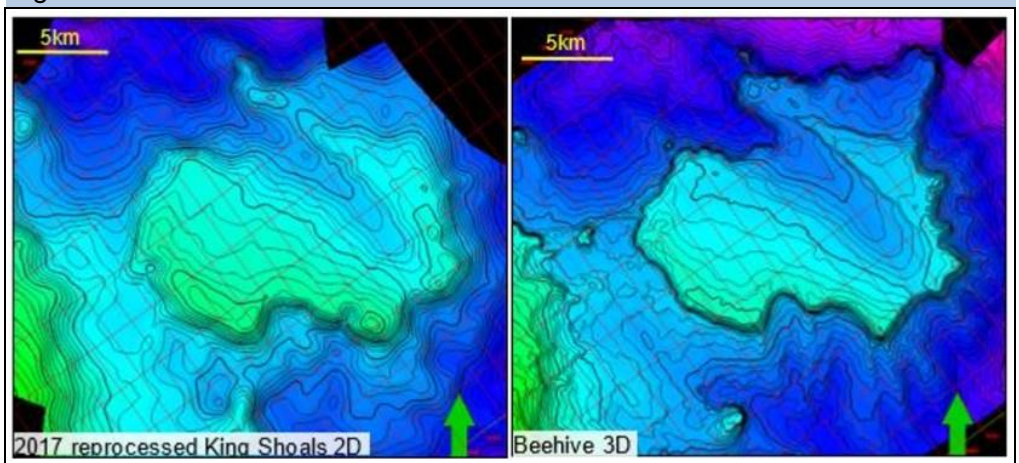
On top of this, the Company released in mid-June some preliminary interpretation of the Beehive 3D Seismic Survey. The images seem to confirm the presence of an isolated carbonate platform and supports MAY's confidence in structural closure.

**Fig. 1: Beehive - 2D versus 3D Seismic #1**



Source: MAY. Comparison of 2D line 64 from the 2017 DUG reprocessed King Shoals survey (top) and a line running in the same position from the newly acquired Beehive 3D survey.

**Fig. 2: Beehive - 2D versus 3D Seismic #2**



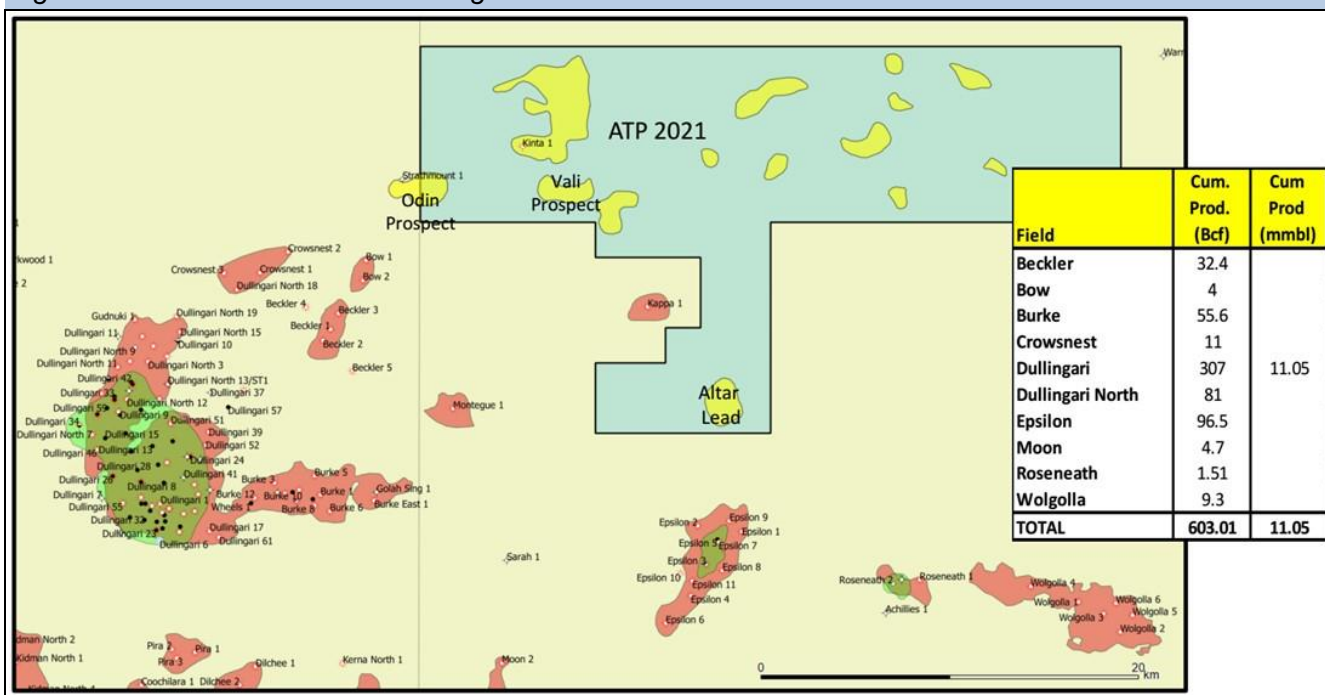
Source: MAY. Comparison of the Top Build up map in TWT on the 2017 reprocessed 2D seismic (left) and the new Beehive 3D seismic (right).



In mid-July, the Company then announced their conditional intention to make a takeover offer for 100% of the ordinary shares in Metgasco Limited (MEL.asx). On the 25th of July, MAY announced their binding intention to make the takeover bid. In between on the 22<sup>nd</sup> of July, the Company announced that the CEO had left the Company effective 19<sup>th</sup> July 2019.

MEL recently drilled a dry hole with BYE in the Gulf of Mexico. Its key license now is ATP2021 in the Cooper-Eromanga Basin. On the 22<sup>nd</sup> of May, MEL executed a Heads of Agreement with Vintage Energy Ltd (VEN.asx). The Farm-Out Agreement for 50% provides for VEN to fund 65% of the first exploration to a maximum of \$5.3m. The JV has initiated drilling planning on the Vali exploration prospect with a best endeavours plan to drill in Q4 of CY 2019. The Vali prospect has a Best (P50) net recoverable resource of 19Bcf.

Fig. 3: ATP 2021 and surrounding fields



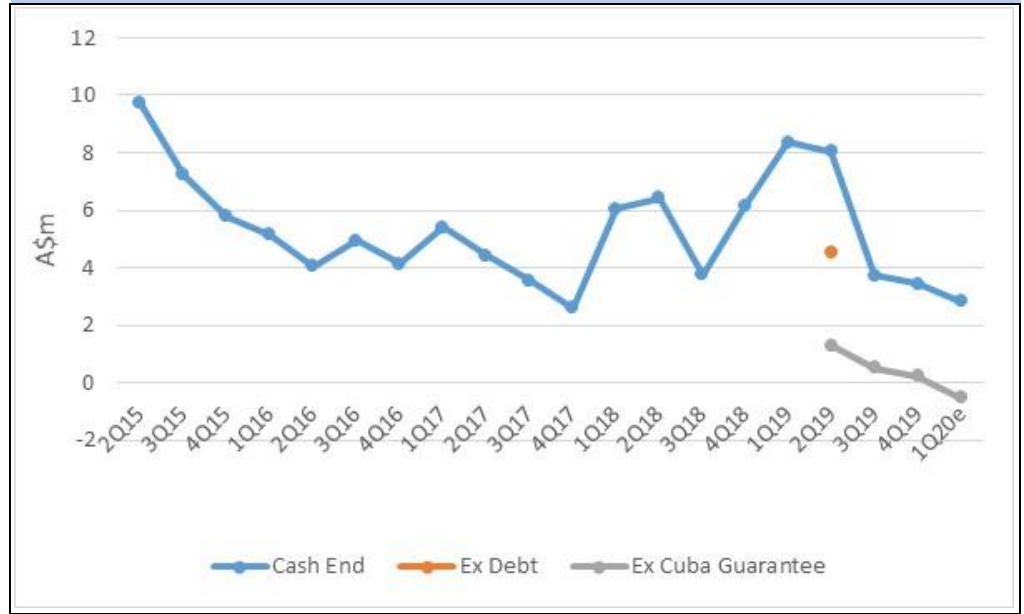
Source: MEL

MEL, we estimate also has currently roughly \$10m in cash and cash equivalents, mainly in the form of circa 50m BYE shares. It's current market capitalisation (at 3.1c per share) is circa \$12m.

Extensions have also been requested for both the work programme and guarantee obligation for Block 9 in Cuba. MAY has applied to CubaPetroleo for a minimum 12-month extension to the second subperiod of the Block 9 production sharing contract which currently finishes on the 3<sup>rd</sup> November 2019. This second sub-period has a minimum work program including the completion of a gravity study (completed) and the drilling of one exploration well (not completed). With respect to the Block 9 guarantee obligation, CubaPetroleo has previously provided a waiver of the obligation until the 30<sup>th</sup> April 2019. A further extension of the waiver to the end of the applied extension to the sub period has been applied for.

The Company ended the June quarter with a cash balance of A\$3.43 million and no debt. Outgoings in the current September quarter are expected to be circa \$710,000. AGMI as part of their now terminated transaction did replace MAY's cash backed bank guarantee for US\$2.275m for Block 9 with an equivalent bank guarantee using its own banking facilities.

Fig. 4: Cash at end of Period

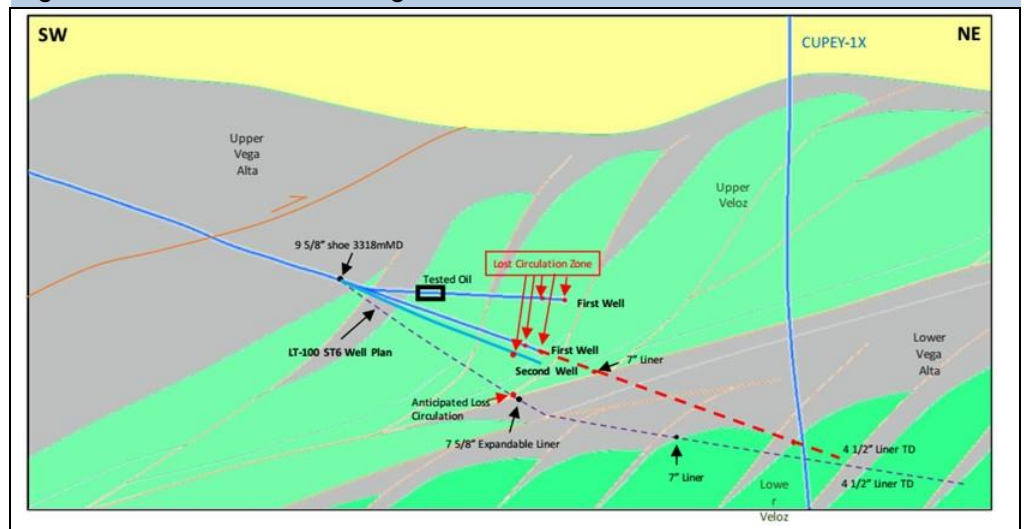


Source: MAY

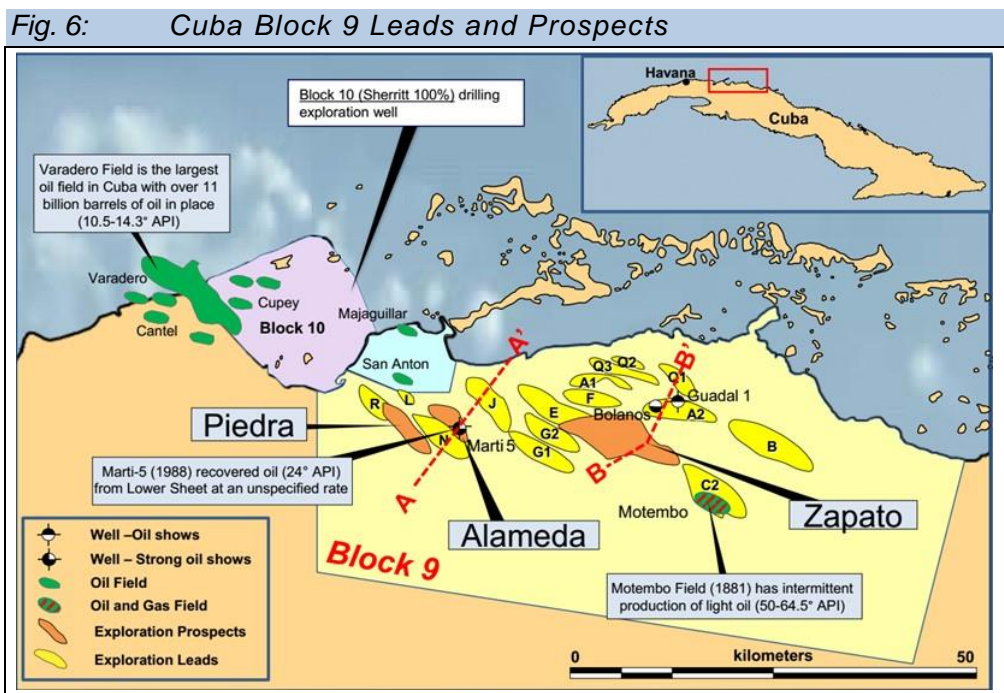
With the termination of the agreement, a waiver was granted to MAY by Cupet until the 30<sup>th</sup> of April 2019 to provide the Block 9 bank guarantee or equivalent. This timetable has obviously expired and MAY it would seem to us will now need to find the funds to provide this guarantee. The Company has indicated that they are considering a potential listing in the United Kingdom.

We are still awaiting results from Sherritt International's Block 10 drilling in Cuba. Block 10 resides directly to the North West of Block 9 and success here would obviously revitalise exploration interest in the North Cuba oil trend. Drilling on Block 10 resumed on the 1<sup>st</sup> of April 2019 using updated drilling parameters developed with the assistance of third-party experts and the results of detailed lab analysis of rock cuttings collected previously. Approximately 5,300 meters were drilled and lined with casing through the end of July. Sherritt stated that they had successfully traversed a number of zones where it previously experienced technical challenges due to the complexity of the geological formation. Sherritt anticipates drilling to a total depth of approximately 5,700 meters. The well will then be completed and tested.

Fig. 5: Block 10 Drilling



Source: Sherritt



Source: MAY

## RECOMMENDATION AND RISKS

The termination of the Block 9 farmout was obviously a major setback for MAY and oil exploration in Cuba generally. The Company also requires extensions to be granted for both the work programme and guarantee obligation for Block 9 in Cuba. The latter adds considerable financial risk given the current balance sheet position. The resignation of the CEO and takeover bid for MEL will likely have also added additional risk consideration for investors.

The main potential positive catalyst and key reason for investors currently to be focused on the stock is the potential for STO and/or Total to announce that they will drill an exploration well in WA-488-P. That decision has to be made by the 2<sup>nd</sup> of October. The case for drilling the well is actually quite strong, and MAY would have a 20% fully carried interest. MAY has estimated the cost of the well to be in the US\$40-60m range with a best case recoverable prospective resource of 388mmbbl (oil at 299mmbbl).

An additional positive could be a successful result from Sherritt’s well in Block 10 in Cuba. If Sherritt International announce a successful outcome this quarter to their Block 10 drilling, then this will re-rate exploration acreage in Cuba generally and improve the chances of MAY securing a farm out for their neighbouring Block 9 acreage. ’

The Santa Cruz Incremental Oil Recovery (IOR) project while delayed also potentially offers some lower risk upside, but regulatory approval is still to be obtained.

In our latest research (‘A Set-back in Cuba, Beehive Clock is Ticking’ (15th May 2019)) we increased our risk weighting on Block 9 and valued it at US\$24m versus US\$33m previously. Counterbalancing this to a degree we de-risked our valuation of the Beehive Prospect (which as time goes by looks more and more like the jewel in MAY’s crown) and now value it at US\$20m versus US\$16.5m previously. Obviously, if Santos and/or Total exercise their option to drill Beehive, this valuation could increase further (or vice versa). For now, we do not include a value for Santa Cruz or the Tassie Shoal Project. We retain our 12-month target price to 2.2c per share and Speculative Buy

Recommendation, with the option decision on Beehive in the next few months a key event.

**Fig. 7: Net Risked Value (post farm outs)**

Asset	Country	WI	GCoS*	CCoS*	CoS*	Overall Recoverable Resource		NPV/boe US\$/bbl	Net Risked Value	
						Gross MMboe	Net MMboe		US\$m	A\$/share
Block-9	Cuba	100%	5%	50%	3%	718	718	\$1.3	23.6	0.016
Santa Cruz	Cuba	100%							0.0	0.000
Beehive (WA-488-P)	Australia	20%	15%	92%	12%	338	68	\$2.5	19.7	0.013
Corporate										-0.008
<b>Gross Valuation</b>									<b>47.7</b>	<b>0.022</b>

Source: MAY and Hartleys Research.

Upcoming catalysts include;

- Australia – Beehive (20% post farm out) - Total and/or Santos 6-month option period on Beehive expires 2<sup>nd</sup> of October.
- Cuba – Block 10 - Sherritt announcement on drilling in Block 10.
- Block 9 - extensions secured for both the work programme and guarantee obligation for Block 9 in Cuba.
- Cuba – Block 9 (currently 100%) – Block 9 farm out discussions restart.
- Cuba – Block 9 – rig is in country and the potential drilling of primary prospects in 2020 if farm out can be concluded.
- Cuba – Santa Cruz IOR – regulatory approval expected.

## RISKS

Investment in the oil and gas sector should be considered high risk. There is no guarantee of exploration success. Further to this, producing assets typically decline without further exploration and development. Specific risks include exploration risk, development risk and production risk. The ability to repay debt, especially secured against the assets of the Company can be a particular risk for exploration companies (with little or no existing cash flow).

The key risks for MAY (like most exploration companies) is making an economic discovery and obtaining the funding for ongoing exploration. Other risks include delays, key person risk, country/sovereign risk, weather, JV partner obligations, cost inflation. Investing in explorers is very risky given the value of the company (exploration value) in essence assumes that the market will recognise a portion of potential value before the results of an exploration program are known, conscious that the ultimate chance of success is low (typically 1%-20%) and that failure is much more likely, in most cases.

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## SIMPLE S.W.O.T. TABLE

Strengths	<p>Experienced management team.          Block 9 has potential for World Class discoveries.          First mover into Cuba and potential to add further to their portfolio there.</p>
Weaknesses	<p>High working interest across entire acreage position.          Reliant on farm ins and larger partners.          Capital constrained like most Junior Oil &amp; Gas companies.</p>
Opportunities	<p>Potential positive decision by Santos/Total on Beehive drilling.          A number of drill ready prospects could attract one or more farm in partners.          The Northern Gas Pipeline (NGP) and LNG at Darwin could potentially help release value in MAY's offshore NT tenements.</p>
Threats	<p>Takeover risk.          Exploration failure – geological risk.          License expiry or cancellation.          Environmental concerns.          Takeover risk.          Cash constrained and will need additional funding.</p>

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Source: Hartleys Research



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*Note: personal email addresses of company employees are structured in the following manner: firstname.lastname@hartleys.com.au*

## Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.
Buy	

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