Melbana Energy Limited

ABN 43 066 447 952

Half Year Financial Report - 31 December 2019

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

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 2019.

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 and Interim Chief Executive Officer from 22 July 2019)
Peter Stickland (Non-Executive Technical 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 and LNG Projects.

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 $1,418,518 (31 December 2018: $1,966,907).

Corporate

Melbana's future prospects are centred on continuing to secure quality exploration, development and producing opportunities and seeking to maximise the value to shareholders of its current portfolio, identifying and securing additional value-accretive projects, and/or undertaking a corporate transaction.

Adequacy of funding will, for the immediate future, remain a key focus for the Company and its shareholders. The Company will look to raise additional funding either through farm-in/sale and/or capital injection to advance its projects, as it may consider necessary given that it expects to be reimbursed in this financial year approximately $5 million, in accordance with the terms of a binding heads of agreement (**HOA**) it entered into with *Sociedade Nacional De Combustíveis De Angola, Empresa Pública* (**Sonangol**), the National Oil Company of Angola, as detailed below. The Company also, subsequent to the period end, acquired a 27.81% interest in Metgasco Limited (**Metgasco**), as also detailed below, which is expected to entitle it to its share of the in-specie distribution of 20 million shares in Byron Energy Limited that Metgasco has announced it will ask its shareholders to approve at a meeting to be held late in Q1 CY2020). 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 15 July 2019, the Company announced an off-market takeover bid for all of the ordinary shares in Metgasco Limited, a Company listed in ASX. The offer was an all share offer under which Melbana will offer Metgasco shareholders 4 fully paid ordinary shares in the capital of Melbana (Melbana Shares) for every 1 ordinary Metgasco share held. Among others, the offer will be conditional upon:

- a 50.1% minimum acceptance condition; and
- 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) (M&A Advisory) to participate under the Offer (or a waiver of that requirement or confirmation shareholder approval is not required).

This transaction was completed on 31 January 2020, with the Company acquiring 27.81% of the ordinary shares in Metgasco. On 14 February 2020, the Company issued 434,582,340 ordinary shares as consideration for the acquisition of 27.81% ordinary shares in Metgasco.

On 25 July 2019, the Company issued 2,584,949 shares at a nil issue price per share in an exercise of Performance Rights.

On 14 October 2019, the Company issued 4,178,209 shares at a nil issue price per share in an exercise of Performance Rights.

On 22 October 2019, the Company announced it had received final formal approvals for amendments to its Block 9 PSC, which (amongst other things) extended the period by one year until 2 November 2020 by which the Company must drill one exploration well.

On 4 December 2019, the Company announced that Santos Limited (**Santos**) has conditionally exercised its option to acquire an 80% interest in WA-488-P, the permit containing the Beehive prospect (**Permit**), subject to satisfaction of certain conditions. An application for the transfer of an 80% interest in the Permit will be submitted upon:

- Santos concluding a farm out of part of its right to acquire a participating interest in the Permit to a third party by no later than 4 March 2020; and
- The parties securing an extension to the current Permit year to align with rig availability in 2021

On 23 December 2019, the Company announced that it had signed a binding HOA with Sonangol, for that entity to acquire a 70% Participating Interest in the onshore Cuba Block 9 Production Sharing Contract. The terms of the HOA state that Sonangol will (following execution of a farmout agreement, satisfactory completion of confirmatory due diligence and receipt of all necessary regulatory approvals):

- fund 85% of all costs associated with the completion of the drilling of the Company's two highest ranked and high impact targets (Alameda and Zapato) to earn a 70% participating interest in Block 9 PSC, with the first well expected to commence drilling in Q3 2020;
- pay the Company approximately $5.0 million to cover its expenditure to date related to Block 9; and,
- have the option to assume operatorship of Block 9 PSC at the conclusion of this two well drilling program.

The Company will contribute 15% of the costs of the two well drilling program to maintain 30% participating interest and remain as operator of the Block 9 PSC, until it is concluded.

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 5 February 2020, the Company announced completion of the off-market takeover bid made for all of the ordinary shares in Metgasco on 31 January 2020. At completion, the Consolidated Entity received acceptances under the offers in respect of 27.81% of the ordinary shares in Metgasco. On 14 February 2020, the Consolidated Entity issued 434,582,340 ordinary shares as consideration for the acquisition of 27.81% ordinary shares in Metgasco.

No other matter or circumstance has arisen since 31 December 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.

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

2 March 2020
Melbourne

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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 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 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, 2 March 2020

Melbana Energy Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2019

	Note	31 December 2019 $	31 December 2018 $
Other income	4	22,577	315,327
Interest income		7,043	30,501
Expenses			
Exploration expenditure written off/expensed		(19,459)	(38,101)
Administration costs	5	(1,423,161)	(1,034,342)
Finance costs	6	(5,518)	(1,240,292)
Loss before income tax expense		(1,418,518)	(1,966,907)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Melbana Energy Limited		(1,418,518)	(1,966,907)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		45	(1,000)
Other comprehensive loss for the half-year, net of tax		45	(1,000)
Total comprehensive loss for the half-year attributable to the owners of Melbana Energy Limited		(1,418,473)	(1,967,907)
		Cents	**Cents**
Basic earnings per share	16	(0.08)	(0.11)
Diluted earnings per share	16	(0.08)	(0.11)

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 2019

	Note	31 December 2019 $	30 June 2019 $
Assets			
Current assets			
Cash and cash equivalents		1,817,989	3,363,168
Other receivables		95,836	107,014
Financial assets at amortised cost		72,018	72,018
Total current assets		1,985,843	3,542,200
Non-current assets			
Plant and equipment		29,968	40,765
Right-of-use assets	7	125,830	-
Exploration and evaluation	8	4,932,355	4,842,424
Total non-current assets		5,088,153	4,883,189
Total assets		7,073,996	8,425,389
Liabilities			
Current liabilities			
Trade and other payables	9	373,699	387,582
Lease liabilities	10	55,684	-
Provisions		120,420	185,089
Total current liabilities		549,803	572,671
Non-current liabilities			
Lease liabilities	10	89,948	-
Total non-current liabilities		89,948	-
Total liabilities		639,751	572,671
Net assets		6,434,245	7,852,718
Equity			
Issued capital	11	276,391,534	276,330,665
Reserves	12	1,398,461	1,459,285
Accumulated losses		(271,355,750)	(269,937,232)
Total equity		6,434,245	7,852,718

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 2019

	Issued capital $	Share based payments reserve $	Foreign currency reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2018	272,790,000	476,000	19,000	(266,589,500)	6,695,500
Loss after income tax expense for the half-year	-	-	-	(1,966,907)	(1,966,907)
Other comprehensive loss for the half-year, net of tax	-	-	(1,000)	-	(1,000)
Total comprehensive loss for the half-year	-	-	(1,000)	(1,966,907)	(1,967,907)
Share options lapsed	-	(10,000)	-	10,000	-
Share based payments (options)	-	20,000	-	-	20,000
Share based payments (performance rights)	-	30,000	-	-	30,000
Exercise of performance rights	80,000	(80,000)	-	-	-
Exercise of options	199,000	-	-	-	199,000
Shares issued	3,500,000	-	-	-	3,500,000
Share issue costs	(237,000)	-	-	-	(237,000)
Share based payments (finance costs) (note 6)	-	974,000	-	-	974,000
Balance at 31 December 2018	276,332,000	1,410,000	18,000	(268,546,407)	9,213,593

	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 (note 11)	60,869	(60,869)	-	-	-
Balance at 31 December 2019	276,391,534	1,380,293	18,168	(271,355,750)	6,434,245

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 2019

	Note	31 December 2019 $	31 December 2018 $
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(1,474,364)	(1,478,000)
Interest received		7,043	30,000
Other revenue		-	127,000
		(1,467,321)	(1,321,000)
Interest paid on right of use asset lease		(5,518)	-
Net cash used in operating activities		(1,472,839)	(1,321,000)
Cash flows from investing activities			
Payments for plant and equipment		-	(2,000)
Payments for exploration and evaluation	8	(89,931)	(456,000)
Proceeds from security deposits for bank guarantee		-	3,245,000
Net cash from/(used in) investing activities		(89,931)	2,787,000
Cash flows from financing activities			
Proceeds from issue of shares	11	-	3,700,000
Share issue transaction costs		-	(237,000)
Repayment of lease liabilities		(5,031)	-
Net cash from/(used in) financing activities		(5,031)	3,463,000
Net increase/(decrease) in cash and cash equivalents		(1,567,801)	4,929,000
Cash and cash equivalents at the beginning of the financial half-year		3,363,168	3,047,000
Effects of exchange rate changes on cash and cash equivalents		22,622	55,000
Cash and cash equivalents at the end of the financial half-year		1,817,989	8,031,000

The above consolidated 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 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 2 March 2020.

Note 2. Significant accounting policies

These condensed interim financial statements for the interim half-year reporting period ended 31 December 2019 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 condensed 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 2019 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 2019, the consolidated entity:

- had, for the financial half-year ending on that date, incurred a net loss after tax of $1,418,518 (2018: $1,966,907);
- had, for the financial half-year ending on that date, net cash outflows from operating activities of $1,472,839 (2018: $1,321,000);
- had cash and cash equivalents on hand of $1,817,989 (30 June 2019: $3,363,168); and
- had a net working capital position of $1,436,040 (30 June 2019: $2,969,529).

On 23 December 2019, the Company entered into HOA with Sonangol and as per the terms of the HOA, Sonangol will pay Melbana approximately $5.0 million to cover its expenditure to date related to Block 9.

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 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.

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.

The following Accounting Standards and Interpretations are most relevant to the Consolidated Entity:

AASB 16 Leases

The Consolidated Entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (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 improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments is separately disclosed in financing activities. Please refer to note 10 to the financial statements for further information regarding adoption of AASB 16.

AASB Interpretation 23 Uncertainty over Income Tax Treatments

Interpretation 23 requires the assessment of whether the effect of uncertainty over income tax treatments should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The Interpretation outlines the requirements to determine whether an entity considers uncertain tax treatments separately, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances.

The Company has adopted Interpretation 23 from 1 January 2019, based on an assessment of whether it is 'probable' that a taxation authority will accept an uncertain tax treatment. This assessment takes into account that for certain jurisdictions in which the company operates, a local tax authority may seek to open a company's books as far back as inception of the company. Where it is probable, the company has determined tax balances consistently with the tax treatment used or planned to be used in its income tax filings. Where the company has determined that it is not probable that the taxation authority will accept an uncertain tax treatment, the most likely amount or the expected value has been used in determining taxable balances (depending on which method is expected to better predict the resolution of the uncertainty). There has been no impact from the adoption of Interpretation 23 in this reporting period.

Other accounting pronouncements which have become effective from 1 January 2019 and have therefore been adopted have not had a significant impact on the Consolidated Entity's financial results or position.

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 8.

Note 4. Other income

	31 December 2019 $	31 December 2018 $
Net foreign exchange gain	22,577	72,411
Net refund from projects	-	242,916
Other income	22,577	315,327

Note 5. Administration costs

	31 December 2019 $	31 December 2018 $
Consultants fees and expenses	44,847	117,000
Directors remuneration (excluding share based payments)	242,165	128,000
Salaries and on-costs	359,997	396,000
Share based payments	-	50,000
Administration and other expenses	68,216	360,000
Accounting and audit costs	83,271	61,000
Securities exchange, share registry and reporting costs	58,438	85,000
Operating lease expenses	-	139,000
Investor relations and corporate promotion costs	24,000	31,000
Travel costs	87,885	107,000
Depreciation and amortisation expense	10,797	16,000
Depreciation of right-of-use assets	24,833	-
Less allocation to exploration activities	-	(456,000)
Transaction costs paid for acquisition of an investment*	418,712	-
	1,423,161	1,034,000

*On 15 July 2019, the Company announced an off-market takeover bid for all of the ordinary shares in Metgasco Limited, a company listed in ASX. The offer was an all-share offer under which Melbana offered Metgasco shareholders 4 fully paid ordinary shares in the capital of Melbana (Melbana Shares) for every 1 ordinary Metgasco Share held. On 5 February 2020, the Company announced completion of the off-market takeover bid and at completion the Company received acceptances under the offers in respect of 27.81% of the ordinary shares in Metgasco. The above amounts represent the cost incurred in-relation to the acquisition as at 31 December 2019.

Note 6. Finance costs

	31 December 2019 $	31 December 2018 $
Interest	5,518	266,000
Share based payment on finance cost*	-	974,000
	5,518	1,240,000

Interest expenses for the half year ended 31 December 2019 represent the interest expense in relation to office space lease accounted under AASB 16 Leases.

*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 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 $974,000 was booked as finance cost for the period ending 31 December 2018, 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 if all options are exercised.

Note 7. Non-current assets - right-of-use assets

	31 December 2019 $	30 June 2019 $
Leasehold improvements - right-of-use	150,663	-
Less: Accumulated depreciation	(24,833)	-
	125,830	-

Refer note 10 for further information on the Consolidated Entity's leasing arrangements.

Note 8. Non-current assets - exploration and evaluation

	31 December 2019 $	30 June 2019 $
Exploration and evaluation Block 9 Cuba - at cost	4,932,355	4,842,424

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

Consolidated	Block 9 Cuba - at cost $	Total $
Balance at 1 July 2019	4,842,424	4,842,424
Expenditure during the half-year	89,931	89,931
Balance at 31 December 2019	4,932,355	4,932,355

Note 8. Non-current assets - exploration and evaluation (continued)

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 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.

Note 9. Current liabilities - trade and other payables

	31 December 2019 $	30 June 2019 $
Trade payables	102,239	166,773
Other payables	271,460	220,809
	373,699	387,582

Note 10. Non-current liabilities - lease liabilities

The Consolidated Entity has lease arrangements for office space. Rental contracts are typically made for fixed periods of 12 to 36 months, but may have an extension option. This note provides information for leases where the Consolidated Entity is a lessee.

Lease terms are negotiated on an individual basis and may contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Right-of-use assets and lease liabilities
The Consolidated Entity has adopted AASB 16 Leases (AASB 16) on 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, the Consolidated Entity recognised lease assets (known as "right-of-use") and liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of AASB 117 Leases. These assets and liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. In applying AASB 16 for the first time, the Consolidated Entity has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Consolidated Entity has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Consolidated Entity relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

Please refer to note 7 to the financial statements for the details of right-of use asset balances at 31 December 2019. The balance sheet shows the following amounts relating to lease liabilities:

Note 10. Non-current liabilities - lease liabilities (continued)

	31 December 2019 $	30 June 2019 $
Current	55,684	-
Non-current	89,948	-
	145,632	-

The statement of profit or loss shows the following amounts relating to leases:

	31 December 2019 $	31 December 2018 $
Depreciation charge of right-of-use assets		
Leasehold improvements - right-of-use	24,833	-

The Consolidated Entity had no short-term lease arrangements during the half year ended 31 December 2019.

On adoption of IFRS 16, the Consolidated Entity recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 July 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 7.5%.

Right-of use assets were measured at the amount equal to the lease liability at 1 July 2019. The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

	As at 1 July 2019
Operating lease commitments disclosed as at 30 June 2019	192,051
Impact of discount (using the lessee’s incremental borrowing rate) and lease incentives at the date of initial application	(41,388)
Value of lease liabilities and right-of-use assets recognised at 1 July 2019	150,663

Note 11. Equity - issued capital

	31 December 2019 Shares	30 June 2019 Shares	31 December 2019 $	30 June 2019 $
Ordinary shares - fully paid	1,882,269,073	1,875,505,915	276,391,534	276,330,665

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance (net of transaction costs)	1 July 2019	1,875,505,915		276,330,665
Shares issued upon exercise of performance rights	25 July 2019	2,584,949	$0.009	23,265
Shares issued upon exercise of performance rights	14 October 2019	4,178,209	$0.009	37,604
Balance (net of transaction costs)	31 December 2019	1,882,269,073		276,391,534

Note 11. 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 12. Equity - reserves

	31 December 2019 $	30 June 2019 $
Foreign currency reserve	18,168	18,123
Share based payments reserve	1,380,293	1,441,162
	1,398,461	1,459,285

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.

Note 13. Equity - dividends

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

Note 14. Commitments and contingent liabilities

On 4 December 2019, the Company announced that Santos had conditionally exercised its option to acquire an 80% interest in WA-488-P – the consideration for which would be Santos agreeing to fund 100% of an exploration well in the Beehive prospect located within WA-488-P. Should Santos elect not to proceed with the exercise of this option by its expiry date on 4 March 2020, the Company would regain a 100% unencumbered interest in the Permit (and which now includes the 3D seismic acquisition and analysis) and have the obligation to drill an exploration well by December 2020. If, in this scenario, the Company were unable to meet this commitment or gain regulatory support for its deferral then it is possible the Company would be required to forfeit the Permit. Forfeiture as per this scenario may adversely impact the Company's ability to apply for other offshore exploration permits in the future.

On 23 December 2019, the Company announced that it had entered into a binding agreement with Sonangol for the drilling of two onshore exploration wells in its Block 9 PSC area in Cuba. The Company agreed to fund 15% of the cost of the drilling of these wells in return for a 30% interest in the PSC with Sonangol agreeing to fund the remaining 85%. In addition, Sonangol agreed to repay the Company's past costs with respect to Block 9 PSC. These are currently estimated to be in excess of $5 million and therefore expected to largely meet the Company's share of the cost of these two wells. Should the cost of these wells cost significantly more than the Company forecast following the submissions it received under an international tender it ran, Melbana would be responsible for 15% of these additional costs.

Note 14. Commitments and contingent liabilities (continued)

There have been no other material changes to commitments and contingent liabilities since the annual financial statements that were issued for the year ended 30 June 2019.

Note 15. Events after the reporting period

On 5 February 2020, the Company announced completion of the off-market takeover bid made for all of the ordinary shares in Metgasco on 31 January 2020. At completion, the Consolidated Entity received acceptances under the offers in respect of 27.81% of the ordinary shares in Metgasco. On 14 February 2020, the Consolidated Entity issued 434,582,340 ordinary shares as consideration for the acquisition of 27.81% ordinary shares in Metgasco.

No other matter or circumstance has arisen since 31 December 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 16. Earnings per share

	31 December 2019 $	31 December 2018 $
Loss after income tax attributable to the owners of Melbana Energy Limited	(1,418,518)	(1,966,907)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	1,879,510,845	1,777,402,322
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,879,510,845	1,777,402,322
	Cents	**Cents**
Basic earnings per share	(0.08)	(0.11)
Diluted earnings per share	(0.08)	(0.11)

Melbana Energy Limited
Directors' declaration
31 December 2019

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 2019 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

2 March 2020
Melbourne

Grant Thornton

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Independent Auditor's 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 2019, 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, nothing has come to our attention that causes us to believe that the half year financial report of Melbana Energy Limited does not give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

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 2019 the Group incurred a net loss after tax of $1,418,518, had net cash outflows from operating activities of $1,472,839 and, as of that date had cash and cash equivalents of $1,817,989 and a net working capital position of $1,436,040. 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 2019 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*. As the auditor of Melbana Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

T S Jackman
Partner – Audit & Assurance

Melbourne, 2 March 2020