MELBANA ENERGY LIMITED

ABN 43 066 447 952

HALF-YEAR FINANCIAL REPORT AND DIRECTORS' REPORT

31 DECEMBER 2016

Contents

Corporate Information

Directors
Andrew G Purcell (Chairman)
Michael J Sandy
Peter J Stickland (Managing Director and Chief Executive Officer)

Company Secretary
Colin H Naylor

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Auditors
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8 Exhibition Street
Melbourne, Victoria 3000 Australia

Securities Exchange Listing
ASX Limited
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Melbourne, Victoria 3000 Australia

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

Incorporated 14 September 1994
Victoria, Australia

Directors' report

The Directors of Melbana Energy Limited (variously the "Company" and "Melbana") submit their report for the half-year ended 31 December 2016.

DIRECTORS

The Directors of the Company during the half-year ended 31 December 2016 and until the date of this report (in office for the entire period unless otherwise stated) are:

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

***Non Executive Director*:** Michael J Sandy, BSc Hons (Geology), MAICD (Appointed 30 July 2015)

Managing Director & Chief Executive Officer: Peter J Stickland BSc, Hons (Geology), GDipAppFin (Finsia), GAICD (Appointed 30 January 2015)

REVIEW AND RESULTS OF OPERATIONS

The loss after tax for the half-year was $1,108,722 (Dec 2015: loss after tax $1,372,911) mainly due to net administration costs ($915,391).

The net loss after tax for the 2015 half year of $1,372,911 was mainly due to net administration costs ($1,212,760).

Cuba

- **Block 9 (Melbana 100%*)**

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

During the half-year Melbana announced the initial results of its assessment of Block 9 identifying exploration potential for 8.183 billion barrels of Oil-in-Place, with a Prospective (Recoverable) Resource of 395 million barrels (Best Estimate, 100% basis) of potentially high quality light oil.

Subsequent to the end of the reporting period, Melbana announced that the exploration potential of Block 9 has been increased to approximately 12 billion barrels of Oil-in-Place with a Prospective (Recoverable) Resource of 612 million barrels (Best Estimate, 100% basis) of potentially high quality oil. These latest results represent more than a 50% upgrade to the previous resource assessment. The high potential Alameda prospect has been highgraded as one of the preferred targets for the drilling program.

***Prospective Resources Cautionary Statement**: The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Future exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.*

During the reporting period Melbana advised that its plans for the potential drilling of an accelerated initial program of up to two exploration wells in Block 9 were maturing, with a target of finalising well proposals by the end of 1Q, 2017.

* *Subject to a conditional 40% option to be exercised no later than September 2017 held by Petro Australis Limited*

Directors' report (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

During the reporting period Melbana also announced that it had received an 8 month extension to the first exploration sub-period for Block 9 PSC to November 2017, with a corresponding reduction in the term of future sub-periods. The adjustment to the exploration sub-periods provides Melbana with additional exploration program flexibility.

New Zealand

- **PEP51153 (Melbana 30%)**

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

In December 2016, the joint venture approved plans to drill Pukatea-1, with drilling expected to commence in Q3/Q4 2017. The Pukatea prospect is a high impact exploration opportunity, targeting the highly productive conventional Tikorangi Limestone reservoir.

Also during the reporting period the PEP51153 Joint Venture significantly upgraded the prospective resources attributable to the Pukatea prospect which are estimated to range from 1.3 to 40 million barrels (Low-High estimates) with a Best Estimate of 12.4 million barrels of oil equivalent* (see the following table). The chance of success for Pukatea has also been revised upward from 16% to 19% (see cautionary statement on Contingent and Prospective resource estimates below).

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

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

**** Prospective Resources Cautionary Statement:*** *The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Future exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.*

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

Australia

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

WA-488-P is located in the southern Bonaparte Gulf and covers an area of 4,105 km^2. The permit was awarded to Melbana in May 2012 as part of the acreage Gazettal Round.

Leveraging the 2011 Ungani-1 oil discovery in Carboniferous aged reservoirs in the nearby Canning Basin, Melbana has identified the giant Beehive prospect, a new play type within the Bonaparte basin.

During the half year, Melbana was granted a 16 month extension to the work program for WA-488-P. Permit Year 2 is now extended to 21 March 2018. The timeframe within which to drill the Beehive-1 exploration well has also been deferred commensurately. The additional time will provide an opportunity for Melbana to undertake a further 330km of 2D seismic broadband reprocessing and additional studies, including a stratigraphic interpretation study and an analogue field study.

A formal farm out process was also underway during the quarter and discussions were progressed with potential farminees. The potential drilling of Beehive is subject to a successful farm-out.

Directors' report (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

- **AC/P50 & 51 (Melbana 100%)**

AC/P50 and AC/P51 are located in the proven Vulcan sub-basin, immediately to the east of the producing Montara oil field. The area has historically been challenged by structural complexity and poor seismic image quality.

During the half year Melbana executed an agreement with Rouge Rock Pty Ltd ("Rouge Rock") which grants Rouge Rock an option to acquire a 45% interest in the AC/P50 and AC/P51 Exploration Permits ("Permits"). In exchange for the grant of the option, Rouge Rock will undertake and fund the remaining primary statutory work program for each permit consisting of seismic reprocessing and other technical activities ("Reprocessing Work"). The Reprocessing Work must be completed in stages no later than as required by timing stated in the primary statutory work program which currently ends on 18 May 2018 for both Permits. Subject to completing the Reprocessing Work, Rouge Rock may exercise its option by providing notice to Melbana prior to 18 May 2018, at which point it will acquire a 45% interest in the Permits.

Both permits are also subject to an option agreement for Far Cape Energy Pte Ltd ("Far Cape") to acquire a 5% interest in each permit. Far Cape is the successor to Red Rock Pte Ltd who was granted this option in 2010 at the time Melbana acquired AC/P50 and AC/P51. Under this option agreement, Melbana will carry Far Cape's participating interest in the first well should Melbana elect to drill a well in either of the permits.

Tassie Shoal Development Projects

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

Tassie Shoal Methanol Project (TSMP, Melbana 100%)

Melbana proposes the staged construction of two large methanol production plants, each with an annual production capacity of 1.75 million tonnes on its own concrete gravity structure (CGS). Each TSMP requires ~200 – 220 Million Standard Cubic Feet per day (MSCFD) of raw gas, preferably with up to 25% CO_2, resulting in a potential total requirement of up to 440 MSCFD and ~4 Trillion Cubic Feet (TCF) of gas over an initial 25 year period..

Melbana continues to work with all stakeholders in its efforts to commercialise the proposed projects.

Timor Sea LNG Project (TSLNGP, Melbana 100%)

The TSLNGP requires approximately 3 Tcf of low CO_2 (<3%) gas to operate for 20 years. Gas supply for the LNG plant could come from one or more of the neighbouring undeveloped gas fields confronting economic challenges imposed by long distances from land and high domestic construction costs.

During the half year the environmental approvals for the Tassie Shoal Projects were updated. The LNG Project environmental approval was extended until 2052, aligning it with the Methanol Project. In addition, the previous LNG Project limit of 3% CO_2 feed gas is removed, enabling the Tassie Shoal Projects to receive gas of varying qualities and process it into LNG.

Directors' report (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

CORPORATE

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

Adequacy of funding will, for the immediate future, remain a key focus for the Group and its shareholders. The Group will look to raise additional funding either through farm-in/sale and/or capital injection to advance its projects. In the event that the Group cannot meet its share of work program commitments, permits may need to be surrendered.

In August 2016, the Company announced it had raised $1,688,400 (before costs) through a placement of 46,900,000 ordinary shares at 3.6 cents per share to qualified institutional and sophisticated investors. The Company also completed a Share Purchase Plan which raised $545,000 (before costs) from the issue of 15,138,926 ordinary shares to Melbana shareholders at 3.6 cents per share. Proceeds from the Placement and Share Purchase Plan will be used to accelerate Melbana's onshore exploration activities on Block 9 Cuba.

Following approval by shareholders at the Annual General Meeting held on 3 November 2016, the company name was changed to Melbana Energy Limited. The Company commenced trading under the new name and ASX Ticker "**MAY**" on 8th November 2016.

Auditor's Independence Declaration

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

Signed in accordance with a resolution of the Directors.

Peter Stickland
Managing Director & Chief Executive Officer
Melbourne, 9th March 2017

<u>Notes regarding Contingent and Prospective resource estimates</u>

1. *The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.*
2. *The assessments are based on, and fairly represent, information and supporting documentation prepared by Mr Peter Stickland, Melbana's Managing Director & Chief Executive Officer, who is an employee of the company and has more than 25 years of relevant experience. Mr. Stickland is a member of the European Association of Geoscientists and Engineers and the Petroleum Exploration Society of Australia. Mr Stickland consents to the publication of the resource assessments contained herein.*
3. *Total Liquids = oil + condensate*
4. *6 Bcf gas equals 1 MMboe; 1 MMbbl condensate equals 1 MMboe*

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

As lead auditor for the review of Melbana Energy Limited for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

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

Ernst + Young

Ernst & Young

Alison Parker

Alison Parker
Partner
Melbourne
9 March 2017

Consolidated statement of comprehensive income
For the half-year ended 31 December 2016

	Notes	Consolidated	
		31/12/2016	**31/12/2015**
		$	**$**
Interest income		41,447	54,442
Total income		**41,447**	**54,442**
Net administration costs	4	(915,391)	(1,212,760)
Exploration expenditure written-off / expensed		(245,163)	(249,174)
Foreign exchange gains/(losses)		28,562	54,143
(Loss) before income tax		**(1,090,545)**	**(1,353,349)**
Income tax expense		(18,177)	(19,562)
Net (loss) for the period		**(1,108,722)**	**(1,372,911)**
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		921	15,255
Other comprehensive income/ (loss) for the period, net of tax		**921**	**15,255**
Total comprehensive (loss) for the period		**(1,107,801)**	**(1,357,656)**
Basic (loss) per share (cents per share)		(0.12)	(0.18)
Diluted (loss) per share (cents per share)		(0.12)	(0.18)

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

Consolidated statement of financial position
As at 31 December 2016

		Consolidated	
	Note	**31/12/2016**	**30/06/2016**
CURRENT ASSETS		**$**	**$**
Cash and cash equivalents	5	4,418,186	4,135,989
Other receivables		44,485	183,652
TOTAL CURRENT ASSETS		4,462,671	4,319,641
NON-CURRENT ASSETS			
Property, plant and equipment		84,364	106,312
Exploration and evaluation costs	7	2,723,472	1,764,514
TOTAL NON-CURRENT ASSETS		2,807,836	1,870,826
TOTAL ASSETS		**7,270,507**	**6,190,467**
CURRENT LIABILITIES			
Trade and other payables		120,273	219,622
Provisions		202,653	205,085
TOTAL CURRENT LIABILITIES		322,926	424,707
NON-CURRENT LIABILITIES			
Provisions		191,166	162,019
TOTAL NON-CURRENT LIABILITIES		191,166	162,019
TOTAL LIABILITIES		**514,092**	**586,726**
NET ASSETS		**6,756,415**	**5,603,741**
EQUITY			
Contributed equity	8	265,945,908	263,822,525
Reserves		288,006	464,603
Accumulated losses		(259,477,499)	(258,683,387)
TOTAL EQUITY		**6,756,415**	**5,603,741**

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

Consolidated statement of cash flows
For the half-year ended 31 December 2016

	Consolidated	
	31/12/2016	**31/12/2015**
CASH FLOWS FROM OPERATING ACTIVITIES	**$**	**$**
Payments to suppliers and employees	(812,084)	(1,054,698)
Merger and takeover costs	-	(16,585)
Interest received	41,046	70,986
Net cash (used in) operating activities	**(771,038)**	**(1,000,297)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditure on property, plant and equipment	(15,520)	-
Expenditure on exploration tenements	(1,078,225)	(788,885)
Proceeds from sale of plant & equipment	13,212	-
Net cash from (used in) investing activities	**(1,080,533)**	**(788,885)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issues	2,233,400	-
Transaction costs on issue of shares	(128,194)	-
Net cash from financing activities	**2,105,206**	**-**
Net increase (decrease) in cash and cash equivalents	**253,635**	**(1,789,182)**
Cash and cash equivalents at beginning of period	**4,135,989**	**5,785,454**
Net foreign exchange differences	28,562	54,143
Cash and cash equivalents at end of period	**4,418,186**	**4,050,415**

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

Consolidated statement of changes in equity
For the half-year ended 31 December 2016

	Issued capital $	Share based payments reserve $	Foreign Currency Translation Reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2016	**263,822,525**	**447,741**	**16,862**	**(258,683,387)**	**5,603,741**
Net loss for the period	-	-	-	(1,108,722)	(1,108,722)
Other comprehensive income/(loss)	-	-	921	-	921
Total comprehensive loss for the year	**-**	**-**	**921**	**(1,108,722)**	**(1,107,801)**
Transactions with owners in their capacity as owners:					
Cost of share based payments	-	137,092	-	-	137,092
Share placement	1,688,400	-	-	-	1,688,400
Share purchase plan	545,000	-	-	-	545,000
Costs of issues (net of tax)	(110,017)	-	-	-	(110,017)
Transfer of lapsed equity instruments	-	(314,610)	-	314,610	-
At 31 December 2016	**265,945,908**	**270,223**	**17,783**	**(259,477,499)**	**6,756,415**

	Issued capital $	Share based payments reserve $	Foreign Currency Translation Reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2015	**262,406,308**	**1,248,623**	**2,271,598**	**(249,211,295)**	**16,715,234**
Net loss for the period	-	-	-	(1,372,911)	(1,372,911)
Other comprehensive income/(loss)	-	-	15,255	-	15,255
Total comprehensive loss for the year	**-**	**-**	**15,255**	**(1,372,911)**	**(1,357,656)**
Transactions with owners in their capacity as owners:					
Cost of share based payments	-	6,666	-	-	6,666
Costs of issues (net of tax)	19,562	-	-	-	19,562
Transfer of lapsed equity instruments	-	(934,013)	-	934,013	-
At 31 December 2015	**262,425,870**	**321,276**	**2,286,853**	**(249,650,193)**	**15,383,806**

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

Notes to the financial statements
For the half-year ended 31 December 2016

NOTE 1 CORPORATE INFORMATION

The interim condensed financial report of Melbana Energy Limited ("Melbana", or the "Company") for the half-year ended 31 December 2016 was authorised for issue in accordance with a resolution of the directors on 9th March 2017.

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

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

NOTE 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim financial statements for the six months ended 31 December 2016 have been prepared in accordance with *AASB 134* "*Interim Financial Reporting*" and the *Corporations Act 2001.*

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

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2016 and considered together with any public announcements made by Melbana Energy Limited and its controlled entities during the half-year ended 31 December 2016 in accordance with the continuous disclosure obligations of the ASX listing rules.

Changes in accounting policy, accounting standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2016, except for the adoption of new standards and interpretations as of 1 July 2016, noted below:

- AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]
- AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciations and Amortisation (Amendments to AASB 116 and AASB 138)
- AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
- AASB 1057 Application of Australian Accounting Standards
- AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception
- AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application paragraphs [AASB 8, AASB 133 and AASB 1057]

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

Notes to the financial statements
For the half-year ended 31 December 2016 (continued)

NOTE 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (cont)

Going concern

The Group is involved in the exploration and evaluation of oil and gas tenements. Further expenditure will be required on these tenements to ascertain whether they contain economically recoverable reserves.

As at 31 December 2016 the Group had cash reserves of $4,418,186. The cash reserves may not be sufficient to meet the Group's planned exploration commitments and activities for the 12 months from the date of this report. To meet its funding requirements the Group will rely on taking appropriate steps, including:

- Meeting its additional obligations by either farm-out or partial sale of the Group's exploration interests;
- Raising capital by one of a combination of the following: placement of shares, pro-rata issue to shareholders, the exercise of outstanding share options, and/or further issue of shares to the public;
- In some circumstances, subject to negotiation and approval, minimum work requirements may be varied or suspended, and/or permits may be surrendered or cancelled; or
- Other avenues that may be available to the Group.

The half-year financial report has been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. In the event these steps do not provide sufficient funds to meet the Group's exploration commitments, the interest in some or all of the Group's tenements may be affected. No adjustments have been made relating to the recoverability and reclassification of recorded asset amounts and classification of liabilities that might be necessary should the Group not continue as a going concern, particularly the write-down of capitalised exploration expenditure should the exploration permits be ultimately surrendered or cancelled.

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

NOTE 3 SEGMENT INFORMATION

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

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

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

Notes to the financial statements
For the half-year ended 31 December 2016 (continued)

NOTE 4 ADMINISTRATION EXPENSES

	Consolidated	
	31/12/2016 $	**31/12/2015 $**
Consultants fees and expenses	74,230	84,081
Directors remuneration (excluding share based payments)	62,500	84,967
Salaries and on-costs	785,526	945,526
Share based payments	137,092	6,666
Administration and other expenses	213,357	156,074
Audit costs	20,000	30,000
Securities exchange, share registry and reporting costs	100,809	81,447
Operating lease expenses	74,886	137,509
Investor relations and corporate promotion costs	54,858	36,270
Travel costs	29,747	32,596
Depreciation and amortisation expense	13,095	59,633
Office relocation costs	57,379	-
Gross administration costs	1,623,479	1,654,769
Less allocation to exploration activities	(708,088)	(442,009)
Net administration costs	**915,391**	**1,212,760**

NOTE 5 CASH AND CASH EQUIVALENTS

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

	Consolidated	
	31/12/2016 $	**30/6/2016 $**
Cash at bank	548,893	728,107
Short term bank deposits	3,324,395	2,876,926
Cash backed bank guarantee for Block 9 Cuba*	544,898	530,956
Total cash and cash equivalents	**4,418,186**	**4,135,989**

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

NOTE 6 FINANCIAL INSTRUMENTS

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

Notes to the financial statements
For the half-year ended 31 December 2016 (continued)

NOTE 7 EXPLORATION AND EVALUATION COSTS

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

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

Significant judgement is required in determining whether it is likely that future economic benefits will be derived from capitalised exploration and evaluation expenditure. In the judgement of the Directors, at 31 December 2016 exploration activities in each area of interest, where costs are carried forward, have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. Active and significant operations in relation to each area of interest are continuing in AC/P50, AC/P51 and Block 9 Cuba areas of interest. Nothing has come to the attention of the Directors to indicate future economic benefits will not be achieved in these areas of interest. In the event where ongoing activities or committed minimum work requirements cannot be funded by existing financial resources the Group will either meet its obligations by farm-out, partial or full sale of the Group's exploration interests, or subject to negotiation and approval, vary the minimum work requirements, or raise additional capital. The Directors are continually monitoring the areas of interest and are exploring alternatives for funding the development of areas of interest when economically recoverable reserves are confirmed.

Capitalised exploration and evaluation costs at 31 December 2016 are $2,723,472 (June 2016: $1,764,514) which relate to:

Area of Interest	**31 Dec 2016**	**30 June 2016**
AC/P50 & AC/P51	$632,500	$632,500
Block 9 Cuba	$2,090,972	$1,132,014
TOTAL	**$2,723,472**	**$1,764,514**

NOTE 8 CONTRIBUTED EQUITY

	31/12/2016 Shares	**30/6/2016 Shares**	**31/12/2016 $**	**30/6/2016 $**
Issued and Paid Up Capital				
Ordinary shares fully paid	953,243,886	891,204,960	265,945,908	263,822,525
	=========	=========	=========	=========

Dividends

No dividends were declared or paid during the half-year (Dec 2015: Nil).

Notes to the financial statements
For the half-year ended 31 December 2016 (continued)

NOTE 9 COMMITMENTS & CONTINGENT LIABILITIES

The material changes to exploration commitments reported in the June 2016 Annual Report are set out below:-

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

In November 2016, the company was advised by the National Offshore Petroleum Titles Administrator of approval to extend Permit Year 2 by 16 months to 21 March 2018. This additional time will provide an opportunity to undertake 330km of 2D seismic broadband reprocessing and additional studies including a stratigraphic interpretation study and an analogue field study. The potential drilling of the Beehive-1 exploration well has also been deferred 16 months with Permit Year 3 now commencing on 22 March 2018 and ending on 21 March 2019.

- *PEP51153 – New Zealand (Melbana 30% interest)*

In December 2016, the company announced that it has approved the drilling of the Pukatea prospect. Drilling of the Pukatea is anticipated in Q3/Q4 2017 with Melbana's share of the dry hole cost of the well, including potential testing, expected to be approximately $2,500,000.

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

In November 2016 the company announced that the national oil company Union Cuba Petrole (CUPET) has 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) has been 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 is unchanged.

Summary

Should Melbana proceed with its share of exploration commitments, they are now estimated to be $22,764,286 of which $139,286 is estimated to be incurred prior to 30 June 2017 and $22,625,000 is estimated after one year (i.e. after 30 June 2017) but not more than five years (i.e. 30 June 2021). This compares to Melbana's share of exploration commitments reported in the 2016 Annual Report, estimated to be $20,014,286 of which $14,286 is estimated within one year and $20,000,000 is estimated after one year but not more than five years.

Other than the above, there have been no material changes to commitments and contingent liabilities since the annual financial statements that were issued for the year ended 30 June 2016.

NOTE 10 EVENTS SUBSEQUENT TO BALANCE DATE

Other than the above, there were no other significant matters that arose subsequent to 31 December 2016 and up until the date of this report.

* *Subject to a conditional 40% option to be exercised no later than September 2017 held by Petro Australis Limited*

Directors' declaration

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

In the opinion of the Directors:

(a) The financial statements and notes of the consolidated entity for the half-year ended 31 December 2016 are in accordance with the *Corporations Act 2001*, including:

   (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

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

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

On behalf of the Board

Peter Stickland
Managing Director & Chief Executive Officer
Melbourne, 9th March 2017

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To the members of Melbana Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Melbana Energy Limited which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the half-year end or from time to time during the half-year.

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*. The directors are also responsible for such internal controls that the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 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 and the entities it controlled during the half-year, 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*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 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*.

Ernst + Young

Ernst & Young

Alison Parker

Alison Parker
Partner
Melbourne
9 March 2017