

16 August 2017

Dear Security holder

### **NON-RENOUNCEABLE ENTITLEMENT OFFER**

On 15 August 2017, Melbana Energy Limited (ACN 066 447 952) (**Company** or **Melbana**) announced that the Company would be conducting a pro-rata non-renounceable entitlement offer of up to approximately 476,621,943 fully paid ordinary shares in the capital of the Company (**New Shares**) on the basis of 1 New Share for every 2 Melbana fully paid ordinary shares (**Shares**) held at 7:00pm AEST on the record date, which under the indicative timetable is 18 August 2017 (**Record Date**) at an issue price of A\$0.01 per New Share and up to approximately 158,873,981 unquoted options (**Options**) on the basis of 1 free attaching Option for every 3 New Shares issued, with each Option having an exercise price of \$0.02 and expiring on 31 August 2018 to raise up to approximately \$4.3 million (after costs) (**Entitlement Offer**).

The terms of this Offer provide an opportunity for existing Melbana shareholders to invest in the Company on the same terms as the recently announced Share Placement offered to institutional and sophisticated investors through which the Company successfully raised \$1,787,332 (before costs).

The proceeds from the Entitlement Offer (after costs) will be applied towards:

- (a) Cuba drilling preparation related activities (but excluding drilling itself) including permitting, procurement, short term guarantees and long lead items; and
- (b) corporate costs and for general working capital purposes.

The Board reserves the right to alter the way in which funds are applied.

The Entitlement Offer is partially underwritten by Patersons Securities Limited as to \$3.42 million.

The Entitlement Offer is made pursuant to a prospectus lodged with the Australian Securities and Investments Commission (**ASIC**) on 15 August 2017 (**Prospectus**) and released to the Australian Securities Exchange (**ASX**) on the same date.

The Prospectus is available on the Company's website at <http://www.melbana.com> or on the ASX website (company announcements section, ASX code: MAY) at [www.asx.com.au](http://www.asx.com.au).

It is anticipated that the Prospectus will be sent to all shareholders with a registered address in Australia, New Zealand, British Virgin Islands, Singapore and Canada on or around Tuesday 22 August 2017.

### ***Summary of key features of the Entitlement Offer***

The Entitlement Offer is open to shareholders who hold Shares as at 7:00pm AEST on the Record Date with registered addresses in Australia, New Zealand, British Virgin Islands, Singapore and Canada and who are eligible under all applicable securities laws to receive an offer under the Entitlement Offer (**Eligible Shareholders**). All other shareholders are not eligible to participate in the Entitlement Offer and will be notified by the Company separately (**Excluded Shareholders**). As at the date of this letter, the Company's Excluded Shareholders are in Brunei Darussalam, China, Denmark, France, Greece, Hong Kong, Japan, Lichtenstein, Malaysia, Netherlands, Oman, Papua New Guinea, Portugal, Singapore, Sweden, Thailand, the United Arab Emirates, the United Kingdom and the United States of America.

Under the terms of the Entitlement Offer, Eligible Shareholders will be entitled to subscribe for 1 New Share for every 2 Shares held at 7:00pm (AEST) on the Record Date at an issue price of A\$0.01 per New Share and up to approximately 158,873,981 unquoted options (**Options**) on the basis of 1 free attaching Option for every 3 New Shares issued, with each Option having an exercise price of \$0.02 and expiring on 31 August 2018 (**Entitlements**). Where fractions arise in the calculation of Entitlements, they will be rounded up to the nearest whole number. Holdings on different sub-registers will not be aggregated for calculating Entitlements. Eligible Shareholders may also apply for additional New Shares in excess of their Entitlement on the terms set out in the Prospectus.

Melbana also reserves the right (in its absolute discretion) to reduce the number of New Shares and Options issued if Melbana believes an applicant's claim to be overstated or if an applicant or their nominees fail to provide information to substantiate their claims to Melbana's satisfaction.

The New Shares will rank equally with the existing ordinary shares from the date of issue. Shares issued on the exercise of Options will rank equally with existing Shares from the date of issue.

The current number of Shares on issue in the Company is 953,243,886. The Company has announced a share placement using its available placement capacity and will issue 178,733,229 shares subject to the placement completing. Under the Entitlement Offer, assuming it is fully subscribed, up to approximately 476,621,943 New Shares will be issued. The number of Shares on issue at the completion of the Entitlement Offer will be approximately 1,609,599,058.

The Company also has 13,250,000 options on issue and 26,273,365 performance rights on issue which remain subject to vesting conditions, which do not carry an Entitlement to participate in the Entitlement Offer. The Company has announced a share placement using its available placement capacity and will issue 59,577,743 options subject to the placement completing. Under the Entitlement Offer, up to approximately 158,873,981 Options will be issued. The number of Options on issue at the completion of the Entitlement Offer will be up to approximately 231,701,724. The number of performance rights on issue will remain unchanged as a result of the Entitlement Offer.

The Entitlement Offer is non-renounceable, therefore you cannot sell your Entitlements.

Eligible Shareholders may also apply for additional New Shares and Options in excess of their Entitlement at the same issue price of \$0.01 per New Share (**Shortfall Facility**). Applications for New Shares and Options under the Shortfall Facility will be satisfied out of any Entitlements for which applications have not been received from Eligible Shareholders before the closing date of the Entitlement Offer. There is no guarantee regarding the number of New Shares and Options (if any) that will be available to Shareholders under the Shortfall Facility, in addition to their Entitlement under the Entitlement Offer. This will depend on how many entitlements are taken up. If all Entitlements are taken up under the Entitlement Offer then there will be no New Shares and Options available under the Shortfall Facility.

The Company reserves the right to scale back applications for the Shortfall Facility in its absolute discretion. When determining the amount (if any) by which to scale back an application, the Company may take into account a number of factors, including the size of an applicant's shareholding, the extent to which Eligible Shareholders have sold or bought additional Shares after the Record Date, the date an application was made and any requirements of the Corporations Act and Listing Rules. Eligible Shareholders are therefore encouraged to submit their applications early. The Directors reserve the right to issue the New Shares and Options under the Shortfall Facility at their discretion.

Any New Shares and Options not taken up by Eligible Shareholders (including under the Shortfall Facility) may become available as Shortfall. A portion of the Shortfall will be dealt with in accordance with the underwriting agreement. The offer of any Shortfall is a separate offer made pursuant to the Prospectus (**Shortfall Placement**). The Directors reserve the right, subject to the requirements of the Listing Rules and the Corporations Act, to place any Shortfall at their absolute discretion.

Patersons Securities Limited is a joint lead manager and Underwriter to the Offer. Patersons Securities Limited will be paid 6% (plus GST) on any Shortfall Placement and Underwriting, which fee reduces to 4.5% (plus GST) in relation to funds raised from any party on an agreed list not introduced by Patersons Securities Limited who have participated directly (including Melbana Directors but excluding institutions, AFSL holders and any Patersons Securities Limited clients). Patersons Securities Limited will not receive a fee on funds raised through the take up of Entitlements by Eligible Shareholders (including funds raised under the Shortfall Facility).

Hartleys Limited is a joint lead manager to the Offer. Hartleys Limited will be paid a fee of 2.5% (plus GST) of the amount raised under the Offer (including the Shortfall Facility) and a fee of 6% (plus GST) of the amount raised under any subsequent Shortfall Placement to clients of Hartleys Limited (reduced to 1% (plus GST)) for any Shortfall Placement to parties that are Melbana substantial shareholders or not introduced by Hartleys Limited, and no fee payable for any Shortfall Placement to the Board, Company management and their associates who have participated directly (with the exception of institutions, and AFSL holders). Melbana has also conditionally agreed to issue to Hartleys Limited (or its nominee) unlisted options over fully paid ordinary shares (each with an exercise price of \$0.018 and expiring 3 years from the date of issue) (**Hartleys Options**) as consideration for capital raising services, as noted in section 2.3 of the Prospectus. The exact number of Hartleys Options to be issued will depend on the amount of equity capital raised by Melbana in the four month period from 7 August 2017 (**Hartleys Period**). Melbana will be obliged to issue 4,000,000 Hartleys Options pro-rata for every \$1 million raised by Melbana through the issue of equity securities during the Hartleys Period up to a maximum of 20,000,000 Hartleys options. The issue of the Hartleys Options will be subject to shareholder approval.

No shareholder approval for the Entitlement Offer is required.

The Company currently has no dividend policy.

***Indicative timetable***

The indicative timetable for the Entitlement Offer is as follows:

Event	Date
Announcement of the Entitlement Offer	Tuesday, 15 August 2017
Lodgement of Appendix 3B with ASX	Tuesday, 15 August 2017
Prospectus lodged at ASIC and ASX	Tuesday, 15 August 2017
Notice sent to Shareholders	Wednesday, 16 August 2017
Record Date for eligibility in the Entitlement Offer (7.00pm EST)	Friday, 18 August 2017 EST
Prospectus (together with Entitlement and Acceptance Form) despatched to Shareholders	Tuesday, 22 August 2017 EST
Opening Date	Tuesday, 22 August 2017
Closing Date (5.00pm EST) (unless extended or withdrawn)	Wednesday, 6 September 2017
Notify ASX of under subscriptions	Monday, 11 September 2017

Issue of New Shares and Options under the Entitlement Offer	Wednesday, 13 September 2017
Trading of New Shares	Thursday, 14 September 2017
Despatch of holding statements for New Shares and Options	Thursday, 14 September 2017

The above timetable is indicative only and subject to change. The Company reserves the right to amend any or all of these events, dates and times subject to the *Corporations Act 2001* (Cth), the ASX Listing Rules and other applicable laws. In particular, the Company reserves the right to extend the closing date of the Entitlement Offer, to accept late applications either generally or in particular cases or to withdraw the Entitlement Offer without prior notice. The commencement of quotation of New Shares is subject to confirmation from ASX.

### **Brief instructions for Eligible Shareholders**

If you are an Eligible Shareholder, you may do the following:

<p><b>If you wish to accept your Entitlement in full:</b></p> <ul style="list-style-type: none"> <li>• pay the amount indicated on your Entitlement and Acceptance Form via BPAY® using the BPAY® code and personalised customer reference number indicated; or</li> <li>• complete the Entitlement and Acceptance Form, filling in the details in the spaces provided and attach your cheque or bank draft for the amount indicated on your Entitlement and Acceptance Form,</li> </ul> <p>in each case, payment is to be received by no later than 5.00pm (Melbourne time) on Wednesday, 6 September 2017.</p>	<p><b>If you only wish to accept part of your Entitlement:</b></p> <ul style="list-style-type: none"> <li>• pay the amount indicated on your Entitlement and Acceptance Form via BPAY® using the BPAY® code and personalised customer reference number indicated; or</li> <li>• complete the Entitlement and Acceptance Form, filling in the details in the spaces provided and attach your cheque or bank draft for the amount indicated on your Entitlement and Acceptance Form,</li> </ul> <p>in each case, payment is to be received by no later than 5.00pm (Melbourne time) on Wednesday, 6 September 2017.</p>
<p><b>Applying for additional New Shares and Options</b></p> <p>Eligible Shareholders who have subscribed for their Entitlement in full may also apply for additional New Shares and Options under the Shortfall Facility in addition to their Entitlement. You may apply for additional New Shares and Options as follows:</p> <ul style="list-style-type: none"> <li>• complete the relevant section of your</li> </ul>	<p><b>If you do not wish to accept all or part of your Entitlement,</b> you are not obliged to do anything. If Eligible Shareholders do not take up their Entitlement, their existing interest in the Company will be diluted.</p>

<p>Entitlement and Acceptance Form and return it together with a single cheque or bank draft for the appropriate application monies for both your Entitlement and the additional New Shares and Options you wish to apply for; or</p> <ul style="list-style-type: none"><li>• pay the appropriate application monies for both your Entitlement and the additional New Shares and Options you wish to apply for via BPAY® using the BPAY® code and personalised customer reference number indicated,</li></ul> <p>in each case, payment is to be received by no later than 5.00pm (Melbourne time) on Wednesday, 6 September 2017.</p>	
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***More information***

Before making a decision whether to apply for New Shares and Options, please read the Prospectus carefully in its entirety when you receive it. Full details of the Entitlement Offer are set out in the Prospectus, copies of which will be available on the ASX website [www.asx.com.au](http://www.asx.com.au). **The Entitlement Offer is scheduled to close at 5:00pm AEST on Wednesday, 6 September 2017.**

This letter is not a prospectus and does not constitute an offer of securities. An offer of New Shares and Options under the Entitlement Offer will only be made in, or accompanied by, a copy of the Prospectus sent to all Eligible Shareholders.

The Directors of the Company recommend that if you are in doubt as to the value of the Entitlement Offer then you should contact your financial adviser.

Should you have any queries, please contact the Company's share registry, Link Market Services Limited, on +61 1300 554 474.

Yours faithfully

A handwritten signature in black ink, appearing to read "Colin Naylor".

Colin Naylor  
Company Secretary  
**Melbana Energy Limited**