



OCTANEX

Quarterly Activity Report 31 December 2016

HIGHLIGHTS

- Ophir Oil Development Project well underway with drilling to commence Q2 2017
- Ascalon Retention Lease application in process
- Capital modification completed

PORTFOLIO SUMMARY

Increase production exposure

Ophir oil development

2 appraisal assets

Exploration portfolio

OCTANEX STRATEGY

Octanex is seeking to increase its exposure to production and development assets while moderating exploration activities.

Octanex has a 50% interest in the Ophir oil field development, offshore Malaysia. Octanex also has interests in two pre-development assets; the Cornea oil field and Ascalon gas discovery, both offshore Western Australia.

Octanex's exploration interests cover five offshore permits in Western Australia. Octanex's exploration strategy is focused on upgrading prospective acreage through geological and geophysical work with the intention of attracting international companies as farminees. Successful farm outs have in the past resulted in Octanex being partnered with world-class operators in four of its five exploration permits.

COMPANY OVERVIEW

ASX Code	OXX
Share price*	\$0.050
Shares on issue	272M ¹
Options	21.27M
Cash	\$6.1M
Debt	US\$4M

¹ Inclusive of 30M held by trustee
As at 31 December 2016

DIRECTORS

Geoffrey Albers	Chairman & CEO
Rae Clark	Executive Director & COO
James Willis	Non-Executive Director
Tino Guglielmo	Non-Executive Director
David Coombes	Non-Executive Director
Kevin How Kow	Non-Executive Director
Suhnylla Kler	Non-Executive Director

CONTACT DETAILS

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PROJECTS	OIL	GAS	INTEREST
DEVELOPMENT			
● Ophir Oil Field	🔥		50%
APPRAISAL			
● Greater Cornea Fields	🔥		18.75%
● Ascalon Gas Discovery		🔥	100%
EXPLORATION			
● Carnarvon Basin	🔥	🔥	33.33%
WA-362-P & WA-363-P			Carried by ENI
WA-323-P & WA-330-P			25%
			Carried by Santos
WA-387-P			100%

ASSETS AND ACTIVITIES OVERVIEW

DEVELOPMENT ASSET

Ophir Oil Development Project, Malaysia

The Ophir field, offshore Peninsular Malaysia, is being developed by Ophir Production Sdn Bhd (OPSB), under a Risk Service Contract (RSC).

Octanex holds a 50% interest in OPSB.

The Ophir development has benefited from the current reduction in industry costs. Furthermore, it utilizes a low risk development concept involving three production wells, a single wellhead platform and export via floating vessel.

First Oil from the Ophir field is scheduled to be produced in the second half of 2017.

During the quarter works continued on both the jacket and topsides elements of the Ophir wellhead platform. The platform is now near-complete and waiting installation at the Ophir field scheduled for Quarter 2 of calendar year 2017, following the end of the Monsoon.



Ophir Jacket – showing suction piles



Ophir Topsides

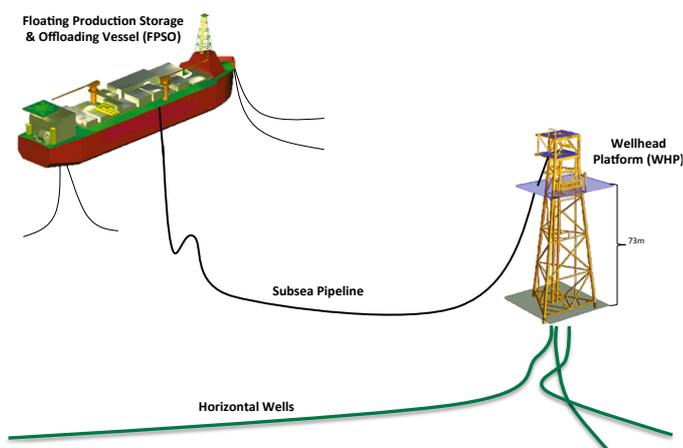
A contract for the NAGA 2 jack-up drilling rig for the drilling of three production wells has been executed with UMW Offshore Drilling Sdn Bhd (UMW). This award followed a tender process which resulted in very competitive day rates. The NAGA 2 is a self-elevating mobile offshore drilling unit and will be mobilised to the Ophir field in Quarter 2, 2017 in



NAGA 2 jack-up drilling rig

order to drill three production wells at the field.

Extensive procurement activity in relation to the FPSO continued during the quarter.

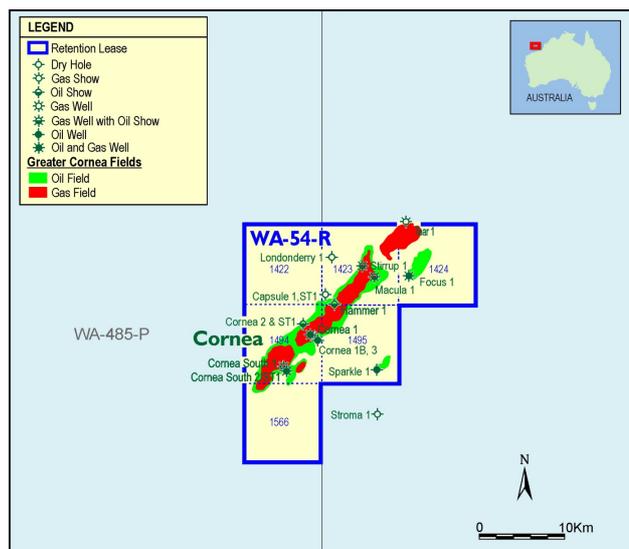


Ophir Development Schematic

Octanex's share of the Ophir project is fully funded via OPSB's 75% project financing and Octanex's \$17Million Share Placement and Convertible Note Agreement with Sabah International Petroleum, which is wholly owned by Sabah Development Bank Berhad ("SDB"). SDB itself is wholly owned by the Ministry of Finance of the Malaysian state of Sabah.

PRE-DEVELOPMENT ASSETS

Greater Cornea Fields, Browse Basin, 18.75% interest



Greater Cornea Field Retention Lease Location Map

The Greater Cornea Fields (being the Cornea (Central and South), Focus and Sparkle Oil Fields and the Cornea North (Tear) Gas Field) are located in the

Browse Basin, offshore from Western Australia and held via a Retention Lease (WA-54-R).

The oil volumes in the Greater Cornea Fields are such that, if threshold production flow rates can be demonstrated, but dependent on oil price, the economics should be attractive and provide a reasonable expectation of commercial development.

Middle Albian B & C Sands	P90	P50	P10
Oil In-place mmbbl	298.0	411.7	567.2
Recovery Factor %	2	7	25
Cont. Oil Resources (mmbbl)	7.9	28.8	101.9
Octanex 18.75% Interest	1.48	5.40	19.11

Probabilistic In-place and Contingent Oil Resources for Cornea Central and South Fields (no development risk applied)

The WA-54-R work program is aimed at overcoming technical challenges likely to be faced in bringing the Greater Cornea Fields into commercial production.

At the time the Retention Lease was granted, production uncertainty was considered to be the greatest barrier to the development of the Greater Cornea Fields. Given the potential size of the oil resource, and the then prevailing oil price, it was understood that resolving the production uncertainty could provide a reasonable expectation for probable development.

Accordingly, the Retention Lease work program was designed to address the technical challenges of the Fields; with the first three years of the Lease designed to support the quantification of drilling challenges, culminating in a Year-4 production test, with the Year-5 work programme involving review of the Year-4 outcomes. The work programme was thus designed on the premise that Cornea's challenge was whether it would produce, rather than whether production would be economic.

Recent technical work has included drilling studies, particularly focusing on the use of technology to address key uncertainties. Additional field development concept work focuses on an appropriate production system.

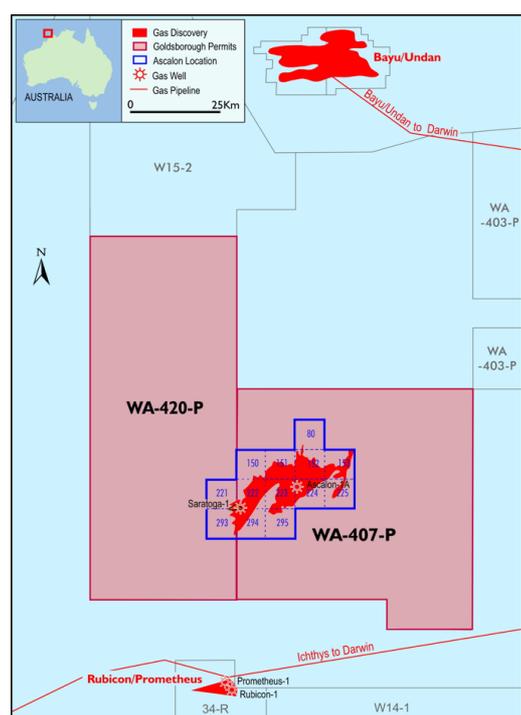
Our economic model was recently updated which used assumptions based on present date oil price, capex and opex assumptions. The economic modelling demonstrates the fundamental shift in the

field's commerciality in the current sustained low oil price environment, as well as demonstrating that the Greater Cornea Fields are not presently economic (even were the production uncertainties resolved), "oil price" was identified as the input to which the field is most sensitive, rather than "production" which was the case in 2013.

The material fall in the price of oil since the grant of the Retention Lease (has therefore resulted in a development of the Greater Cornea Fields not being presently commercial, even were the production uncertainty to be resolved.

Given the ~60% decline in oil price, the most significant hurdle to commerciality of the Greater Cornea Fields is no longer producibility, but is "oil price". As such, the WA-54-R work program no longer addresses the Greater Cornea Fields' most significant barrier to development. Accordingly, the Cornea Joint Venture intends to apply to vary the conditions of WA-54-R in order that the work programme is focussed on the "oil price" barrier to development now faced by the Greater Cornea Fields.

Ascalon Gas Discovery, Bonaparte Basin 100% interest



Ascalon Gas Accumulation Location Map

Discovered in 1995 by Mobil, the Ascalon gas accumulation is located mostly within exploration permit WA-407-P and extending into the adjacent WA-420-P. Applications for Retention Leases over the Ascalon gas accumulation were lodged early in 2016 to enable Octanex to retain the acreage until access to LNG market develops. Engagement with NOPTA regarding the Retention Lease applications continued during the quarter.

The gas is contained in a faulted horst structure within shallow marine sandstones of the Late Permian, Cape Hay Formation of the Hyland Bay Subgroup. Mapping on modern 3D seismic database, which we acquired over the feature and newly reprocessed 2D seismic, indicates a closure over an area of 260km² with a maximum closure height of 380m. The lowest closing contour appears coincident with lowest known gas defined from logs in the Ascalon-1A well. Modern petrophysics indicates a 146m gross gas column within the Cape Hay Formation in the Ascalon-1A well, which was located down dip off the crest of the structure. The reservoir sandstones within the Cape Hay Formation are tight, considered to be not unlike those in the nearby Petrel and Tern gas discoveries.

The probabilistically determined contingent resources estimates for the Ascalon Gas Discovery are shown in the table below.

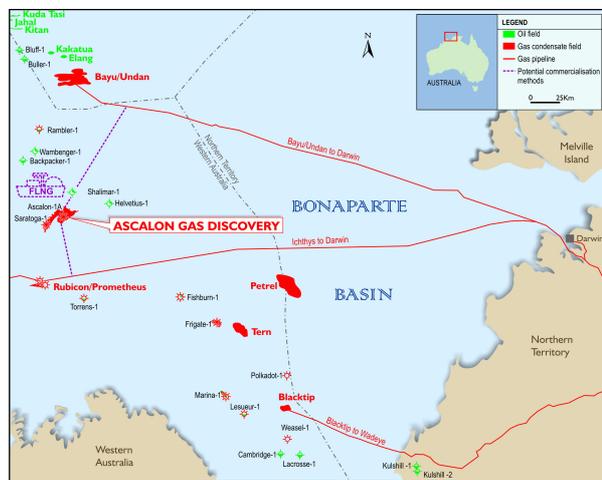
	P90	P50	P10
Contingent gas resource (TCF)	1.04	3.01	8.74
Octanex 100% interest			

Ascalon gas discovery – Probabilistic Contingent Gas Resources (no development risk applied)

The commerciality of Ascalon is dependent on gas market factors; gas market demand and consequent pricing, as well as access to market. Located offshore from northern Australia, the most likely market for Ascalon's gas is LNG, which would necessitate access to pipeline and LNG infrastructure. The P50 estimate of the contingent resource at Ascalon is 3 TCF of natural gas, which at current LNG gas prices, is insufficient to support a standalone LNG development.

Ascalon is located in proximity to a number of gas discoveries some of which may be commercialised in coming years, including the Petrel and Tern discoveries. The development of nearby gas discoveries can be expected to provide opportunities for Ascalon to be developed to tie-back to another development. It is also located in close proximity to the the Bayu-Undan pipeline to Darwin as well as the Icythys pipeline to the Inpex LNG facility under development in Darwin.

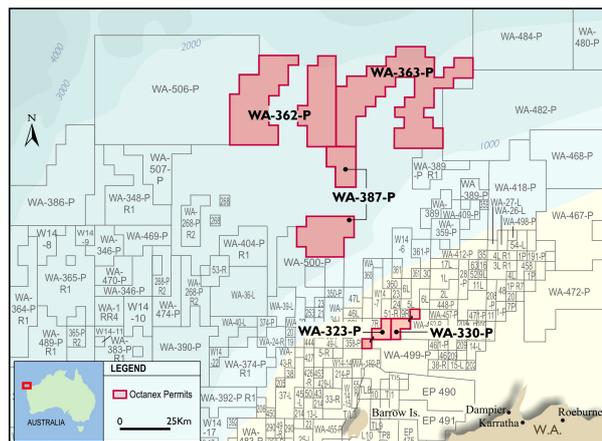
The Ascalon Location is outside the area of disputed sovereignty between East Timor and Australia.



Ascalon Proximity to Gas Infrastructure

EXPLORATION ASSETS

Octanex has various interests in five high impact permits in the Dampier sub-basin and the Exmouth Plateau of the Northern Carnarvon Basin. Its participation in four of these permits is presently fully carried.

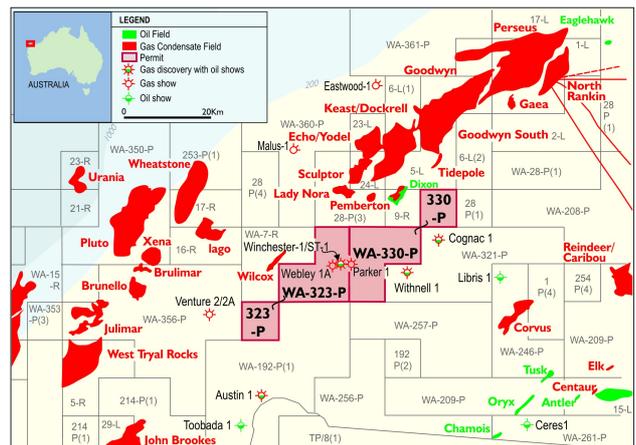


Octanex Carnarvon Basin Interests

Dampier Sub-Basin

WA-323-P & WA-330-P, 25% interest, Operated by Santos

WA-323-P and WA-330-P comprise a discrete project area of 640 km² on the Parker Terrace, in proximity to the onshore Devils Creek gas processing facility. The Winchester-1/ST1 discovery well was drilled from a location within WA-323-P during 2013. By itself, the estimated size of the Winchester discovery, is considered to be insufficient to be developed economically without further contributions to the discovered resource from possible deeper or adjacent hydrocarbon zones to the Winchester location. The Winchester discovery is located near existing pipeline and processing infrastructure and likely future infrastructure extensions.



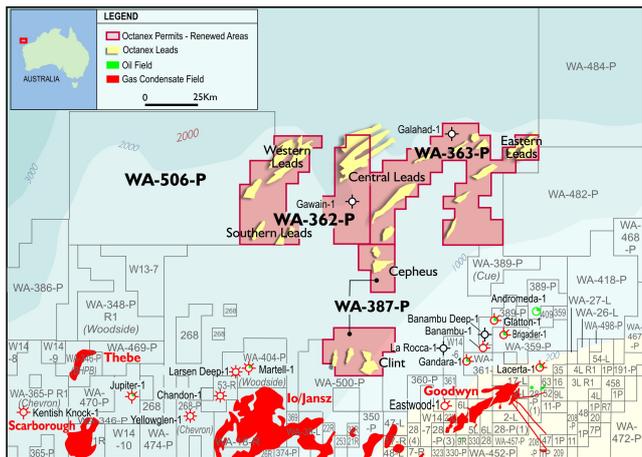
WA-323-P & WA-330-P and Winchester-1/ST1 Location Map

Interpretation of the reprocessed data Winchester 3D seismic survey by the operator is continuing with the Prospects and Leads inventory being updated to incorporate prospects and leads identified from the reprocessed Winchester 3D survey.

Octanex is carried by Santos though all exploration activity in the current term of each permit.

Exmouth Plateau interests

Octanex has interests in three permits in the Exmouth Plateau as shown below.



Exmouth Plateau Permits

WA-362-P & WA-363-P, 33.33% interest, operated by Eni

The WA-362-P and WA-363-P permits are located on the northern margin of the Exmouth Plateau, 300 – 400 km northwest of the Western Australian coastline and comprise a combined exploration area of approximately 10,956 km². The work program in both permits calls for reprocessing, interpretation and mapping of 2D data together with a studies program, to be followed by a new 3D seismic survey and an exploration well in the last two years of each permit’s term. A tender process for the seismic reprocessing was conducted during the quarter.

Octanex is fully carried by Eni though all exploration activity, including the next well in each permit, should a well be drilled in either or both of the permits.

WA-387-P, 100% interest

WA-387-P is considered to be prospective for gas within fluvial and deltaic sandstones of the Triassic Mungaroo Formation. This play is the main reservoir in the Wheatstone and Pluto gas fields located 35km and 45km due south of the permit respectively. The Mungaroo Formation is also the reservoir for the giant Goodwyn gas field located 65km to the east of the permit. A secondary play is the Late Jurassic, Oxfordian Jansz Sandstone, which is the reservoir for the giant Jansz/lo gas discovery located 35km southwest of the permit.

The current work program calls for the acquisition of 2D seismic surveys and studies. Octanex is seeking participation of other exploration and speculative seismic companies to join with it in this work.

CORPORATE

Capital Modification

At the General Meeting in November, shareholders provided approval for the share capital of the Company to be reduced by:

- (a) cancelling uncalled capital amounting to \$0.10 per share on each of the 67,078,910 ordinary shares paid to \$0.15 in the share capital of the Company (partly paid shares); and
- (b) the consolidation of the partly paid shares into fully paid shares on the basis that each five partly paid shares be consolidated into three fully paid shares.

Change of Corporate Status

Following shareholder approval, application to change the Company’s type to “Limited” instead of “No Liability” was made during the quarter and was finalised in January 2017.

Convertible Notes

During the quarter, SIP subscribed for the first tranche of 4,000,000 US\$1.00 convertible notes (Tranche A Notes) pursuant to the convertible note subscription agreement approved by shareholders in February 2015. The Tranche A Notes have a maturity date of 31 December 2018, with 8% interest payable per annum. They may be converted into 31,746,032 ordinary shares at any time, based on an agreed conversion price of US\$0.126.

Rae Clark

Executive Director
& Chief Operating Officer
31 January 2017

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

OCTANEX LIMITED

ABN

61 005 632 315

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation	(22)	(86)
(b) development		
(c) production		
(d) staff costs	(116)	(229)
(e) administration and corporate costs	(90)	(352)
1.3 Dividends received (see note 3)		
1.4 Interest received	1	2
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Research and development refunds		
1.8 Other (provide details if material)	20	38
1.9 Net cash used in operating activities	(207)	(627)

2. Cash flows from investing activities

- 2.1 Payments to acquire:
- (a) property, plant and equipment
 - (b) tenements (see item 10)
 - (c) investments
 - (d) other non-current assets

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment		
	(b) tenements (see item 10)		
	(c) investments		
	(d) other non-current assets		
2.3	Cash flows from loans to other entities	(1,843)	(1,843)
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash used in investing activities	(1,843)	(1,843)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares		
3.2	Proceeds from issue of convertible notes		
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options		
3.5	Proceeds from borrowings	5,383	5,383
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from financing activities	5,383	5,383

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,642	3,143
4.2	Net cash used in operating activities (item 1.9 above)	(207)	(627)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,843)	(1,843)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	5,383	5,383
4.5	Effect of movement in exchange rates on cash held	160	79
4.6	Cash and cash equivalents at end of period	6,135	6,135

Mining exploration entity and oil and gas exploration entity quarterly report

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	6,135	2,642
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	6,135	2,642

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	47
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	1,843
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

6.2 Shareholder advance to 50% owned Ophir Production Sdn Bhd ("OPSB") for the quarter - \$1,843k

7.	Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	6
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities – Convertible Notes	US\$12m	US\$4m
8.2 Credit standby arrangements		
8.3 Other (please specify)		
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	50
9.2 Development	
9.3 Production	
9.4 Staff costs	123
9.5 Administration and corporate costs	150
9.6 Other – Advance to joint venture company	500
9.7 Total estimated cash outflows	823

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced		See Activity Report		
10.2 Interests in mining tenements and petroleum tenements acquired or increased		See Activity Report		

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:
(Company secretary)

Date: 31 January 2017

Print name: R.J. Wright

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.