



ABN 61 005 632 315

HALF YEAR FINANCIAL REPORT

31 DECEMBER 2016

Contents

DIRECTORY	2
DIRECTORS' REPORT	3
DIRECTORS' DECLARATION	15
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	16
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	17
CONSOLIDATED STATEMENT OF CASH FLOWS	18
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	19
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	21
AUDITOR'S INDEPENDENCE DECLARATION	27
INDEPENDENT AUDITOR'S REVIEW REPORT	28

DIRECTORY

BOARD OF DIRECTORS

E.G. Albers (Chairman)
R.L. Clark
J.M.D. Willis
D.C. Coombes
G Guglielmo
S Kler
K How Kow

COMPANY SECRETARIES

J.G. Tuohy
R.J. Wright

REGISTERED OFFICE

Level 21,
500 Collins Street,
Melbourne, Victoria 3000

Telephone: +61 (0)3 8610 4702
Facsimile: +61 (0)3 8610 4799
E-mail: admin@octanex.com.au
Website: www.octanex.com.au

AUDITOR

Grant Thornton Audit Pty Ltd
Level 30
525 Collins Street
Melbourne, Victoria 3000 Australia

SHARE REGISTRY

Link Market Service Limited
Level 1,
333 Collins Street,
Melbourne, Victoria 3000
Telephone: +61 (0)3 9615 9947
Facsimile: +61 (0)3 9633 8495
Website: www.linkmarketservices.com.au

INCORPORATED

Incorporated in Victoria on 13 March 1980

STOCK EXCHANGE LISTING

ASX Ltd
Level 4, North Tower, Rialto
525 Collins Street
Melbourne Victoria 3000

ASX Code: OXX

CURRENCY

The company's functional and presentation currency is Australian Dollars

FORWARD LOOKING STATEMENTS

This report includes certain forward-looking statements that have been based on current expectations about future acts, events and circumstances. These forward-looking statements are, however, subject to risks, uncertainties and assumptions that could cause those acts, events and circumstances to differ materially from the expectations described in such forward-looking statements.

These factors include, among other things, commercial and other risks associated with the meeting of objectives and other investment considerations, as well as other matters not yet known to the company or not currently considered material by the company.

DIRECTORS' REPORT

The directors of Octanex Limited (**Octanex** or **the company**) submit their report on the consolidated results of the company and its wholly-owned subsidiaries (**controlled entities**) or (**the group**) for the half year ended 31 December 2016.

Directors

The names of the company's directors in office during the half year and until the date of this report are as follows:

E Geoffrey Albers – Executive Chairman and Chief Executive Officer

Raewyn Clark – Executive Director and Chief Executive Officer

James Willis – Independent Director

Giustino Guglielmo – Independent Director

David Coombes – Independent Director

Suhnylla Kler – Non-Executive Director

Kevin How Kow – Non-Executive Director

Financial Results for the half year

The consolidated entity, being the company and its controlled entities, recorded a consolidated loss for the half year of \$1,439,107 (31/12/2015: loss of \$1,172,430).

Dividends

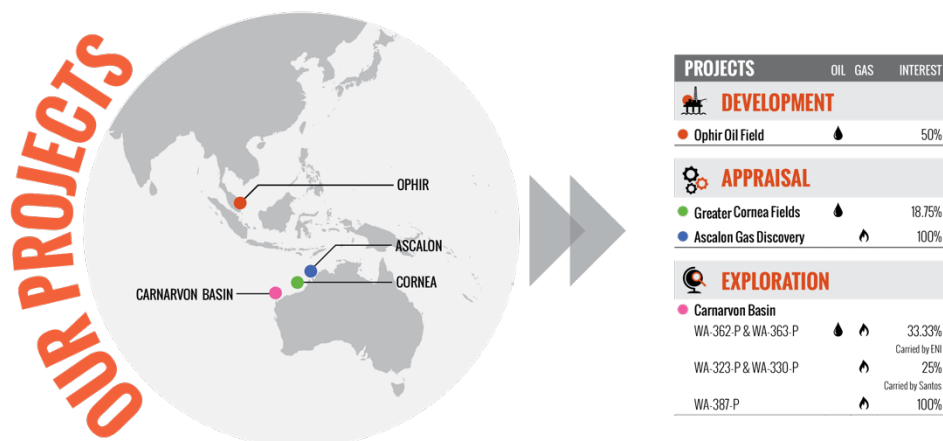
No dividend was declared or paid during the half year.

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 appraisal assets held under Retention Lease or the subject of Retention Lease application; the Cornea oil field and the Ascalon gas discovery, both offshore Western Australia.

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



ASSETS AND ACTIVITIES OVERVIEW

DEVELOPMENT ASSET

Ophir Oil Field, Malaysia, 50% Interest

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.

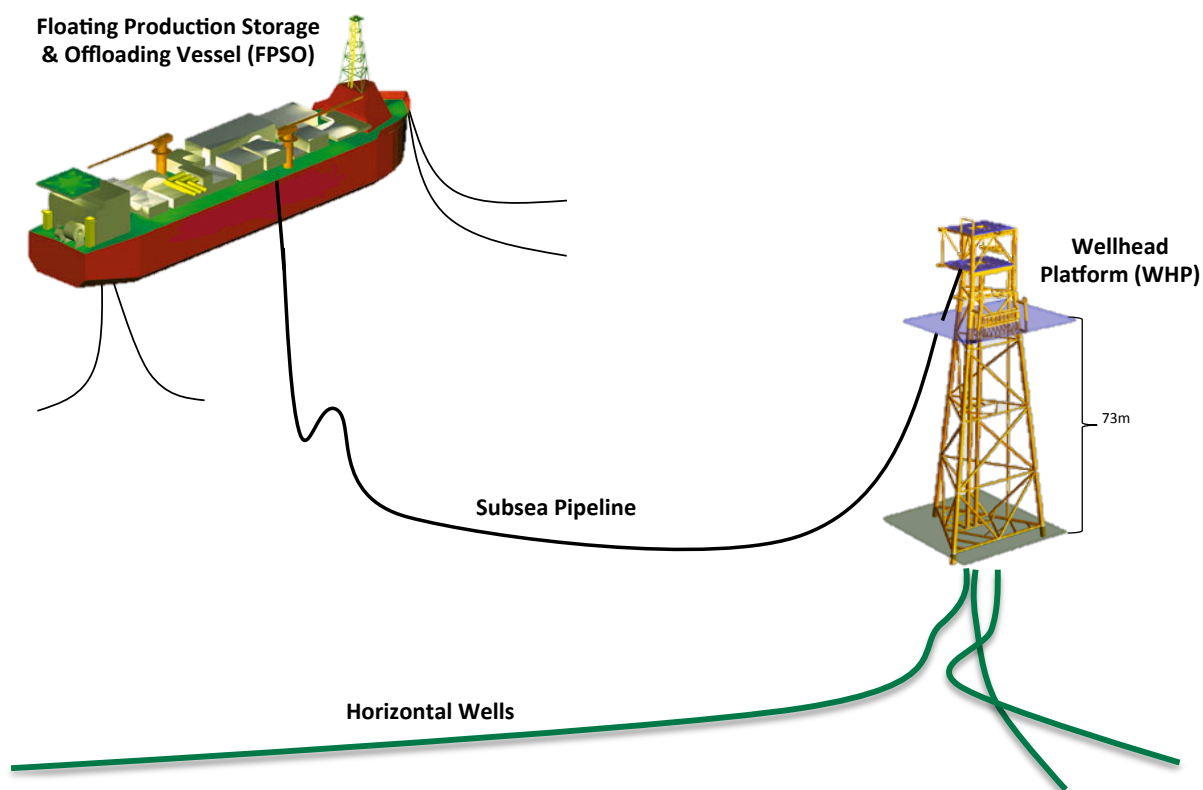


Figure 1 Ophir Development Schematic

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

The platform is now complete and waiting installation at the Ophir field scheduled for Quarter 2 of calendar year 2017, following the end of the Monsoon.



Figure 2 Ophir Jacket - showing suction piles



Figure 3 Ophir Topsides



Figure 4 Naga 2 Jack-up Drilling Rig

A contract for the NAGA 2 jack-up drilling rig (see below) for the drilling of three production wells has been executed with UMW Offshore Drilling Sdn Bhd. This award followed a tender process which resulted in 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 order to drill three production wells at the field.

A donor vessel has been secured for conversion into an FPSO for use on the Ophir field. MTC Engineering Sdn Bhd (MTCE), an experienced Malaysian oil and gas marine contractor, has purchased an oil tanker, Puteri Bangsa, for conversion into the MTC Ledang FPSO. Engineering design works for the conversion are well advanced and conversion works on the tanker will shortly commence.

The MTC Ledang FPSO will have a small process facility module with capacity for 15,000 barrels of fluid per day and gas flaring and will be capable of storing up to 350,000 barrels of crude. It will be anchored to the seabed at the Ophir field and connected to the Ophir platform via a flexible 8" pipeline. It is contracted to be at the Ophir field at a competitive rate for a period of three years, with a one year extension option.



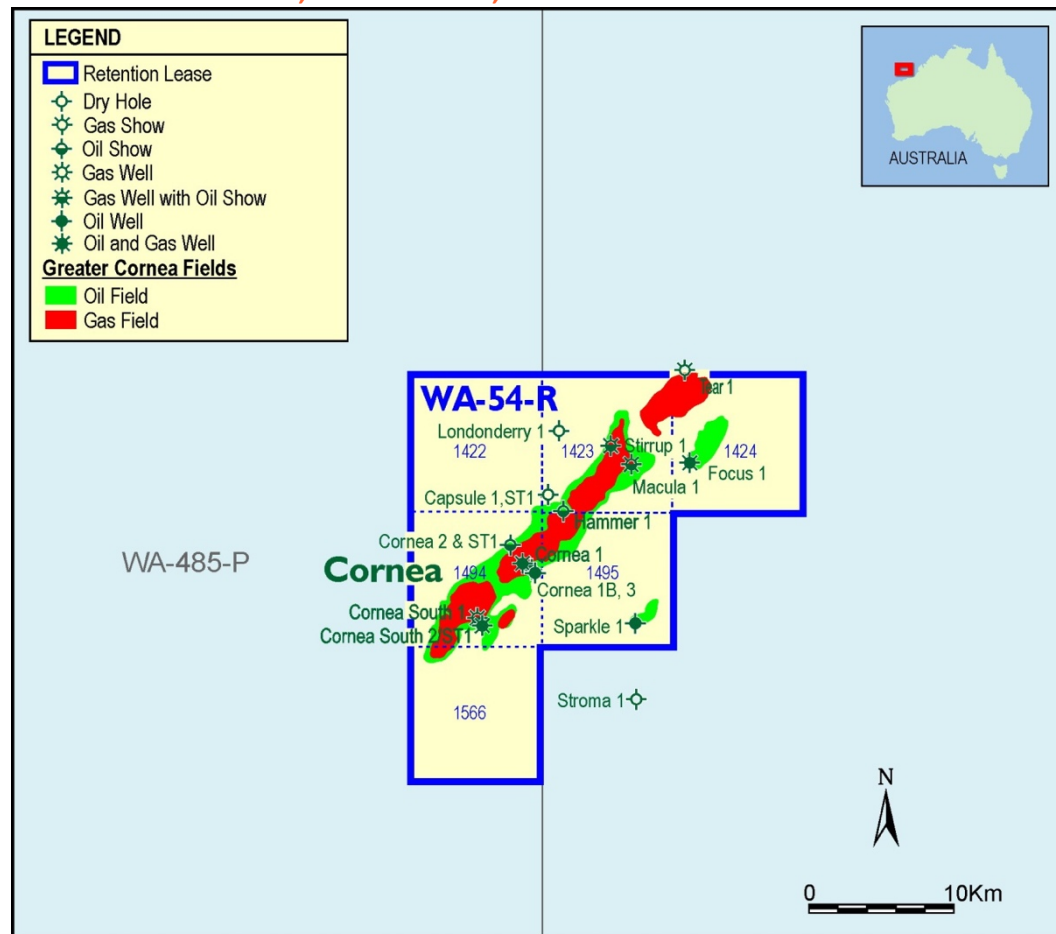
Figure 6 Puteri Bangsa Tanker to be converted to the MTC Ledang FPSO



Octanex's share of the Ophir project is fully funded via OPSB's 75% project financing and Octanex's US\$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. During the half year Octanex drew down US\$4million relating to Tranche A Convertible Notes pursuant to the Convertible Note Agreement.

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 (mmbbl)	1.48	5.40	19.11

Table 1 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.

Ascalon Gas Discovery, Bonaparte Basin 100% interest

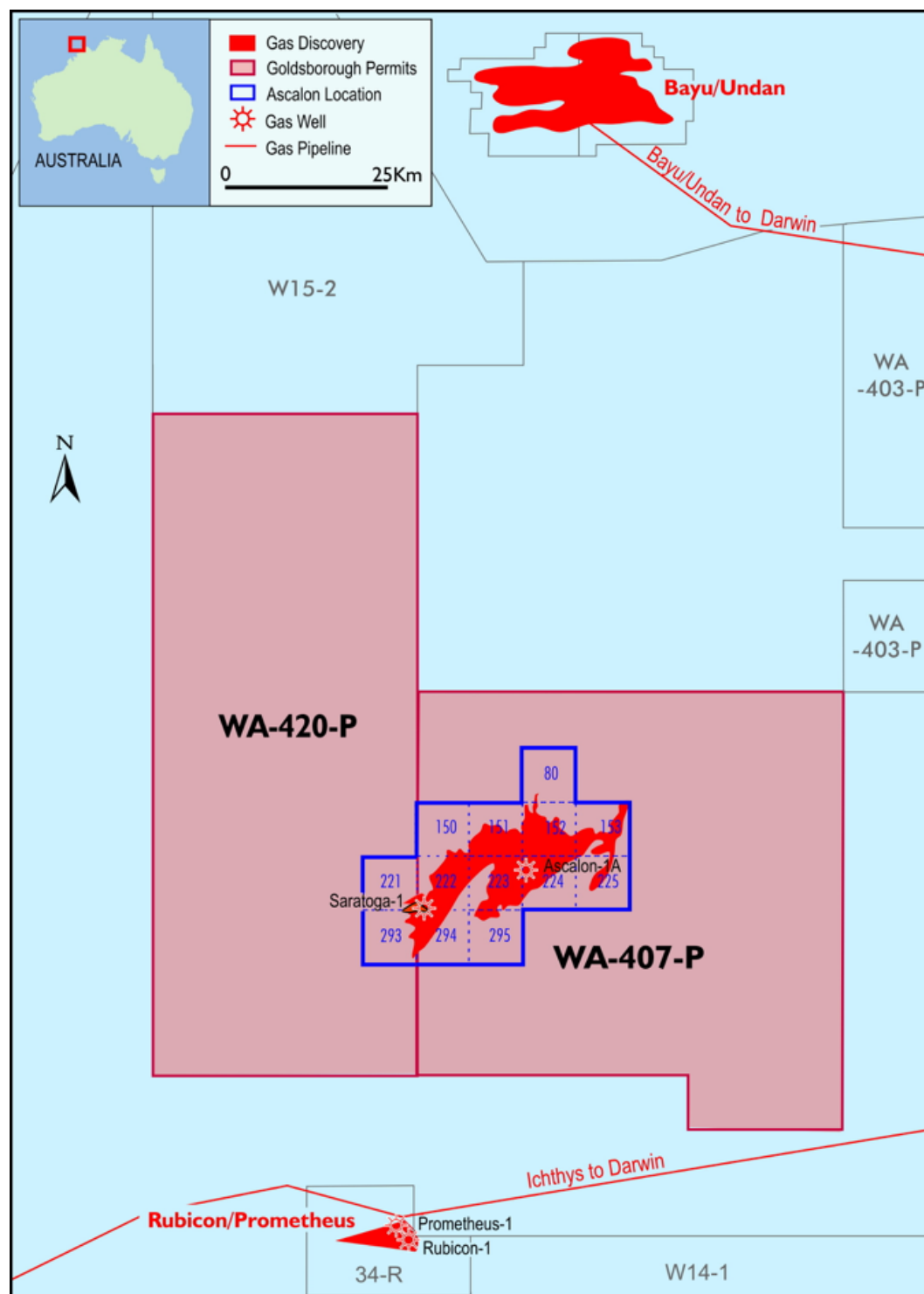


Figure 7 Ascalon Gas Accumulation Location Map

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.

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			

Table 2 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 Bayu-Undan pipeline to Darwin as well as the Ichthys 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.

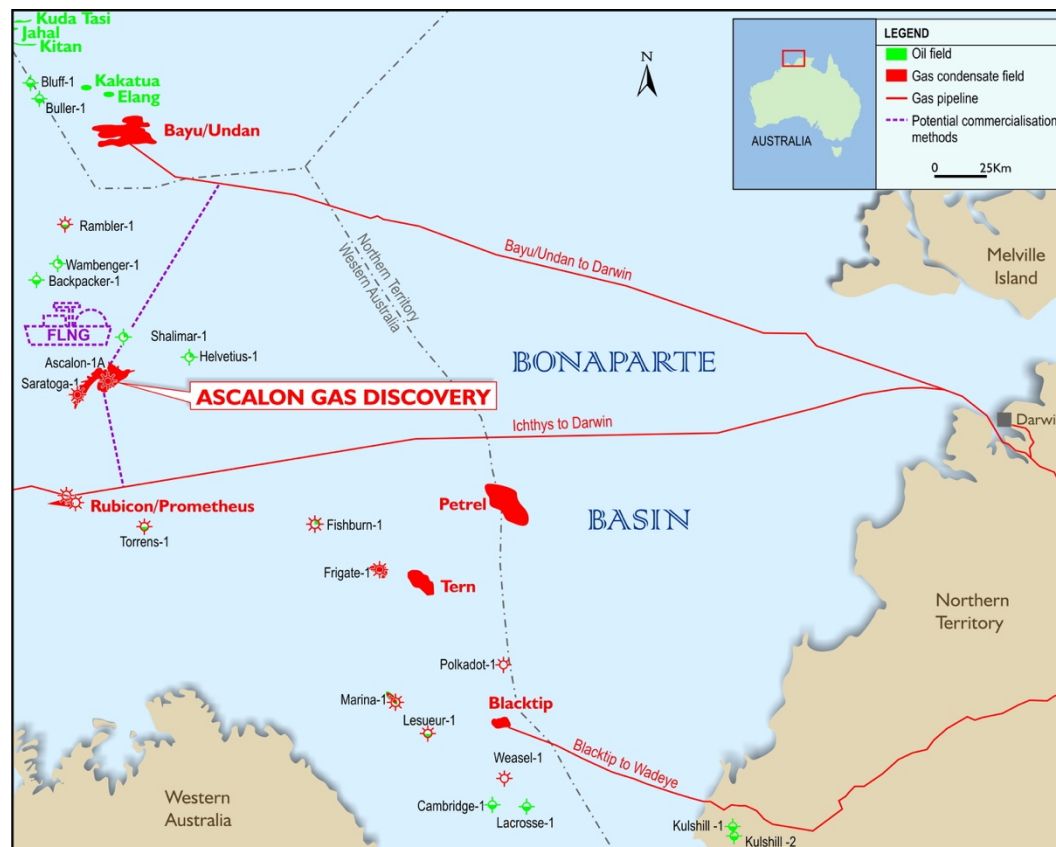


Figure 8 Ascalon proximity to gas infrastructure

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.

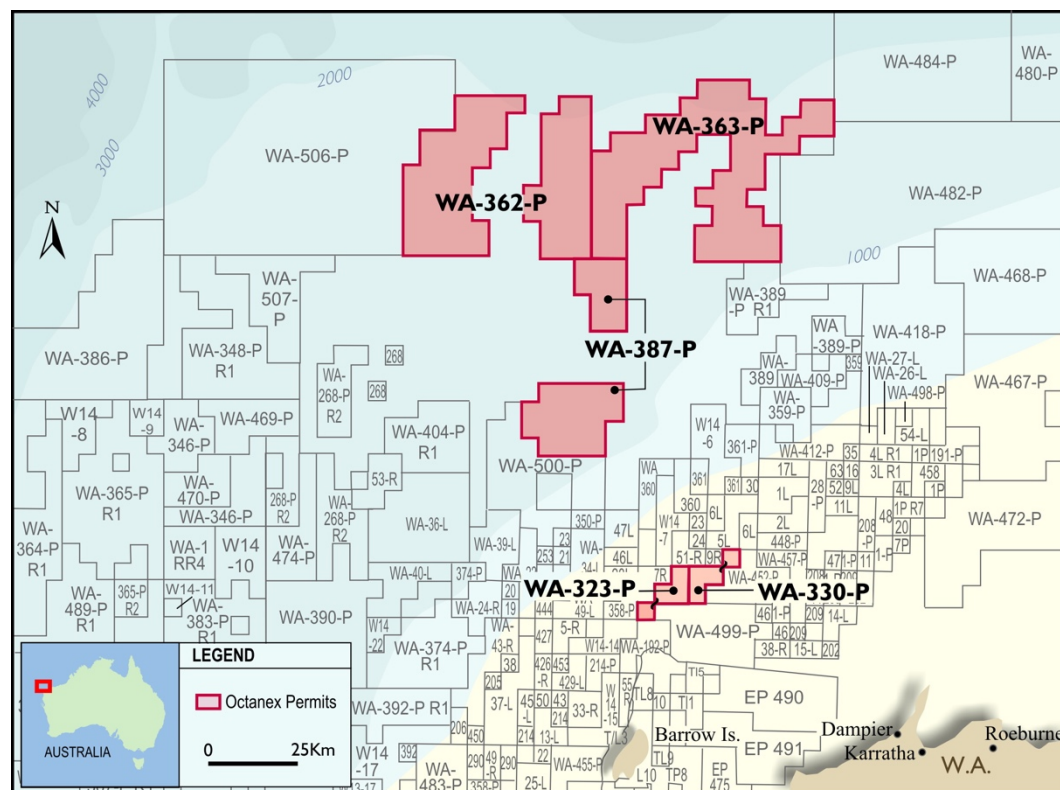
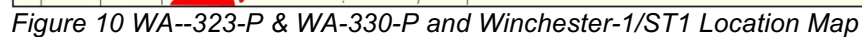


Figure 9 Octanex Carnarvon Basin Interests

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.



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

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



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.

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 MATTERS

In December 2016 Sabah International Petroleum Ltd 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.

At the General Meeting in November 2016, 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 67,078,910 partly paid shares into 40,247,386 fully paid shares on the basis that each five partly paid shares be consolidated into three fully paid shares.

The Company's share capital now consists of 242,712,947 shares (excluding 30,000,000 shares held by the Trustee of the Octanex Trust Share Scheme).

Following shareholder approval in November 2016, application to change the Company's type to "Limited" instead of "No Liability" was made and was finalised in January 2017.

SUBSEQUENT EVENTS

There has been no significant after balance date event up to the date of signing this report.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration as required under section 307C of the Corporations Act 2001 from our auditor, Grant Thornton Audit Pty Ltd, a copy of which is included at page 27.

Signed in accordance with a resolution of the directors

A handwritten signature in black ink, appearing to read 'E.G. Albers', with a stylized flourish at the end.

E.G. Albers
Director

Melbourne, 9 March 2017

DIRECTORS' DECLARATION

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

In the opinion of the directors:

- (a) the financial statements of the group, comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the financial position of the group 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) at the date of this declaration 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.



E.G. Albers
Director

Melbourne, 9 March 2017

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 December 2016**

	NOTE	CONSOLIDATED	
		31/12/2016	31/12/2015
		\$	\$
Net foreign exchange (loss)/gain		(13,022)	307,468
Other income		35,203	38,600
Consulting		(22,305)	(109,286)
Exploration		-	(575)
Impairment of exploration assets		-	(133,116)
Impairment of investment in associate		(86,709)	(366,017)
Management fees		(13,603)	(35,000)
Office costs		(121,753)	(117,286)
Other expenses		(153,336)	(255,914)
Project costs		(91,594)	(96,389)
Reporting, registry and stock exchange		(29,770)	(35,350)
Salaries		(176,752)	(206,050)
Share of loss in associate and joint venture company	5	(960,999)	(702,325)
Share based payments		(89,547)	-
Loss before income tax		(1,724,187)	(1,711,240)
Income tax benefit		285,080	538,810
Net loss for the half year		(1,439,107)	(1,172,430)
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operation		272,095	264,656
Income tax effect		-	-
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Changes in financial assets at fair value through other comprehensive income		(5,308)	-
Income tax effect		1,593	-
Other comprehensive income for the half year net of tax		-	-
Total comprehensive income for the half year		(1,170,727)	(907,774)
		Cents	Cents
Basic loss per share		(0.554)	(0.495)
Diluted loss per share		(0.554)	(0.495)

The above Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**AS AT 31 December 2016**

	NOTE	31/12/2016 \$	CONSOLIDATED 30/6/2016 \$
CURRENT ASSETS			
Cash and cash equivalents	6	6,134,695	3,147,294
Trade and other receivables		371,950	382,323
TOTAL CURRENT ASSETS		6,506,645	3,529,617
NON-CURRENT ASSETS			
Trade and other receivables	8	7,733,825	6,568,663
Financial assets at fair value through other comprehensive income	9	15,927	21,235
Investments in an associate and a joint venture company	10	42,735	142,449
Exploration and evaluation assets	11	41,316,539	41,208,791
TOTAL NON-CURRENT ASSETS		49,109,026	47,941,138
TOTAL ASSETS		55,615,671	51,470,755
CURRENT LIABILITIES			
Trade and other payables		554,215	634,420
Provisions		132,158	130,176
Derivative financial liability	13	178,534	-
TOTAL CURRENT LIABILITIES		864,907	764,596
NON-CURRENT LIABILITIES			
Borrowings	12	5,412,457	-
Deferred tax liabilities		8,235,276	8,521,949
TOTAL NON-CURRENT LIABILITIES		13,647,733	8,521,949
TOTAL LIABILITIES		14,512,640	9,286,544
NET ASSETS		41,103,301	42,184,211
EQUITY			
Issued capital	14	68,856,339	68,856,339
Reserves		1,930,576	1,572,649
Accumulated losses		(29,683,884)	(28,244,777)
TOTAL EQUITY		41,103,031	42,184,211

The above Statement of Financial Position is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 December 2016

	NOTES	31/12/2016 \$	CONSOLIDATED 31/12/2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Administration fees received		38,013	30,960
Payments to suppliers - other		(582,482)	(1,454,863)
Interest received		1,413	2,690
Net cash outflow from operating activities		(543,056)	(1,421,213)
INVESTING ACTIVITIES			
Payments to suppliers - exploration		(82,748)	(154,066)
Loans to related parties		(1,849,481)	(1,430,328)
Repayment of loan by related party		-	440,000
Net cash outflow from investing activities		(1,932,229)	(1,144,394)
FINANCING ACTIVITIES			
Share issue proceeds		-	1,020,000
Proceeds from borrowings	12	5,383,580	-
Net cash inflow from financing activities		5,383,580	1,020,000
Net increase/(decrease) in cash and cash equivalents		2,908,295	(1,545,607)
Effect of exchange fluctuations on cash and cash equivalents		79,106	283,367
Cash assets at the beginning of the half year		3,147,294	5,832,084
Cash assets at the end of the half year		6,134,695	4,569,844

The above Statement of Cash Flows is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 December 2016

	Contributed equity	Accumulated losses	Financial assets at fair value through other comprehensive income	Foreign currency translation reserve	Option reserve	Total
	\$	\$	\$	\$	\$	\$
CONSOLIDATED ENTITY						
At 1 July 2016	68,856,339	(28,244,777)	(827,364)	1,451,997	948,016	42,184,211
Loss after tax		(1,439,107)	-	-	-	(1,439,107)
<i>Other comprehensive income</i>						
Changes in fair value of financial assets at fair value through other comprehensive						
Income net of tax			(3,715)			(3,715)
Exchange differences of translation of foreign operations net of tax	-	-	-	272,095	-	272,095
Total comprehensive income for the year	-	(1,439,107)	(3,715)	272,095	-	(1,170,727)
Transactions with owners in their capacity as owners						
Share-based payment expense					89,547	89,547
At 31 December 2016	68,856,339	(29,683,884)	(831,079)	1,724,092	1,037,563	41,103,031

The above Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 December 2016**

	Contributed equity	Accumulated losses	Financial assets at fair value through other comprehensive income	Foreign currency translation reserve	Option reserve	Total
	\$	\$	\$	\$	\$	\$
CONSOLIDATED ENTITY						
At 1 July 2015	67,848,339	(26,429,505)	(1,505)	1,350,113	948,016	43,715,458
Loss after tax		(1,172,430)	-	-	-	(1,172,430)
<i>Other comprehensive income</i>						
Exchange differences of translation of foreign operations net of tax	-	-	-	264,656	-	264,656
Total comprehensive income for the year	-	(1,172,430)	-	264,656	-	(907,774)
Transactions with owners in their capacity as owners						
Share issue	1,020,000	-	-	-	-	1,020,000
At 31 December 2015	68,868,339	(27,601,935)	(1,505)	1,614,769	948,016	43,827,684

The above Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**FOR THE HALF YEAR ENDED 31 December 2016****NOTE 1 CORPORATE INFORMATION**

Octanex Limited ("Octanex" or "the company") is a for-profit company incorporated and domiciled in Australia with its registered office and principal place of business located at Level 21, 500 Collins Street, Melbourne, Victoria 3000. The consolidated financial report of the company for the half year ended 31 December 2016 comprises the company and its subsidiaries (together referred to as the "consolidated entity" or "the group") and the consolidated entity's interest in joint operations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 annual financial report.

The half year financial report should be read in conjunction with the Annual Financial Report of Octanex Limited as at 30 June 2016.

It is also recommended that the half year financial report be considered together with any public announcements made by Octanex Limited and its controlled entities during the half year ended 31 December 2016 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and the Listing Rules of the ASX.

(a) Basis of preparation

These general purpose financial statements for the half year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Act 2001.

The half year financial report has been prepared on an historical cost basis less impairment losses, except for financial assets at fair value through other comprehensive income that are measured at fair value. For the purpose of preparing the half year financial report, the half year has been treated as a discrete reporting period.

(b) Summary of significant accounting policies

The half year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2016.

(c) Accounting estimates and judgements

Management has assessed recoverability of the advance to Ophir Production Sdn Bhd ("OPSB") and has decided its carrying value to be appropriate (Refer Note 8). In determining the recoverable amount management have made assumptions regarding the present value of future cashflows based on the latest data; including oil prices, production levels, interest rates and an appropriate risk based discount rate. These cash flows are particularly sensitive to future production and oil prices.

(d) Convertible notes

The conversion feature of the convertible notes represents an embedded financial liability (Note 13) in a host liability (Note 12). The embedded financial liability is recognised separately from the host liability. On initial recognition the derivative was measured at fair value, with the residual face value of the convertible notes assigned to the host liability. Subsequently, the embedded financial liability is measured at fair value through profit and loss, and the host liability is measured at amortised cost using the effective interest rate method.

(e) New and revised accounting standards applicable for the first time to the current half-year reporting period

The group has adopted all new and revised Australian Accounting Standards and Interpretations that became effective for the first time and are relevant to the group. The adoption of the new and revised Australian Accounting Standards and Interpretations has had no significant impact on the group's accounting policies or the amounts reported during the current half-year period.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 December 2016****NOTE 3 SEGMENT INFORMATION**

Segment information is presented using a 'management approach', i.e. segment information is provided on the same basis as information used for internal reporting purposes by the board of directors.

At regular intervals the board is provided with management information at a group level for the group's cash position, the carrying values of exploration permits and a group cash forecast for the next twelve months of operation.

On this basis, no segment information is included in these financial statements.

NOTE 4 EXPLORATION EXPENDITURE COMMITMENTS

	CONSOLIDATED	
	31/12/2016	31/12/2015
	\$	\$
The group's estimated expenditure to satisfy contractual and/or permit work requirements:		
Not later than 1 year	140,625	116,406
Payable later than one year but not later than three years	<u>1,700,000</u>	<u>1,758,594</u>
	<u>1,840,625</u>	<u>1,875,000</u>

NOTE 5 SHARE OF LOSS IN ASSOCIATE AND JOINT VENTURE COMPANY

Share of loss from joint venture company – Ophir Production Sdn Bhd (Note 8)	947,994	950,459
Share of loss / (profit) from associate – Peak Limited	<u>13,005</u>	<u>(248,134)</u>
	<u>960,999</u>	<u>702,325</u>

	CONSOLIDATED	
	31/12/2016	30/06/2016
	\$	\$
NOTE 6 CASH		
Cash at bank and on hand	6,134,695	3,147,294
Bank deposits at call	<u>-</u>	<u>-</u>
	<u>6,134,695</u>	<u>3,147,294</u>

Cash at bank and on hand includes \$5,481,715 held with the OCBC Bank in Singapore (30 June 2016: \$2,346,405). As required by the financing arrangement with Sabah International Petroleum Ltd ("SIP"), there are restrictions on the use of these funds such that they are mostly to be used to fund cash calls for the Ophir project or to repay borrowings from SIP.

NOTE 7 EVENTS SUBSEQUENT TO BALANCE DATE

There has been no significant after balance date event up to the date of signing this report.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 December 2016**

	CONSOLIDATED	
	31/12/2016	30/06/2016
	\$	\$

NOTE 8 LOANS RECEIVABLE – NON CURRENT

Loans receivable	<u>7,733,825</u>	<u>6,568,663</u>
Advance to Ophir Production Sdn Bhd		

During the half year ended 31 December 2016, the company advanced Ophir Production Sdn Bhd \$2,113,156 (June 2016 \$2,410,132). Share of equity accounted loss required by accounting standards during the half year ended 31 December 2016 to be applied to the advance was \$947,994 (June 2016 \$1,261,490). The funds have not been repaid at 31 December 2016 and are expected to be recovered in the form of repayment of loans from production from the development of the Ophir oil field.

NOTE 9 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investment in listed equities (Energex Limited)	<u>15,927</u>	<u>21,235</u>
---	---------------	---------------

AASB 13 requires disclosure of fair value measurements by level of the fair value hierarchy, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The consolidated entity's financial assets measured and recognised at fair value at 31 December 2016 and 30 June 2016 on a recurring basis are as follows:

31 December 2016	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Listed securities	<u>15,927</u>	-	-	<u>15,927</u>
Unlisted securities	-	-	-	-
Total	<u>15,927</u>	-	0	<u>15,927</u>
30 June 2016	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Listed securities	<u>21,235</u>	-	-	<u>21,235</u>
Unlisted securities	-	-	-	-
Total	<u>21,235</u>	-	-	<u>21,235</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 December 2016****NOTE 9 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
(Continued)***Measurement of fair value of financial instruments*

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

a) Listed securities and money market funds

Fair values have been determined by reference to their quoted bid prices at the reporting date.

The consolidated entity's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

The consolidated entity did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2016.

The carrying amounts of cash and cash equivalents, current receivables and current payables are considered to be a reasonable approximation of their fair value.

NOTE 10 INVESTMENT IN AN ASSOCIATE AND JOINT VENTURE COMPANY

	CONSOLIDATED	
	31/12/2016	30/06/2016
Investment in joint venture company – Ophir Production Sdn Bhd ⁽¹⁾	-	-
Investment in associate – Peakco Limited	<u>42,735</u>	<u>142,449</u>
	<u>42,735</u>	<u>142,449</u>

⁽¹⁾ The investment in Ophir Production Sdn Bhd ("OPSB") is carried at nil cost at 31 December 2016 due to the application of accounting standards which requires the company to apply its 50% share of OPSB's losses to the carrying value of the investment in OPSB. Once that investment value is extinguished to nil value, the losses then are applied to the advance made to OPSB (Note 8) to fund Octanex's share of OPSB's development and related expenditure, as it represents part of the Group's net investment in OPSB.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 December 2016**

	CONSOLIDATED	
	31/12/2016	30/06/2016
	\$	\$
NOTE 11 EXPLORATION AND EVALUATION ASSETS		
Carrying balance at beginning of the period	41,208,791	40,974,942
Impairment of exploration assets	-	(125,533)
Costs incurred during the period	107,748	359,382
Carrying balance at end of the period	<u>41,316,539</u>	<u>41,208,791</u>

Exploration and evaluation assets relate to the areas of interest in the exploration and evaluation phase for petroleum exploration permits and a retention lease.

31/12/2016	30/06/2016
Permits	Permits
WA-323-P	WA-323-P
WA-330-P	WA-330-P
WA-362-P	WA-362-P
WA-363-P	WA-363-P
WA-387-P	WA-387-P
WA-407-P	WA-407-P
WA-420-P	WA-420-P
Retention Lease	Retention Lease
WA-54-R	WA-54-R

Ultimate recovery of exploration and evaluation assets is dependent upon exploration and evaluation success and/or the company maintaining appropriate funding to support continued exploration and evaluation activities.

NOTE 12 NON CURRENT BORROWINGS**Convertible notes**

On 7 December 2016 Sabah International Petroleum Ltd 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 A\$0.15 (US\$0.126).

	CONSOLIDATED	
	31/12/2016	30/06/2016
	\$	\$
Carrying balance at beginning of the period	-	-
Drawdown of convertible notes	5,383,580	-
Movements in exchange rates	144,336	-
Less embedded derivative liability	(144,625)	-
Effective Interest expense	29,166	-
Carrying balance at end of the period	<u>5,412,457</u>	<u>-</u>

Interest expense is calculated by applying the effective rate of interest of 8% to the host liability component.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 December 2016**

	CONSOLIDATED	
	31/12/2016	30/06/2016
	\$	\$

NOTE 13 DERIVATIVE FINANCIAL LIABILITY

At inception	144,625	-
Changes in fair value	<u>33,909</u>	<u>-</u>
Balance at end of the period	<u>178,534</u>	<u>-</u>

The embedded derivative liability is valued using a binomial option valuation model. The following inputs were used:

Exercise price:	A\$0.15
Market price:	A\$0.05
Expected volatility	72.1%
Risk free interest rate	2.86%

NOTE 14 ISSUED CAPITAL*Cancellation of partly paid shares*

At the annual general meeting on 24 November 2016, 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.

After the cancellation and consolidation there were 272,712,947 ordinary shares on issue, inclusive of 30,000,000 shares held by the trustee of the Octanex Trustee Share Scheme.

NOTE 15 CONTINGENT LIABILITY*Performance Guarantee*

With its co-shareholders in OPSB, Octanex has provided a proportionate corporate undertaking to PETRONAS for the contract performance obligations of OPSB in relation to the Ophir RSC.

Corporate Guarantee

Octanex has provided a proportionate corporate guarantee to OPSB's lenders in connection with OPSB's term loan facilities. The facilities are held with a syndicate of three banks (Malayan Banking Berhad (Maybank), RHB Bank (L) Ltd and United Overseas Bank Limited Offer) for 75% of the planned capital expenditure for the development of the Ophir Oil Field as well as 75% of the first three quarters of the planned operating expenditure, and a bank guarantee in favour of PETRONAS.

NOTE 16 CONTINGENT ASSET*Peako Limited Loan – Proceeds Sharing Agreement*

In lieu of the balance of monies of \$1,284,744 then owing by Peako Limited ("Peako"), Octanex has agreed to accept a proceeds sharing arrangement with Peako whereby Octanex will share proportionately in any proceeds received by Peako in relation to any of its Cadlao interests in the period to 26 November 2017 up to a limit of \$1,603,683. The loan was fully impaired at 30 June 2015. No recovery is presently expected.

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration To The Directors of Octanex Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Octanex Limited for the half-year ended 31 December 2016, 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.

I also declare that during the current half year review period, Grant Thornton's quality control systems identified a prior period contravention of the auditor's rotation requirements, which had already been rectified. The previous lead auditor for Octanex Limited had participated in the review for the half year ended 31 December 2015, and was not eligible to do so.

I consider this matter has not compromised my or Grant Thornton's objectivity with respect to the review of the financial statements of Octanex Limited for the half year ended 31 December 2016.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Brad Taylor
Partner - Audit & Assurance

Melbourne, 9 March 2017

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation.

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Review Report To The Members of Octanex Limited

We have reviewed the accompanying half-year financial report of Octanex Limited (the Company), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-year Financial Report

The Directors of Octanex Limited 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 controls as the Directors determine is 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 consolidated half-year financial report based on our review. We conducted our review in accordance with the 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 Octanex Limited 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 Octanex Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation.

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 complied with the independence requirements of the *Corporations Act 2001*.

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 Octanex 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 *Corporations Regulations 2001*.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Brad Taylor
Partner - Audit & Assurance

Melbourne, 9 March 2017