



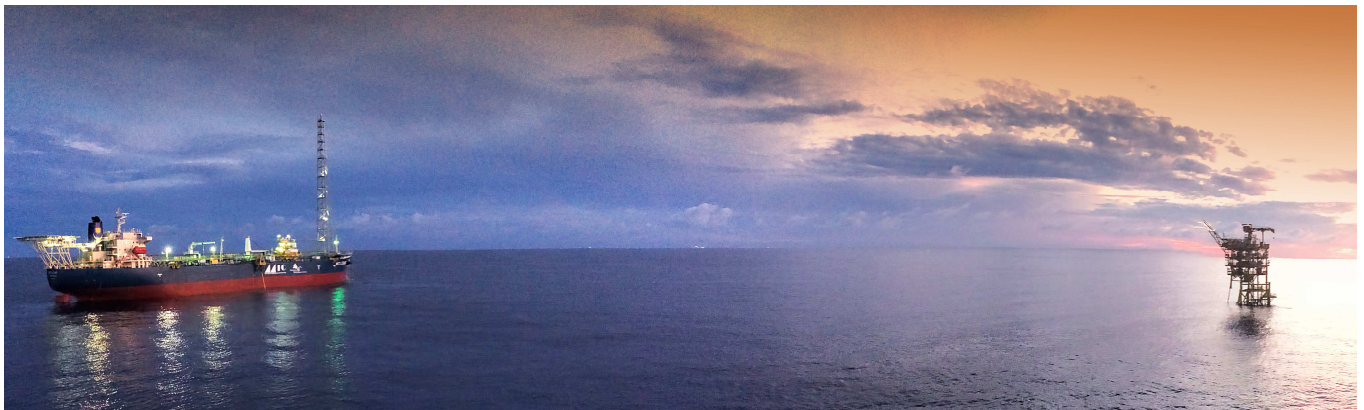
OCTANEX

Quarterly Activity Report 31 December 2017

ASSETS AND ACTIVITIES OVERVIEW

DEVELOPMENT ASSET

Ophir Oil Development Project, Malaysia



Ophir field facilities

The Ophir field, offshore Peninsular Malaysia, has been developed by Ophir Production Sdn Bhd (OPSB) under a Risk Service Contract (RSC), with OPSB as Contractor and PETRONAS as the resource owner. Octanex holds a 50% shareholding interest in OPSB.

The Ophir development consists of a wellhead platform, three production wells and export via a Floating Production Storage and Offloading (FPSO) vessel.

The FPSO and Ophir wellhead platform were commissioned, and production commenced during the quarter.

A number of production challenges have been encountered since production commenced. Initial facilities debottlenecking activities were implemented to address facilities constraints identified during commissioning. Assessment of mitigation strategies commenced as a result of higher than predicted gas production which was constraining oil production

below anticipated levels. This assessment has been challenged by the continuing non-routine production shut-in announced on 8 January 2018. Diagnostic activities are ongoing in order to identify the cause, with the objective of restoring production.

Following the end of the quarter the first lifting of crude oil from the Ophir Field has been successfully completed. The Ophir crude is owned, marketed and sold by PETRONAS, with sales proceeds shared between the Government of Malaysia, PETRONAS and the contractor, OPSB.

By way of background, PETRONAS introduced the RSC model as a petroleum arrangement designed with the objective of intensifying upstream Malaysian oil and gas activities and developing smaller, stranded oil and gas resources. Under the terms of the RSC, the Contractor (OPSB for the Ophir field) is the service provider and Operator of the field while PETRONAS is the resource owner.

Upfront investment of capital is contributed by OPSB who is compensated from the proceeds of petroleum sales from the field made by PETRONAS, via the reimbursement of costs plus a remuneration fee. The remuneration fee is linked to production volume and capital cost key performance indicators. Reimbursement of capital and operating costs is guaranteed to OPSB by PETRONAS pursuant to the RSC.

Octanex's share of the Ophir project is fully funded via OPSB's 75% project financing and Octanex's US\$12Million Convertible Note facility (drawn to US\$8Million) 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.

OPSB will be compensated by PETRONAS from the proceeds of Ophir crude sales. Compensation will comprise reimbursement of capital costs, reimbursement of operating costs and remuneration fee, in that order.

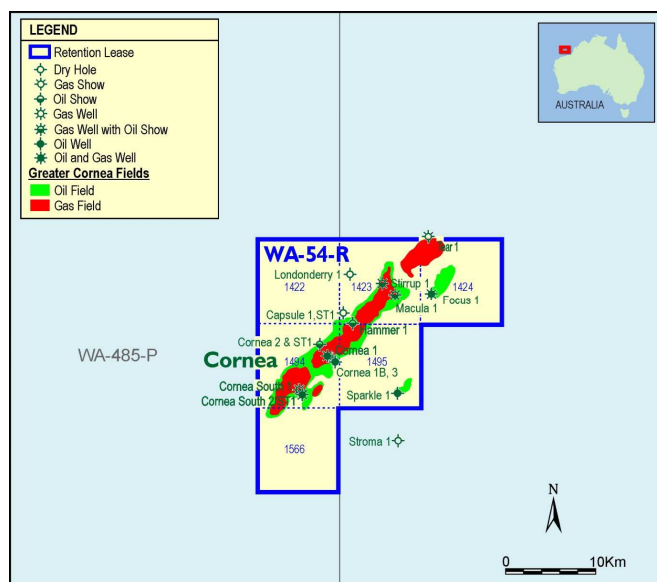
Advances by Octanex and other shareholders to OPSB are subordinated to OPSB's project financing arrangements. Payments from OPSB to Octanex will follow repayment of the project finance, and first take the form of repayment of shareholder advances made by Octanex to OPSB.

Octanex may be required to redeem the SIP convertible note facility from the proceeds of payments received from OPSB; alternatively, SIP may elect to convert the SIP convertible notes into Octanex shares (the facility is comprised of three equal tranches of notes with conversion prices of \$0.15, \$0.20 and \$0.25).

PRE-DEVELOPMENT ASSETS

Greater Cornea Fields, Browse Basin 18.75% interest

The Greater Cornea Fields (being the Cornea, 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).



Greater Cornea Field retention lease location map

The Greater Cornea Fields present a large in-place oil resource contained in a challenging reservoir. At the time the Retention Lease was applied for and granted, production uncertainty was identified as the primary constraint to the development of the Greater Cornea Fields. A successful production test well designed to demonstrate threshold productivity for development initiation is required to commercialise Cornea. A production test well must be placed and constructed in the same manner as intended for field development in order to prove up viable well construction methodologies and technologies, ensure representative threshold oil production is achieved and control of gas and water ingress.

Given the favourable prevailing oil price when the Retention Lease was applied for and granted, numerous field development concepts were then considered to be economic (subject to achieving threshold production volumes).

The current environment presents a further significant challenge to the Cornea field's commerciality, having rendered as non-viable the field development concepts previously considered as potentially viable.

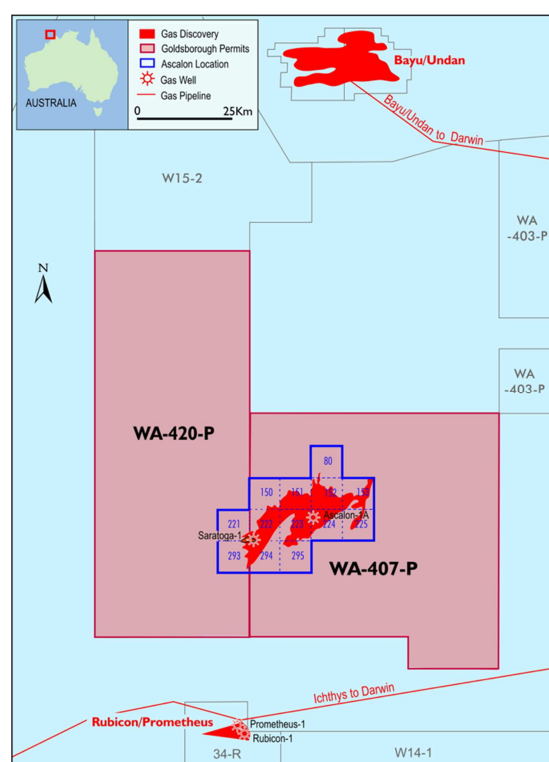
Reflecting the changed oil price environment, new development concept screening was undertaken with the objective of identifying a field development concept with the potential to be commercial at current oil prices (US\$50/Bbl).

Following this screening, a field development concept predicated on the use of a Mobile Offshore Production Unit (MOPU) with a subsea holding tank and single

point mooring has been selected for further investigation. This concept is significantly different to earlier concepts with significant cost reduction implications.

Integrated reservoir modelling and facilities work has been commenced to support design of a production test well capable of delivering threshold productivity using this development concept. The Cornea Joint Venture has applied to vary the conditions of WA-54-R to facilitate this work.

Ascalon Gas Discovery, Bonaparte Basin 100% interest



Ascalon gas accumulation location map

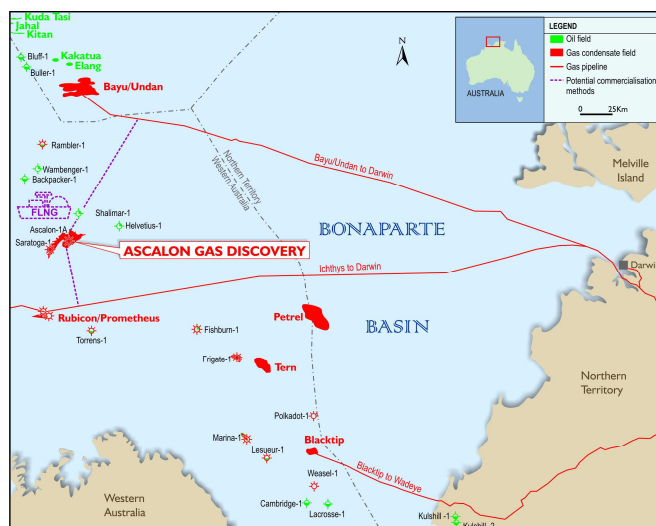
Discovered in 1995 by Mobil, the Ascalon gas accumulation is located mostly within exploration permit WA-407-P and extends into the adjacent WA-420-P.

The gas is contained in a faulted horst structure within marine sandstones of Late Permian age. Mapping of the modern 3D seismic database, which we shot over the feature, together with 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 at the Ascalon-1A well.

1A well location, which is moderately down dip off the crest of the structure.

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 potential for development of nearby gas discoveries may provide opportunities for Ascalon to be developed to tie-back to other developments. The field is also located in close proximity to the Bayu-Undan field and to the Bayu-Undan pipeline to Darwin, as well as the Ichthys pipeline to the Inpex LNG facility under development in Darwin, thus offering other potential opportunities. The Ascalon Location also has the advantages of being outside the area of disputed sovereignty between East Timor and Australia.



Ascalon proximity to gas infrastructure

Octanex was advised that NOPTA considers Ascalon requires further evaluation activities, specifically relating to uncertainty regarding resource estimates and well deliverability, with corresponding development cost uncertainty and such activities should be undertaken as Exploration Permit activities rather than Retention Lease matters. Octanex accordingly initiated independent studies designed to review uncertainty including net sand, net reservoir and net pay and their impact on resource estimates and well deliverability, at the same time withdrawing the Retention Lease applications previously made in relation to WA-407-P and WA-420-P. These studies will assist Octanex in determining future workscopes in the permits.

CORPORATE

Resignation of Joint Company Secretary

During the quarter Mr Jack Tuohy resigned from the role of Joint Company Secretary. Ongoing company secretary responsibilities are performed by Mr Rob Wright, CFO and continuing Company Secretary.



Rae Clark

Executive Director
& Chief Operating Officer
31 January 2018

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 2017

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	(58)	(150)
(b) development		
(c) production		
(d) staff costs	(132)	(262)
(e) administration and corporate costs	(123)	(287)
1.3 Dividends received (see note 3)		
1.4 Interest received		1
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)	24	36
1.9 Net cash used in operating activities	(289)	(662)

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		

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	106	106
	(d) other non-current assets		
2.3	Cash flows from loans to other entities	(1,246)	(1,356)
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash used in investing activities	(1,140)	(1,250)

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		
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		

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,087	5,667
4.2	Net cash used in operating activities (item 1.9 above)	(289)	(662)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,140)	(1,250)
4.4	Net cash from / (used in) financing activities (item 3.10 above)		
4.5	Effect of movement in exchange rates on cash held	46	(51)
4.6	Cash and cash equivalents at end of period	3,704	3,704

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	3,704	5,087
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)	3,704	5,087

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
48
1,246

6.2 Shareholder advance to 50% owned Ophir Production Sdn Bhd for the quarter - \$111k

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 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

Current quarter \$A'000
109

8. Financing facilities available

Add notes as necessary for an understanding of the position

- 8.1 Loan facilities – Convertible Notes
- 8.2 Credit standby arrangements
- 8.3 Other (please specify)

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
US\$12m	US\$8m

- 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.

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	130
9.5 Administration and corporate costs	140
9.6 Other – Advance to joint venture company	
9.7 Total estimated cash outflows	320

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 2018

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.