



ABN 61 005 632 315

**HALF YEAR FINANCIAL REPORT**

**31 DECEMBER 2017**

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## **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 SECRETARY**

R.J. Wright

### **REGISTERED OFFICE**

Level 21,  
500 Collins Street,  
Melbourne, Victoria 3000

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Facsimile: +61 (0)3 8610 4799  
E-mail: [admin@octanex.com.au](mailto:admin@octanex.com.au)  
Website: [www.octanex.com.au](http://www.octanex.com.au)

### **AUDITOR**

Grant Thornton Audit Pty Ltd  
Tower 1, Collins Square  
727 Collins Street  
Melbourne, Victoria 3008 Australia

### **SHARE REGISTRY**

Automic Pty Ltd  
Level 3  
50 Holt Street  
Surry Hills, NSW 2010, Australia  
Telephone: 1300 288 664 (within Australia)  
Telephone: + 61(2) 9698 5414 (outside Australia)  
Website: [www.automic.com.au](http://www.automic.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 2017.

### **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 \$8,552,704 (31/12/2016: loss of \$1,439,107).

### **Dividends**

No dividend was declared or paid during the half year.

## **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.

Production commenced at the Ophir field in October 2017 following commissioning of the FPSO and wellhead platform. Initial facilities debottlenecking activities were implemented to address facilities constraints

identified during commissioning. Higher than predicted gas production was observed, while oil production was lower than anticipated. Production startup was unsuccessful after a full process shut-in occurred that was triggered by a power fault as announced on 8 January 2018.

Intervention activities are ongoing, with the objective of restoring production. Nitrogen equipment has been mobilized to the Ophir Field and is in the process of being lifted to the platform. Nitrogen, because of its low density and high pressure characteristics, is commonly deployed in production operations to displace well fluids in order to initiate flow.

Post-drill review studies are nearing completion and preliminary indications are for lower than expected oil production from the development. OPSB is in discussions with PETRONAS in regard to forward strategies for the field, including potential mitigation strategies.

Following the end of the half year the first lifting of crude oil from the Ophir Field was 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.

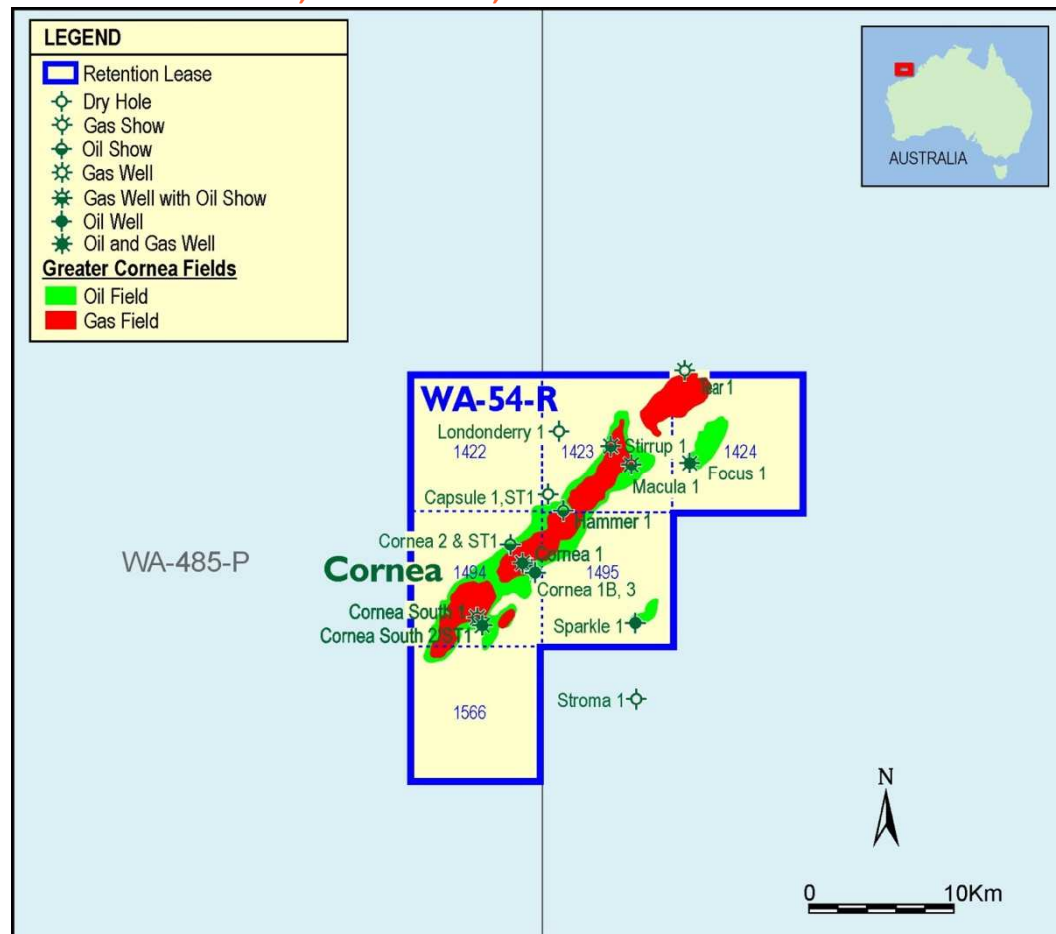
Octanex's share of the Ophir project is fully funded via OPSB's 75% project financing and Octanex's US\$12Million Convertible Note facility (drawn to US\$8Million) with Sabah International Petroleum, which is wholly owned by Sabah Development Bank Berhad ("SDB"). SDB itself is wholly owned by the Ministry of Finance of the Malaysian state of Sabah.

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.

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



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 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).

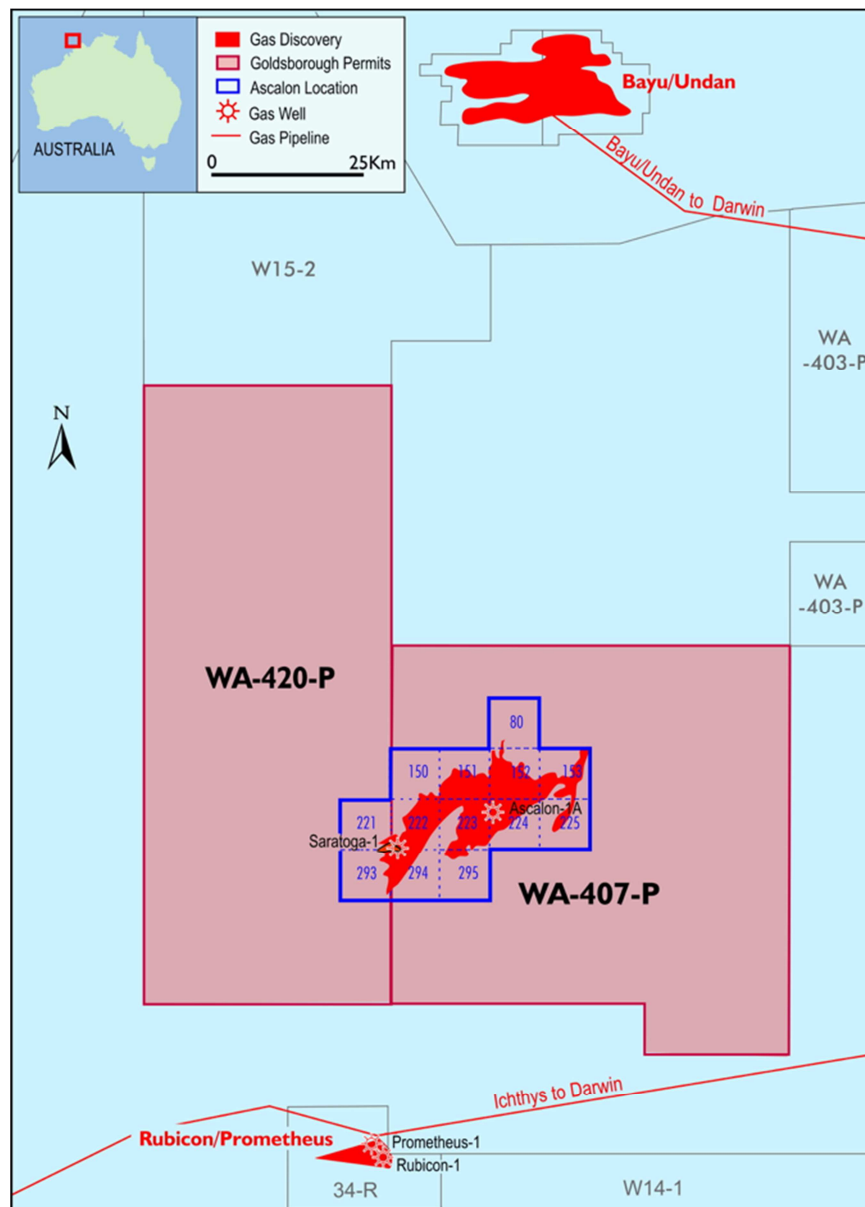
The current environment presents a further significant challenge to the Cornea field's commerciality, having rendered as non-viable the field development concepts previously considered as potentially viable.

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 lower 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



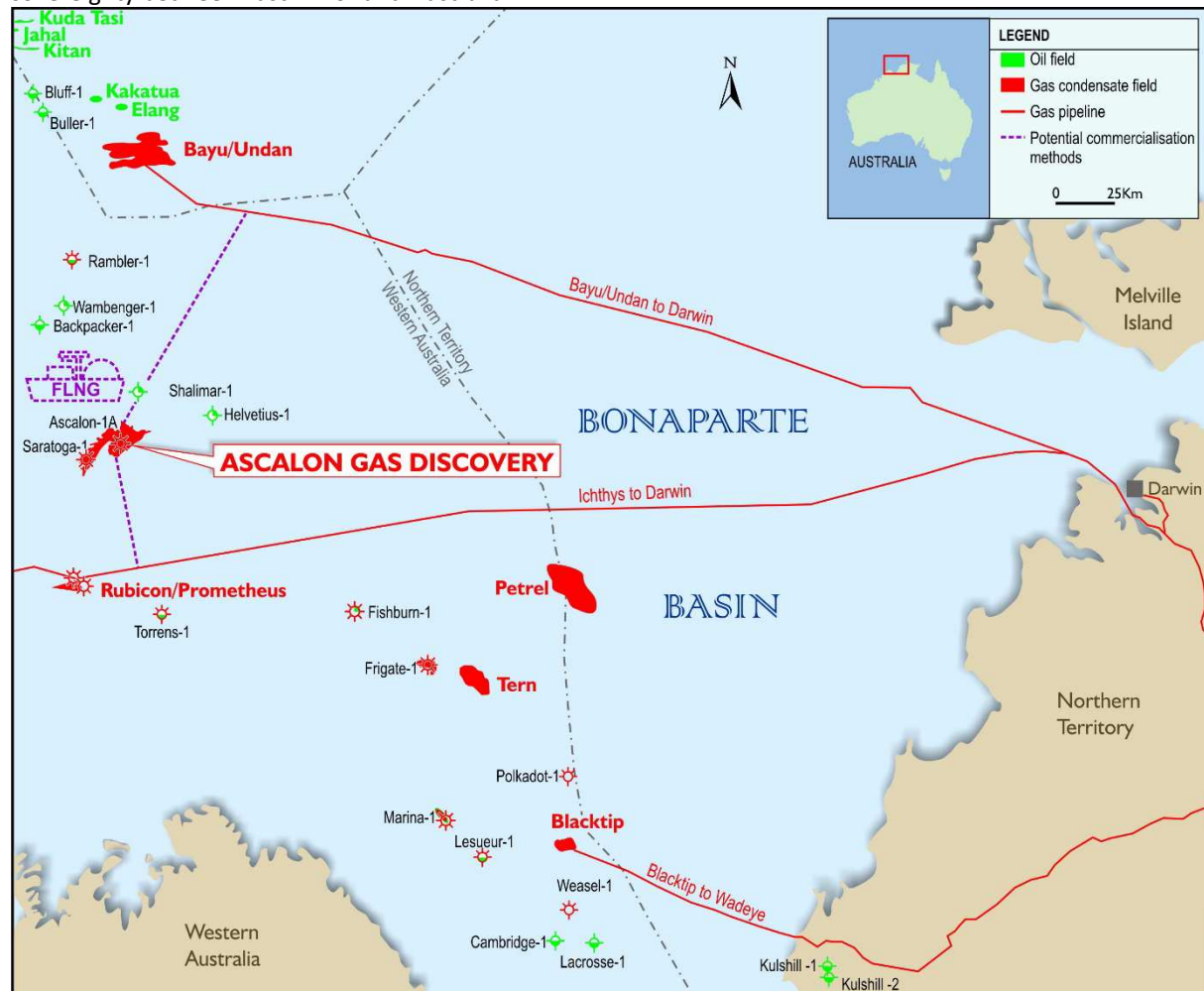
*Ascalon gas accumulation location map*

Discovered in 1995 by Mobil, the Ascalon gas accumulation is located mostly within exploration permit WA-407-P and 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 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 260km<sup>2</sup> 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 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*

Following advice by NOPTA that activities to address uncertainties regarding the Ascalon accumulation should be undertaken as Exploration Permit activities, rather than under a retention lease instrument, Octanex has pursued several work streams in relation to appraisal of the Ascalon accumulation. These include review of in-place resource estimates, multidisciplinary review and assessment of Ascalon data set, pore pressure study and well deliverability modelling. These activities are ongoing with the objective of derisking the gas volumetric assessment.

## EXPLORATION ASSETS

### Dampier Sub-Basin WA-323-P & WA-330-P, 25% interest Operated by Santos

WA-323-P comprises 320 km<sup>2</sup> on the Parker Terrace, in general 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



[illegible]

WA-323-P & WA-330-P and Winchester-1/ST1 location map

WA-323-P is in Year 5 and cannot be further renewed. A six month suspension and extension was granted in December to provide sufficient time to apply for a Retention Lease. Octanex is carried by Santos though all activity in the current term of WA-323-P.

WA-330-P comprises 320 km<sup>2</sup> on the Parker Terrace, adjacent to WA-323-P. WA-330-P is in Permit Year 4 which ends in April 2018. The WA-330-P work program includes a well in Year 5 should either Santos or Octanex decide to continue into that Permit year. While Octanex is carried by Santos though all exploration activity in the current term of the permit, this carry does not extend to a well in the secondary term of WA-330-P. Octanex is carrying out a critical evaluation of the prospectivity of the Permit before deciding whether to enter the year of the Permit.

In January 2018 Octanex notified Eni Australia Limited (Eni), the operator of WA-362-P and WA-363-P, that it will withdraw from the permits. This decision followed notice of Eni's withdrawal from the permits and the joint operating agreements, bringing the previous farmin arrangements to an end.

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. The Gawain-1 and Galahad-1 exploration wells were drilled in the permits in 2011 in the first exploration period of each permit.

The permits are approaching the end of year-3 of the first renewed exploration period, with the work programs having focused on reprocessing, interpretation and mapping of 2D data together with a studies program. All work commitments engaged in Year-3 have been fulfilled. The work program for years 4 and 5 requires a new 3D seismic survey (1,000 km<sup>2</sup> in aggregate) and an exploration well in each permit. As Eni advised its withdrawal, Octanex would no longer have been fully carried by Eni though all exploration activity in the permits.

Octanex therefore conducted a prospectivity review and considered its capacity to fund the Year-4 seismic obligation in the permits, including likelihood of achieving another joint venture within the time period required to meet the work program obligation. Following this review, Octanex decided to withdraw from the permits and provided Eni with its consent to surrender the permits.

No further updates will be issued in respect to these permits.

## **CORPORATE MATTERS**

During the half-year 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.

## **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 22.

Signed in accordance with a resolution of the directors



R.L. Clark  
Director

Melbourne, 16 March 2018

## **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 2017 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.



R.L. Clark  
Director

Melbourne, 16 March 2018

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE HALF YEAR ENDED 31 December 2017**

		<b>CONSOLIDATED</b>	
	<b>NOTE</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
		<b>\$</b>	<b>\$</b>
Net foreign exchange gain /(loss)		74,221	(13,022)
Other income		42,757	35,203
Consulting		(24,509)	(22,305)
Impairment of exploration assets	11	(9,264,930)	-
Impairment of investment in associate		157,101	(86,709)
Interest		(411,478)	-
Management fees		(20,000)	(13,603)
Office costs		(116,297)	(121,753)
Other expenses		(332,214)	(153,336)
Project costs		(76,154)	(91,594)
Reporting, registry and stock exchange		(34,047)	(29,770)
Salaries		(171,708)	(176,752)
Share of loss in associate and joint venture company	5	(1,316,177)	(960,999)
Share based payments		-	(89,547)
Loss before income tax		(11,493,435)	(1,724,187)
Income tax benefit		2,940,731	285,080
Net loss for the half year		(8,552,704)	(1,439,107)
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operation		(216,095)	272,095
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		12,387	(5,308)
Income tax effect		(3,717)	1,593
Other comprehensive income for the half year net of tax		-	-
Total comprehensive income for the half year		(8,760,129)	(1,170,727)
		<b>Cents</b>	<b>Cents</b>
Basic loss per share		(3.524)	(0.554)
Diluted loss per share		(3.524)	(0.554)

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 2017**

	NOTE	31/12/2017 \$	CONSOLIDATED 30/6/2017 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	3,703,878	5,666,779
Trade and other receivables		375,113	308,007
<b>TOTAL CURRENT ASSETS</b>		<b>4,078,991</b>	<b>5,974,786</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	8	9,873,568	10,040,613
Financial assets at fair value through other comprehensive income	9	51,314	38,928
Investments in an associate and a joint venture company	10	-	78,347
Exploration and evaluation assets	11	30,564,976	39,657,763
<b>TOTAL NON-CURRENT ASSETS</b>		<b>40,489,858</b>	<b>49,815,651</b>
<b>TOTAL ASSETS</b>		<b>44,568,849</b>	<b>55,790,437</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		997,758	359,284
Provisions		138,768	138,008
Derivative financial liability		397,610	396,596
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,534,136</b>	<b>883,888</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	12	9,987,511	10,162,204
Deferred tax liabilities		4,730,730	7,667,744
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>14,718,241</b>	<b>17,829,948</b>
<b>TOTAL LIABILITIES</b>		<b>16,252,377</b>	<b>18,713,836</b>
<b>NET ASSETS</b>		<b>28,716,472</b>	<b>37,076,601</b>
<b>EQUITY</b>			
Issued capital	13	68,856,339	68,856,339
Reserves		1,057,685	1,265,110
Accumulated losses		(41,597,552)	(33,044,848)
<b>TOTAL EQUITY</b>		<b>28,316,472</b>	<b>37,076,601</b>

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 2017**

	NOTES	31/12/2017 \$	CONSOLIDATED 31/12/2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Administration fees received		35,981	38,013
Payments to suppliers - other		(548,840)	(582,482)
Interest received		897	1,413
Net cash outflow from operating activities		(511,962)	(543,056)
INVESTING ACTIVITIES			
Payments to suppliers - exploration		(149,881)	(82,748)
Loans to related parties		(1,356,681)	(1,849,481)
Proceeds from sale of investments		106,302	-
Net cash outflow from investing activities		(1,400,260)	(1,932,229)
FINANCING ACTIVITIES			
Proceeds from borrowings	12	-	5,383,580
Net cash inflow from financing activities		-	5,383,580
Net (decrease)/increase in cash and cash equivalents		(1,912,222)	2,908,295
Effect of exchange fluctuations on cash and cash equivalents		(50,679)	79,106
Cash assets at the beginning of the half year		5,666,779	3,147,294
Cash assets at the end of the half year		3,703,878	6,134,695

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 2017**

	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 2017	68,856,339	(33,044,848)	(814,978)	1,042,525	1,037,563	37,076,601
Loss after tax	-	(8,552,704)	-	-	-	(8,552,704)
<i>Other comprehensive income</i>						
Changes in fair value of financial assets at fair value through other comprehensive						
Income net of tax	-	-	8,670	-	-	8,670
Exchange differences of translation of foreign operations net of tax	-	-	-	(216,095)	-	(216,095)
Total comprehensive income for the year	-	(8,552,704)	8,670	(216,095)	-	(8,760,129)
At 31 December 2017	68,856,339	(41,597,552)	(806,308)	826,430	1,037,563	28,316,472

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 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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE HALF YEAR ENDED 31 December 2017****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 2017 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 2017.

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 2017 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 2017 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 2017.

**(c) Recoverability of OPSB advance**

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).

**(d) 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 2017****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**

	<b>CONSOLIDATED</b>	
	<b>31/12/2017</b>	<b>31/12/2016</b>
	<b>\$</b>	<b>\$</b>
The group's estimated expenditure to satisfy contractual and/or permit work requirements:		
Not later than 1 year	139,583	140,625
Payable later than one year but not later than three years	<u>7,715,625</u>	<u>1,700,000</u>
	<u>7,855,208</u>	<u>1,840,625</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)	1,305,123	947,994
Share of loss from associate – Peako Limited	<u>11,054</u>	<u>13,005</u>
	<u>1,316,177</u>	<u>960,999</u>

	<b>CONSOLIDATED</b>	
	<b>31/12/2017</b>	<b>30/06/2017</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 6 CASH</b>		
Cash at bank and on hand	3,703,878	5,666,779
Bank deposits at call	<u>-</u>	<u>-</u>
	<u>3,703,878</u>	<u>5,666,779</u>

Cash at bank and on hand includes \$2,710,484 held with the OCBC Bank in Singapore (30 June 2017: \$5,142,101). 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 2017**

	<b>CONSOLIDATED</b>	
	<b>31/12/2017</b>	<b>30/06/2017</b>
	<b>\$</b>	<b>\$</b>

**NOTE 8 LOANS RECEIVABLE – NON CURRENT**

Loans receivable	<u>9,873,568</u>	<u>10,040,613</u>
Advance to Ophir Production Sdn Bhd		

During the half year ended 31 December 2017, the company advanced Ophir Production Sdn Bhd (“OPSB”) \$1,138,078 (June 2017 \$5,992,314). Share of equity accounted loss required by accounting standards during the half year ended 31 December 2017 to be applied to the advance was \$1,305,123 (June 2017 \$2,520,364). The funds have not been repaid at 31 December 2017 and are expected to be recovered from OPSB following repayment by OPSB of the term loan facilities to which shareholder advances are sub-ordinated.

Pursuant to the Risk Services Contract, upfront investment of capital is contributed by OPSB with reimbursement of capital and operating costs guaranteed to OPSB by PETRONAS.

**NOTE 9 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

Investment in listed equities (Energex Limited)	<u>51,314</u>	<u>38,928</u>
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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 2017	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Listed securities	<u>51,314</u>	-	-	<u>51,314</u>
Unlisted securities	-	-	-	-
Total	<u>51,314</u>	-	-	<u>51,314</u>
30 June 2017	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Listed securities	<u>38,928</u>	-	-	<u>38,928</u>
Unlisted securities	-	-	-	-
Total	<u>38,928</u>	-	-	<u>38,928</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 December 2017****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 2017.

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**

	<b>CONSOLIDATED</b>	
	<b>31/12/2017</b>	<b>30/06/2017</b>
Investment in joint venture company – Ophir Production Sdn Bhd <sup>(1)</sup>	-	-
Investment in associate – Peakco Limited <sup>(2)</sup>	-	<u>78,347</u>
	<u>-</u>	<u>78,347</u>

(1) The investment in Ophir Production Sdn Bhd ("OPSB") is carried at nil cost at 31 December 2017 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.

(2) All shares in Peakco Limited were sold by the company in December 2017.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 December 2017**

	<b>CONSOLIDATED</b>	
	<b>31/12/2017</b>	<b>30/06/2017</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 11 EXPLORATION AND EVALUATION ASSETS</b>		
Carrying balance at beginning of the period	39,657,763	41,208,791
Impairment of exploration assets <sup>(1)</sup>	(9,264,930)	(1,745,163)
Costs incurred during the period	<u>172,143</u>	<u>194,137</u>
Carrying balance at end of the period	<u>30,564,976</u>	<u>39,657,763</u>

1. In January 2018 the company advised that it had notified Eni Australia Limited (Eni), the operator of exploration permits WA-362-P and WA-363-P, that it would withdraw from the permits. This decision follows notice of Eni's withdrawal from the permits and the joint operating agreements. The permits are fully impaired at 31 December 2017 (\$9,264,930).

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

<b>31/12/2017</b>	<b>30/06/2017</b>
<b>Permits</b>	<b>Permits</b>
WA-323-P	WA-323-P
WA-330-P	WA-330-P
-	WA-362-P
-	WA-363-P
WA-387-P*	WA-387-P
WA-407-P	WA-407-P
WA-420-P	WA-420-P
<b>Retention Lease</b>	<b>Retention Lease</b>
WA-54-R	WA-54-R

\* WA-387-P was fully impaired at 30 June 2017

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**

Sabah International Petroleum Ltd subscribed for 4,000,000 US\$1.00 Tranche A convertible notes (Tranche A Notes) on 7 December 2016 and 4000,000 US\$1.00 Tranche B convertible notes (Tranche B Notes) on 30 June 2017 pursuant to the convertible note subscription agreement approved by shareholders in February 2015.

The notes have a maturity date of 30 June 2019, with 8% interest payable per annum. The Tranche A Notes 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). The Tranche B Notes may be converted into 23,809,524 ordinary shares at any time, based on an agreed conversion price of A\$0.20 (US\$0.168).

The convertible notes are secured by way of a charge over the Company's shares in Octanex Pte Ltd pursuant to a share charge between the Company and Sabah International Petroleum dated 4 December 2014.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 December 2017**

	<b>CONSOLIDATED</b>	
	<b>31/12/2017</b>	<b>30/06/2017</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 12 NON CURRENT BORROWINGS (Continued)</b>		
Carrying balance at beginning of the period	10,162,204	-
Drawdown of convertible notes	-	10,583,788
Movements in exchange rates	(144,006)	(183,372)
Less embedded derivative liability	-	(264,564)
Effective Interest expense	411,478	234,360
Less interest accrued/paid	<u>(442,165)</u>	<u>(208,008)</u>
Carrying balance at end of the period	<u>9,987,511</u>	<u>10,162,204</u>

Interest expense is calculated by applying the effective rate of interest of 8% to the host liability component. The host liability is the underlying liability for the convertible note as distinct from the liability created by the emedded deriviative.

**NOTE 13 ISSUED CAPITAL**

No share issue during the half year ended 31 December 2017.

**NOTE 14 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.

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## 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 2017. 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.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



B L Taylor  
Partner – Audit & Assurance

Melbourne, 16 March 2018

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## Independent Auditor's Review Report to the Members of Octanex Limited

### Report on the Half Year Financial Report

#### Conclusion

We have reviewed the accompanying half year financial report of Octanex Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Octanex Limited does not give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial reporting*.

#### Directors' Responsibility for the Half Year Financial Report

The Directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 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.

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A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



B L Taylor  
Partner - Audit & Assurance

Melbourne, 16 March 2018