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OPHIR UPDATE

Octanex Limited (**ASX Code: OXX**) advises that a decision has been made to suspend the wells at the Ophir Field and that Ophir Production Sdn Bhd (OPSB) has initiated discussions regarding termination of the Ophir RSC with PETRONAS.

The Ophir Field, offshore Peninsular Malaysia, was developed by OPSB pursuant to a Risk Service Contract (RSC) entered into by OPSB, as Contractor, with PETRONAS (the resource owner) as Principal. Octanex holds a 50% shareholding interest in OPSB.

The Ophir development consists of a wellhead platform, three production wells and export facilities via a floating production storage and offloading (FPSO) vessel.

Production commenced at the Ophir field in October 2017. Higher than predicted gas production was observed, with oil production below anticipated levels. Efforts to restart production following a full process shut-in were unsuccessful and post-drill review studies point to lower than expected oil production from the development. PETRONAS has approved the suspension of the wells.

OPSB has written to PETRONAS requesting termination of the Ophir RSC. RSC termination would result in PETRONAS, as the owner of the field, assuming responsibility for the field, accepting novation of contracts and reimbursement of capital and operating costs not previously reimbursed via proceeds of petroleum sales. The interrupted and unexpectedly short nature of the Ophir field life poses challenges for execution of these activities. OPSB is focused on facilitating the activities that will be required once RSC termination is agreed by PETRONAS.

OPSB funded the Ophir development via syndicated term loan facilities (Project Financing Facilities) comprised of 75% of the capital expenditure and 75% of the first three quarters of operating expenditure, with the balance of expenditure funded by OPSB's shareholders in proportion to their equity interest (50% in Octanex's case). Octanex's US\$12 Million Convertible Note facility (presently drawn to US\$8Million) with Sabah International Petroleum (SIP) was structured for this purpose. SIP is wholly owned by Sabah Development Bank Berhad, itself wholly owned by the Ministry of Finance of the Malaysian state of Sabah.

Advances made by Octanex and other shareholders to OPSB are subordinated to OPSB's Project Financing Facilities, as a result of which payments from OPSB to Octanex can only follow repayment of the project finance.

Octanex will be required to redeem the SIP Convertible Note facility from the proceeds of payments received from OPSB, unless SIP elects to convert the Convertible Notes into Octanex shares (the facility is comprised of three equal tranches of convertible notes with conversion prices of \$0.15, \$0.20 and \$0.25).