



OCTANEX

ANNUAL REPORT 2017

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Chairman's Letter



Dear Shareholders,

2016/17 was a significant year for Octanex's involvement with the Ophir oil field development, with production from the field about to commence. Reduced industry costs, "fit for purpose" marginal field facilities design and focused execution have resulted in significant cost savings against the revised approved field development budget of US\$90Million. Upon completion of the development phase, we expect the Ophir development to set a new benchmark for low cost development offshore Malaysia.

The Ophir wellhead platform, which was fabricated at Port Klang, Malaysia, was shipped to the field at the end of March 2017. It was installed using innovative suction pile foundation technology over a period of just five days, delivering significant cost savings and time efficiencies. I encourage you to watch the short video of the installation on our website.

The Naga-2 jack-up drilling rig mobilised to the field at the end of May. The Naga-2 jacked up and skidded its cantilever out and above the well slots located on the wellhead platform. Three horizontal production wells were completed ahead of time, and under budget. Completions have been run and production assembly installed.

The FPSO for the Ophir Field, the MTC Ledang, will shortly be moored to the seabed and connected to the Ophir platform via a flexible 8" pipeline, following conversion works at Keppel Shipyard in Singapore.

Lessons learned from Ophir are informing our activities and approach to our other pre-development assets.

The Cornea Retention Lease was granted in 2014 following the significant new information gained from the Cornea – 3 well in which Octanex actively participated. The initial Cornea Retention Lease work program was formulated to address technical challenges; with the first three years of the Lease designed to support the quantification of drilling and produceability challenges. It was prepared at a time when the oil price was in the order of US\$110 per barrel and had been considerably higher.

Demonstrating Cornea's ability to achieve threshold production is the key barrier to commercialisation of Cornea, and a production test well, designed to achieve such economic production, was identified as a key means of moving Cornea towards development. However, the reduced oil price environment since shortly after grant of the Retention Lease has impacted significantly on the required threshold production barrier.

As a result, the parameters for an economic Cornea development have changed considerably since the Retention Lease was granted, as has the basis of design for a Cornea production well test. We now have a development concept which is significantly simplified from the originally proposed high capex development.

Integrated reservoir modelling and facilities work has been commenced to support design

of a production test well capable of delivering sufficient threshold productivity using this development concept to demonstrate economic viability for the development of the field.

The Cornea Joint Venture has applied to the authorities to vary the conditions of the Retention Lease so that the work program is focussed on a production test well which demonstrates that threshold production, in the current oil price regime, can be achieved.

We are also progressing evaluation activities in relation to our 100% interest in the Ascalon gas field, held via two exploration permits. Having applied for Retention Leases in respect of Ascalon in March 2016, we were advised in March 2017 that the Joint Authority did not intend to grant Retention Leases in respect of Ascalon.

Through the consultation process with the Joint Authority and NOPTA, 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. Moreover, NOPTA considered that such activities should be undertaken as activities within the Exploration Permit instruments held over Ascalon, rather than Retention Lease titles.

Accordingly, Octanex has withdrawn the Retention Lease applications and has initiated independent studies of the Ascalon gas discovery which are designed to review

resource estimates and well deliverability. These studies will inform the future workscopes to further evaluate Ascalon. An application for a Location over the Winchester gas discovery will shortly be lodged by Santos, the Operator of WA-323-P, in which Octanex has a 25% interest. Declaration of Location is a pre-requisite for seeking a Retention Lease over Winchester. The Winchester gas discovery was made in 2013 via the Winchester-1/ST1 well and is located near existing pipeline and processing infrastructure.

During the year we changed our status and simplified our capital structure, changing from a public no liability company to a public limited company, with our name changed to Octanex Limited. As a statutory prerequisite for the conversion of status, we cancelled all uncalled capital on partly paid shares and consolidated them on an equitable basis so that each five partly paid (paid to 15c) shares became three fully paid shares.

I extend my thanks to Sabah International Petroleum for their support of Octanex and the Ophir project, as well as to our staff and contractors. I thank my co-directors and shareholders for their ongoing support of Octanex and look forward to sharing news of production at Ophir with you shortly.



E.G. Albers
Melbourne
28 September 2017



Corporate Directory

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

Auditor

Grant Thornton Audit Pty Ltd

Level 30, 525 Collins Street

Melbourne, Victoria 3000 Australia

Stock Exchange

ASX Limited

Level 45, South Tower, Rialto,

525 Collins Street,

Melbourne Victoria 3000 Australia

ASX Code

OXX

Registered office

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Melbourne, Victoria 3000 Australia

Telephone: +61 (03) 8610 4702

Facsimile: +61 (03) 8610 4799

E-mail: admin@octanex.com.au

Website: www.octanex.com.au

Incorporation

Incorporated in Victoria on 13 March 1980



Directors

Mr Geoffrey Albers

Chairman & Chief Executive Officer

Ms Raewyn Clark

Executive Director

Mr David Coombes

Independent Non Executive Director

Mr Giustino Guglielmo

Independent Non Executive Director

Datuk Kevin Kow How

Non-executive Director

Ms Suhnylla Kler

Non-executive Director

Mr James Willis

Independent Non Executive Director

Company Secretaries

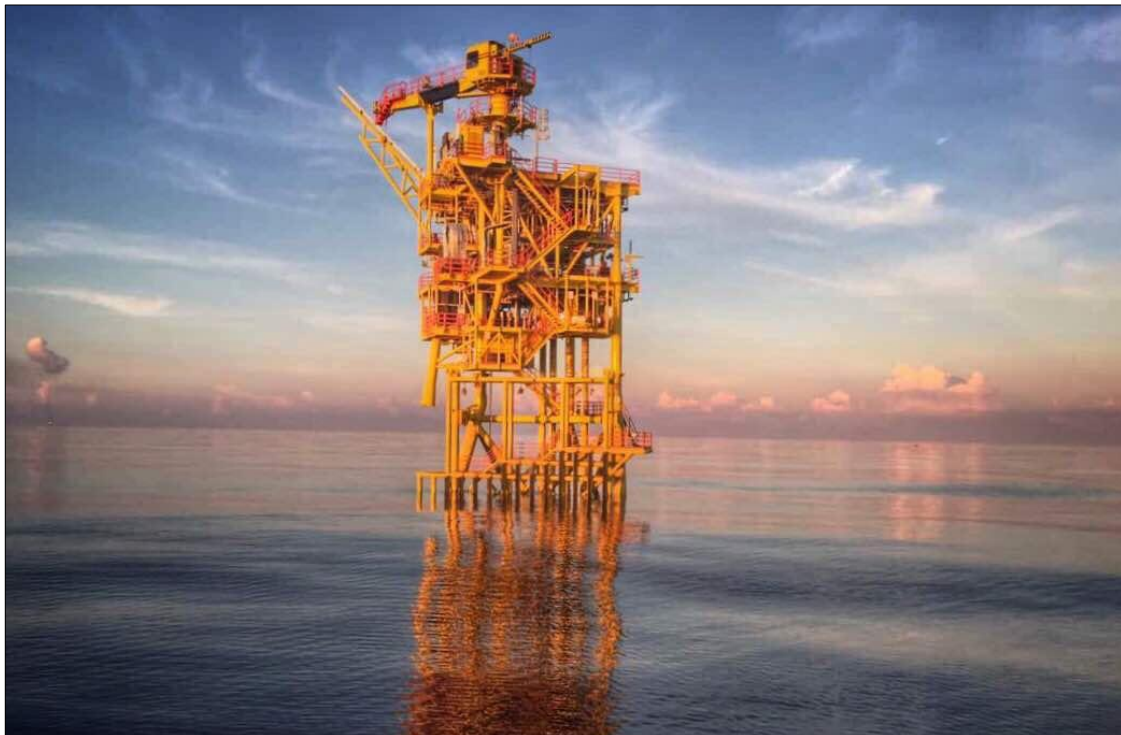
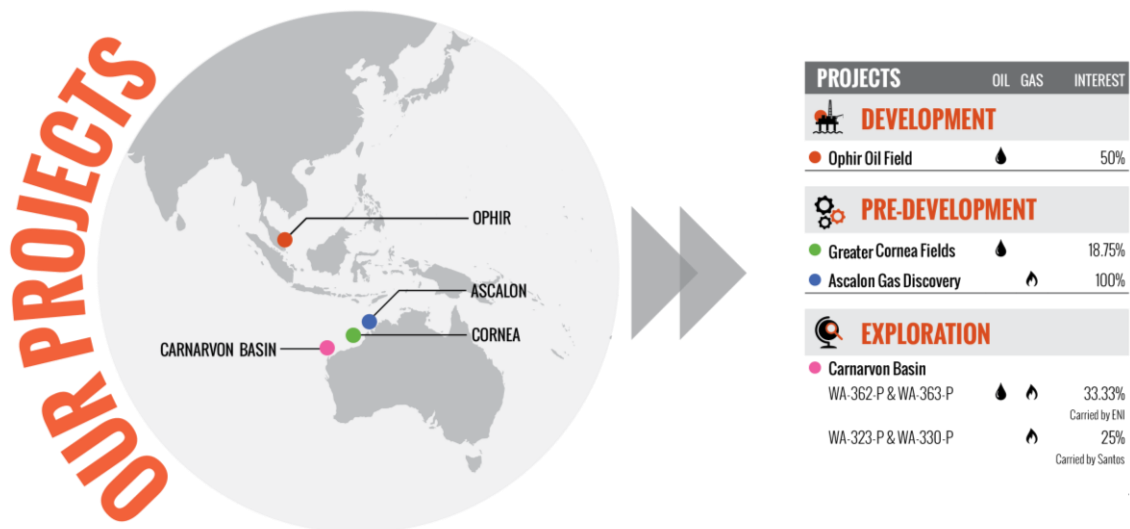
Mr Robert Wright

Mr John Tuohy

Operational Review

Summary of Operations

Bringing the Ophir field closer to production was a key focus in 2016/17, together with advancing our pre-development asset interests (Cornea and Ascalon), while maintaining interests in exploration permits with potential for high-impact discoveries.



Development Asset

Ophir Oil Development Project, Malaysia, 50% interest

The Ophir field is located offshore Peninsular Malaysia, with a water depth of approximately 70m and has been developed via three production wells, a well head platform (WHP) and Floating Production Storage and Offload (FPSO) vessel. The Ophir development will set a new benchmark for low cost development offshore Malaysia, having leveraged reduced industry costs, marginal field facilities design and focused execution. First Oil from the Ophir field is scheduled to be produced later this year.

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

The Ophir field is being developed pursuant to a Risk Service Contract (RSC) issued by PETRONAS in 2014 to OPSB. Octanex holds a 50% interest in OPSB. Under the terms of the RSC, OPSB 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, following commencement of production, via the reimbursement of costs plus a remuneration fee for services

rendered. 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. Our interest in OPSB is equity accounted with the result that the value of our equity investment and advances made to OPSB are reduced by our share of OPSB losses (being costs that are not reimbursable from PETRONAS, such as financing costs). Our advances and the equity investment are expected to be recovered from OPSB after it has repaid its project financing facilities.

Production Drilling Campaign

The Ophir drilling campaign was completed ahead of time and under budget. It comprised three horizontal production wells drilled and completed in the J20 oil reservoirs of the Lower Miocene Tapis formation. Ophir A1 and A2 wells were batch drilled with A1 spudded on 2 June 2017 and A2 spudded on 5 June 2017. The Ophir A3 well spudded on 11 July 2017.



Naga 2 Jack-Up Drilling Rig and Support Vessels approaching Ophir Platform

Completions have been run and production assembly installed. All wells have been flowed to clean-up the drilling and completion fluids, prior to being shut-in for the impending tie-in works to the FPSO .

Wellhead Platform

The Wellhead Platform was installed at the Ophir Field in April after being loaded out from the Muhibbah Engineering yard at Port Klang, Malaysia in late March.

The Platform is comprised of 350 metric tonnes topsides on a tri-legged jacket secured using suction pile foundation technology. Dutch firm, SPT Offshore, as a sub-contractor to the Wellhead Contractor, Muhibbah Engineering, conducted the offshore transportation and installation of the platform. Video footage of the Installation of the Wellhead Platform can be found on the Octanex website at:

www.octanex.com.au/activities/ophir/ophir-videos/

FPSO

FPSO contractor, MTC Engineering Sdn Bhd (MTCE) purchased an oil tanker, Puteri Bangsa, for conversion to the MTC Ledang FPSO for the Ophir field.

MTCE undertook engineering design works for the conversion and conversion works were carried out at the Keppel Shipyard in Singapore.

The MTC Ledang has a small process facility module with capacity for 15,000 barrels of fluid per day and gas flaring, and is capable of storing up to 300,000 barrels of crude. It will be moored to the seabed and connected to the Ophir platform via a flexible 8" pipeline.

The MTC Ledang is contracted to be at the Ophir field for a period of three years, with a one year extension option.



MTC Ledang Conversion Works at Keppel Shipyard



Ophir Platform Installation - Jacket installed, boat landing installation in process



Ophir Platform Installation – Jacket on barge, topsides in background



Crude Stabilisation Unit being lifted onto MTC Ledang



MTC Ledang Conversion Works at Keppel Shipyard

Pre-Development Interests

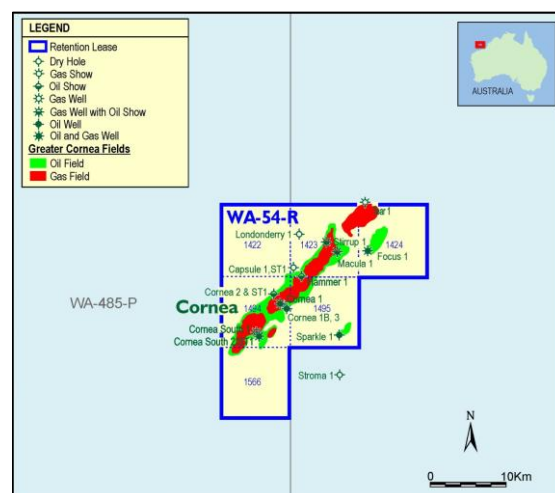
Greater Cornea Fields, Brown Basin, 18.75% interest

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).

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 likely to be economic (subject to achieving threshold production volumes).

The current sustained low oil price environment presents a further significant challenge to the field's commerciality, having rendered as non-viable the field development concepts previously considered likely to have been implemented.



Greater Cornea Field Retention Lease Location Map

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

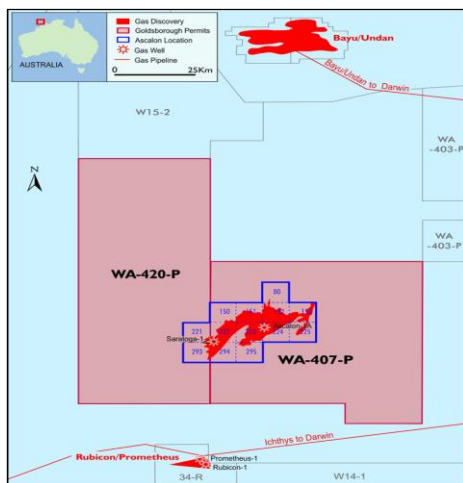
Probabilistic In-place and Contingent Oil Resources for Cornea Central and South Fields (no development risk applied)

Reflecting the changed oil price environment, new development concept screening was undertaken during the year 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 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

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.

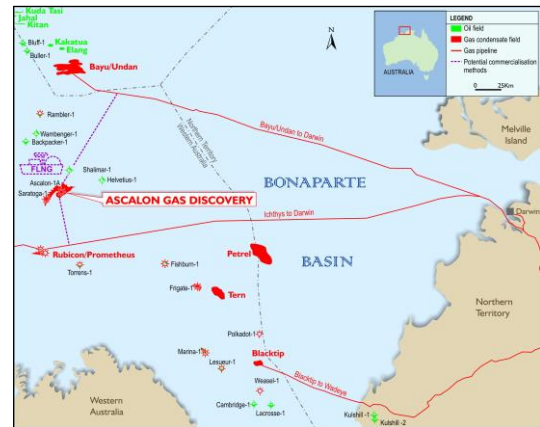
The gas is contained in a faulted horst structure within marine sandstones of Late Permian age. Mapping of the modern 3D seismic database, which we shot over the feature, together with reprocessed 2D seismic, indicates a closure over an area of 260km² with a maximum closure height of 380m. The lowest closing contour appears coincident with lowest known gas defined from logs in the Ascalon-1A well.



Ascalon Gas Accumulation Location Map

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. The reservoir sandstones within the Cape Hay Formation are tight, considered to be not unlike those in the nearby Petrel and Tern gas discoveries with formations of the same age.

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



Ascalon Proximity to Gas Infrastructure

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 pipeline to Darwin as well as the Icythys pipeline to the Inpex LNG facility under development in Darwin, thus offering other potential opportunities.

Should the high gas prices now present in eastern Australia continue, there may be opportunities to address this market through an east/west pipeline in Northern Australia. The Ascalon Location also has the advantages of being outside the area of disputed sovereignty between East Timor and Australia.

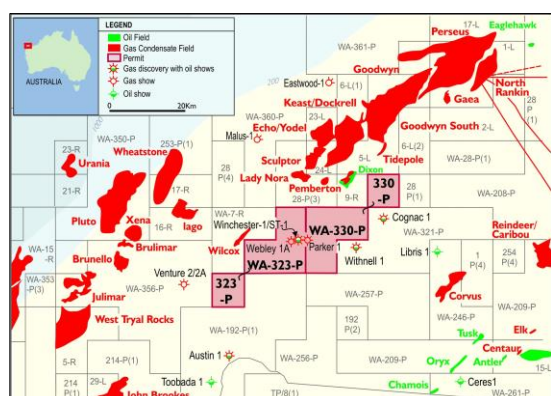
Octanex has been advised that NOPTA considers Ascalon requires further evaluation activities, specifically relating to uncertainty regarding resource estimates and well deliverability, with corresponding development cost uncertainty and such activities should be undertaken as Exploration Permit activities rather than Retention Lease matters. Octanex has accordingly initiated independent studies designed to review the identified uncertainties, at the same time withdrawing the Retention Lease applications previously lodged in relation to the Permits. These studies will assist Octanex in determining future workscopes to reduce uncertainty.

Exploration Assets

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

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

WA-323-P and WA-330-P comprise a discrete project area of 640 km² on the Parker Terrace, in reasonable 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. The discovery, located near existing pipeline and processing infrastructure, is considered to be currently uneconomic. An application for a Location will shortly be lodged by the operator, as a first pre-requisite for seeking a Retention Lease over Winchester.

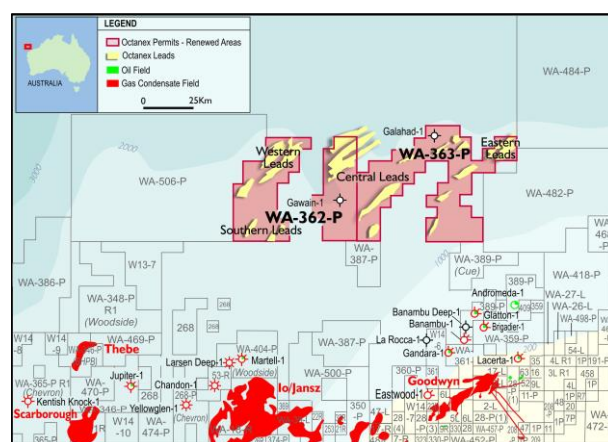


WA-323-P & WA-330-P and Winchester-1/ST1

Location Map

Interpretation by the operator of the reprocessed Winchester 3D seismic survey and Davros Mc3D survey over the permits is continuing with the prospects and leads inventory being updated.

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



Exmouth Plateau Permits

Exmouth Plateau 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. Seismic reprocessing has been completed and interpretation activities are being conducted. 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

Octanex has applied for relief from the 2D seismic obligation attaching to WA-387-P and is waiting for a decision from the Joint Authority. Octanex has fully impaired its interest in WA-387-P, pending notification of the Joint Authority's decision.

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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 audit of Octanex Limited for the year ended 30 June 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 audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



B L Taylor
Partner - Audit & Assurance

Melbourne, 28 September 2017

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Annual Financial Statements

Directors' Report

Directors

Mr Geoff Albers LL.B, FAICD
Executive Chairman
Appointed 2 October 1984

Mr Albers has over thirty five years oil and gas industry experience, having first become involved in oil exploration in 1977. Mr Albers is a law graduate of the University of Melbourne and has had extensive experience as a director and administrator in corporate law, petroleum exploration and resource sector investment.

Mr Albers founded Octanex Limited and is a substantial shareholder in the company. He is also a director and substantial shareholder in the ASX listed Peakco Limited (ASX: PKO) and Enegex Limited (ASX: ENX).

Ms Rae Clark
B.Bus(dist), CA, MAICD, AGIA, ACIS
Executive Director
Appointed 17 October 2014

Ms Clark has more than twenty years experience focussed primarily on the natural resource sector. She has wide operational, commercial and project development knowledge and her experience includes business development, financial modelling and analysis, capital raising and mergers and acquisitions, as well as managing joint venture partners, government, regulator and investor relations.

Ms Clark was previously Commercial Manager of Octanex. Having commenced her career with Deloitte in 1997, Ms Clark has worked with oil and gas companies since 2005. She is also a Director of Peakco Limited (ASX: PKO) and Enegex Limited (ASX: ENX).

Ms Clark holds a Bachelor of Business (with distinction), a Graduate Diploma (ICAA) and Graduate Diploma in Applied Corporate Governance.

Mr David Coombes LL.B, M Tax, CTA
Independent Non-Executive Director
Appointed 15 May 2012

Mr Coombes is a partner in the law firm, Gadens Lawyers, and is a member of the firm's corporate advisory and tax group. His practice involves advising clients on a range of corporate, commercial and taxation law matters, trusts and superannuation law and estate and succession planning. Mr Coombes acts for a number of Australian and overseas listed and private clients in numerous industry sectors.

Mr Coombes was admitted as a barrister and solicitor of the Supreme Court of Victoria in 1971 after graduating from Melbourne University Law School in 1970. He has completed a postgraduate degree in taxation law, is a Chartered Tax Advisor and has been accredited as a Tax Law specialist by the Law Institute of Victoria.

Mr Coombes is a director of several charitable organisations including Wintringham Limited, Wintringham Housing Limited and Newsboys Foundation Limited. He is also a director of the Wynn group of companies.

Mr Tino Guglielmo
B.Eng(Mech), FIEAust, GAICD
Independent Non-Executive director
Appointed 18 December 2014

Mr Guglielmo is a Petroleum Engineer with over thirty three years of technical, managerial and senior executive experience in Australia and internationally.

Mr Guglielmo was the CEO and Managing Director of two successful ASX listed companies; Stuart Petroleum Ltd for seven years and Ambassador Oil & Gas Ltd for three years. Both companies merged with larger ASX listed companies generating significant value for shareholders following the identification of compelling resource potential in their respective petroleum resource portfolios.

Mr Guglielmo also worked at Santos Ltd, Delhi Petroleum Ltd, and internationally with NYSE listed Schlumberger Corp. Mr Guglielmo is currently a member of the Resources & Infrastructure Task force and the Minerals & Energy Advisory Council, both South Australian Government advisory bodies. He is a Fellow of the Institution of Engineers, Australia, a member of the Society of Petroleum Engineers and Australian Institute of Company Directors. Mr Guglielmo is also a director of ASX listed Bass Oil Limited (ASX: BAS) and during the past three years was a director of ASX listed Ambassador Oil & Gas Limited.

Datuk Kevin Kow How FCA
Non-Executive director
Appointed 18 December 2014

Datuk Kevin How Kow is a director of Sabah Development Bank. He is a member of the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants and a fellow member of the Institute of Singapore Chartered Accountants and the Institute of Chartered Accountants in England & Wales. He was made a partner of Ernst & Young ("EY"), Malaysia in 1984 and served as the partner-in-charge of EY's offices in Sabah and Sarawak. Later, from 1996 onwards, he was the partner-in-charge of EY's practice in Sabah and Labuan until his retirement at the end of 2003. He also serves as a Director of Cahya Mata Sarawak Berhad, K&N Kenanga Holdings Berhad, Kenanga Investment Bank Berhad, Saham Sabah Berhad, Sarawak Cable Berhad, M3nergy Berhad and several private limited companies.

Ms Suhnylla Kler FCCA, BSc (Hons)
Monetary Economics
Non-Executive director
Appointed 18 December 2014

Ms Kler has extensive experience in the financial services industry, having worked with the Arab-Malaysian Banking Group, HSBC

Bank (M) Berhad and ABN AMRO. She is currently an Executive Director and CEO of Sabah Development Bank Asset Management and also serves as a Director of M3nergy Berhad and Group.

Ms Kler is registered as Associate Member of Persatuan Kewangan Malaysia (PKM) or Forex Association of Malaysia, and is a member of the Corporate Finance Faculty of the Institute of Chartered Accountants of England & Wales (ICAEW). She received her Bachelor degree in Monetary Economics from the London School of Economics and Political Sciences (LSE) and subsequently studied Japanese at the School of Oriental and African Studies (SOAS), U.K. Having completed her stint with KPMG Peat Marwick, she is additionally registered as a Chartered Accountant and fellow of the Association of Chartered Certified Accountants (FCCA).

Mr James Willis LL.M (Hons), Dip Acc
Independent Non-Executive Director
Appointed 18 August 2009

Previously an executive director of Octanex (2009-2011) Mr Willis is an upstream petroleum consultant who has held governance positions with and consulted to various participants in the oil and gas exploration sector. Mr Willis is a former partner in the leading New Zealand law firm of Bell Gully where his practice speciality was in the upstream oil and gas area, particularly relating to issues concerning gas contracting and the development of oil and gas reserves, joint ventures and upstream petroleum related acquisitions.

Mr Willis is a director of New Zealand Energy Corp, a company with New Zealand operations and listed on the TSX Venture exchange.

Company Secretaries

Mr Jack Tuohy BCA, CA

Mr Tuohy has thirty years experience of public and private company administration, especially as this relates to the oil and gas exploration sector and to public listed company activities.

He has acted as Company Secretary for a number of listed public companies, and has been a director of various public companies. Mr Tuohy is a chartered accountant in New Zealand.

Mr Robert Wright B Bus, CPA

Mr Wright is a senior financial professional with over 25 years commercial experience in the resource, energy and manufacturing industries gained at various companies and locations, including 14 years at BHP.

He is the Chief Financial Officer (CFO) and the Company Secretary of Octanex and CFO and company secretary of the listed companies, Enege Limited and Peak Limited. Mr Wright is a member of CPA Australia.

Principal Activities

The principal activities of the consolidated entity during the year were petroleum exploration and development and investment in that sector.

Financial Results

The net loss of the consolidated entity for the financial year was \$4,800,071 (2016: loss of \$1,815,272).

Dividends

No dividend was declared or paid during the year and to the date of this report.

Review of Operations

A review of the consolidated entity's Operations during the financial year is provided in the Operational Review.

Divestments and surrenders

During the year there have been no divestments or surrenders of permits or leases.

Change in State of Affairs

Other than as described in these annual financial statements there have been no changes in the state of affairs of the company.

Subsequent Events

Since the end of the financial year there have been no subsequent events.

Directors' Meetings

The table below sets out the number of meetings held during the year and the number of those meetings that were attended by each director.

	Board Meetings		Audit Committee Meetings		Nomination & Remuneration Committee Meetings	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
EG Albers	4	3	2	2		
RL Clark	4	4	2	2		
DC Coombes	4	4	2	2	1	1
G Guglielmo	4	3	2	1	1	1
KK How	4	2	2	-		
S Kler	4	2	2	1	1	1
JMD Willis	4	3	2	1		

Future Developments

Future developments in the company's operations and the expected result from those operations are dependent on exploration and development success in the permit areas in which the group holds interests.

Share Capital

Ordinary Shares

The Company's share capital consists of 242,712,947 ordinary fully paid shares (excluding 30,000,000 shares held by the Trustee of the Octanex Trust Share Scheme). This follows approval from shareholders at the General Meeting in November 2016 for the:

- (a) cancelling of 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) 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 were consolidated into three fully paid shares.

Trustee Stock Scheme

As at 30 June 2017 and to the date of this report, 30,000,000 ordinary shares, previously issued to the Trustee pursuant to the Scheme, remain unsold. The Trustee does not exercise voting rights in respect of the shares held pursuant to the Scheme.

Unlisted Options

Following approval by shareholders at the general meeting in November 2016 7,170,000 options were granted to directors. The following options were granted and remained on issue at 30 June 2017 to Octanex directors, staff and other individuals. The option terms are summarised below:

Number	Expiry Date	Exercise price	Vesting criteria
6,600,000	15 October 2018	\$0.1534	No
1,000,000	19 May 2018	\$0.15	No
1,000,000	11 June 2018	\$0.15	No
1,000,000	11 June 2018	\$0.15	Yes
4,000,000	11 June 2018	\$0.15	Yes and varying expiry dates
250,000	1 February 2018	\$0.20	No
250,000	1 February 2018	\$0.25	No
7,170,000	24 November 2019	\$0.08	No

	2017 Options	2016 Options
Unlisted Options		
Balance at beginning of year	15,100,000	15,100,000
Options granted	7,170,000	-
Options cancelled	(1,000,000)	-
Options expired	-	-
Balance at end of year	<u>21,270,000</u>	<u>15,100,000</u>

Convertible Notes

Octanex has a US\$12Million convertible note facility (Notes) with Sabah International Petroleum (SIP), a company ultimately wholly owned by Ministry of Finance of the Malaysian state of Sabah. The facility was approved by Octanex shareholders in February 2015 and consists of three US\$4million tranches with rights of conversion into fully paid ordinary shares of the Company at prices of 15, 20 and 25 cents per share for each of the tranches.

The Notes have a maturity date of 30 June 2019 and may be redeemed or converted at SIP's election.

The facility is primarily to be utilised to fund the Ophir development. As at 30 June 2017, and at the date of this report, two tranches aggregating US\$8Million has been drawn down under the facility.

Indemnification of Directors and Officeholders

During the year and to the date of this report, the company did not pay premiums in respect of contracts insuring officers or auditors of the company against liabilities arising from their position of officers or auditor of the company.

The Company has entered into Deeds of Access and Indemnity with each of the Directors referred to in this report who held office during the year indemnifying each against all liabilities incurred in their capacity as directors of the Company to the full extent permitted by law.

Remuneration report

This remuneration report is set out on pages 17 to 19 and forms part of the Directors' Report for the financial year ended 30 June 2017.

Corporate Governance

The Board is responsible for the strategic direction of the Company, the identification and implementation of corporate policies and

goals, and the monitoring of the business and affairs of the Company on behalf of its shareholders.

The Board delegates responsibility for the day-to-day management of Octanex to the Chief Executive Officer. All Directors have unrestricted access to Company records and information and receive detailed financial and operational reports.

The Board is currently comprised of five Non-Executive Directors and two Executive Directors. In accordance with the Company's Constitution and the ASX Listing Rules, the Directors (other than the Chief Executive Officer) are subject to re-election by shareholders every three years.

The Board meets regularly throughout the year. Where appropriate, presentations are given to the Board from management who may be questioned directly by Board members on technical, operational and commercial issues.

Details of the Company's corporate governance practices are included in the Corporate Governance statement found on the Company's website.

Auditor independence and non-audit services

A copy of the auditor's independence declaration, as required under Section 307C of the Corporations Act 2001, is attached and forms part of this Directors' Report for the year ended 30 June 2017.

No fees were paid to the auditor for non-audit services.

This Directors' Report is made in accordance with a resolution of the directors and forms part of the financial statements.

On behalf of the Directors:



E.G. Albers
Director
28 September 2017

Remuneration Report

This Remuneration Report for the year ended 30 June 2017 outlines the key management personnel remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001 (Act) and its regulations. The disclosures in this Remuneration Report have been audited as required by section 308(3C) of the Act.

Key Management Personnel

For the purpose of this report, Key Management Personnel (KMPs) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company directly or indirectly. The following have been identified as KMPs for the purpose of this Remuneration Report:

Executive Directors	
EG Albers	Chairman & Chief Executive Officer
RL Clark	Executive Director & Chief Operating Officer
Non-executive Directors	
DC Coombes	Director
G Guglielmo	Director
KK How	Director
SK Kler	Director
JMD Willis	Director

The board of directors is responsible for determining and reviewing compensation arrangements for the directors and executives. The board assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executives.

Remuneration levels for directors and executives of the company are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders. The remuneration structure takes into account:

- The capability and experience of the directors and executives;
- The ability of directors and executives to control the entity's performance; and
- The requirement that directors apply a portion of their remuneration to the purchase of shares in the company, at market price, so as to align the interests of directors with that of shareholders.

In accordance with the company's constitution, directors' non-executive remuneration was approved by shareholders on 28 November 2014 at \$250,000 per annum.

During the year, non-executive director remuneration of \$60,822 was paid and payable (2016: \$nil). In 2016 adjustments from the signing of deeds of release were \$(95,305). Total director remuneration (exclusive of consulting fees which are included at note 21) of \$311,403 was paid and payable during the year (2016: \$219,000). In 2016 adjustments from the signing of deeds of release were \$(151,104).

There is no performance related remuneration for directors. Remuneration paid to directors covers all board activities, including serving on committees.

Apart from a retirement benefit for the chairman and four weeks annual leave for RL Clark, the other directors do not receive employee benefits such as annual leave and long service leave, but remuneration may include the grant of options over shares of the company to align directors' interests with that of the shareholders. There is no direct relationship between remuneration and the company's performance for the last five years.

Components of directors' compensation paid and otherwise payable (refer Note (1)) are disclosed below.

		<i>Short Term</i>		<i>Post Employment</i>		<i>Equity Settled</i>	<i>Total</i>
		<i>Directors Fees</i>	<i>Salary</i>	<i>Super-annuation</i>	<i>Retirement Benefits</i>	<i>Options</i>	
		\$	\$	\$	\$	\$	\$
EG Albers (1)	2017	-	-	-	-	-	-
	2016	(30,000)	-	(2,850)	-	-	(32,850)
DC Coombes	2017	-	-	-	-	11,490	11,490
	2016	(15,000)	-	(1,425)	-	-	(16,425)
JMD Willis	2017	-	-	-	-	15,611	15,611
	2016	(32,850)	-	-	-	-	(32,850)
RL Clark	2017	-	202,666	19,190	-	28,725	250,581
	2016	(20,959)	200,000	17,010	-	-	196,051
S K Kler	2017	-	-	-	-	10,990	10,990
	2016	(14,285)	-	-	-	-	(14,285)
K K How	2017	-	-	-	-	10,990	10,990
	2016	(14,285)	-	-	-	-	(14,285)
G Guglielmo	2017	-	-	-	-	11,741	11,741
	2016	(15,945)	-	(1,515)	-	-	(17,460)
TOTAL	2017	-	202,666	19,190	-	89,547	311,403
	2016	(143,324)	200,000	11,220	-	-	67,896

(1) On 29 October 1997, a Deed of Appointment was signed with EG Albers. The deed detailed terms of continuation of his appointment as chairman of Octanex Limited. Among other things, it provides for a payment of a retirement benefit to EG Albers as chairman.

Interests in Equity Instruments of Octanex Limited

The disclosures relating to equity instruments of directors includes equity instruments of personally related entities, being relatives and the spouses of relatives of the director and any entity under the joint or several control or significant influence of the director.

All equity transactions with directors, other than options granted as remuneration, have been entered into under terms and conditions, applicable to all shareholders.

Interests in fully paid ordinary shares

	Balance	Received as Remuneration	Options Exercised	Net Change Other*	Balance
	1/7/2016				30/6/2017
EG Albers	121,761,441	-	-	27,486,193	149,247,634
RL Clark	57,551	-	-	-	57,551
DC Coombes	165,000	-	-	24,900	189,900
G Guglielmo	3,000,000	-	-	120,000	3,120,000
KK How	50,000	-	-	-	50,000
SK Kler	50,000	-	-	-	50,000
JMD Willis	2,398,130	-	-	719,252	3,117,382

* See Note (1) below.

Interests in partly paid ordinary shares

	Balance	Received as Remuneration	Options Exercised	Net Change Other (1)	Balance
	1/7/2016				30/6/2017
EG Albers	44,637,357	-	-	(44,637,357)	-
RL Clark	-	-	-	-	-
DC Coombes	41,500	-	-	(41,500)	-
G Guglielmo	200,000	-	-	(200,000)	-
KK How	-	-	-	-	-
SK Kler	-	-	-	-	-
JMD Willis	1,198,752	-	-	(1,198,752)	-

(1) 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.

Interests in unlisted options

	Held at	Granted as	Exercised	Other	Held at	Vested	Vested and
	1/1/2016	Compensation		Changes	30 June	during	exercisable at
	1/1/2016				2017	the year	30 June
EG Albers	-	-	-	-	-	-	-
RL Clark	2,000,000	2,300,000	-	-	4,300,000	2,300,000	4,300,000
DC Coombes	500,000	920,000	-	-	1,420,000	920,000	1,420,000
JMD Willis	500,000	1,250,000	-	-	1,750,000	1,250,000	1,750,000
G Guglielmo	-	940,000	-	-	940,000	940,000	940,000
KH Kow	-	880,000	-	-	880,000	880,000	880,000
SK Kler	-	880,000	-	-	880,000	880,000	880,000

End of Remuneration Report.

Directors Declaration

The directors of the company declare that:

1. The financial statements, 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 and:

- (a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date.
- (c) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

3. The remuneration disclosures included in pages 17 to 19 of the directors' report, (as part of audited Remuneration Report), for the year ended 30 June 2017, comply with section 300A of the Corporations Act 2001.

4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



E.G. Albers
Director
Melbourne
28 September 2017

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Independent Auditor's Report to the Directors of Octanex Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Octanex Limited (the Company), and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 30 June 2017, 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 year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying consolidated financial report of Octanex Limited, is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial report of the current period. These matters were addressed in the context of our audit of the consolidated financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Exploration expenditure (Note 10)</p> <p>At 30 June 2017 the carrying value of Exploration and Evaluation Assets was \$39,657,763.</p> <p>In accordance with AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i>, the company is required to assess at each reporting date if there are any triggers for impairment which may suggest the carrying value is in excess of the recoverable value.</p> <p>The process undertaken by management to assess whether there are any impairment triggers in each area of interest involves an element of management judgement.</p> <p>This area is a key audit matter due to the valuation of exploration and evaluation assets being a significant risk.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Obtaining the management prepared reconciliation of capitalised exploration and evaluation expenditure and agreeing to the general ledger; • Reviewing management's area of interest considerations against AASB 6; • Conducting a detailed review of management's assessment of trigger events prepared in accordance with AASB 6 including: <ul style="list-style-type: none"> – Tracing projects to statutory registers, exploration licenses and third party confirmations to determine whether a right of tenure existed; – Enquiry of management regarding their intentions to carry out exploration and evaluation activity in the relevant areas, including review of managements' budgeted expenditure; – Understanding whether any data exists to suggest that the carrying value of these exploration and evaluation assets are unlikely to be recovered through development or sale; • Assessing the accuracy of impairment recorded for the year as it pertained to exploration interests; and • Reviewing the appropriateness of the related disclosures within the financial statements.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information in the Group's financial report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Report

The Directors of the Group are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 28 of the directors' report for the year ended 30 June 2017. In our opinion, the Remuneration Report of Octanex Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Group are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



B L Taylor
Partner – Audit & Assurance

Melbourne, 28 September 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year Ended 30 June 2017

	NOTE	2017 \$	2016 \$
Revenue - interest received		2,555	4,867
Other income	2	79,649	339,786
Interest and finance costs		(410,667)	-
Expenses	3	(2,746,655)	(1,403,318)
Share of loss of Ophir Production Sdn Bhd	8	(2,520,364)	(1,261,490)
Share of (loss) / profit of Peako Limited	9	(24,884)	237,960
Impairment of investment in Peako Limited	9	(39,218)	(355,842)
Loss before tax		(5,659,584)	(2,438,037)
Income tax benefit	4	859,513	622,765
Net Loss after tax		(4,800,071)	(1,815,272)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operation		(409,472)	101,884
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	17	17,693	(1,179,797)
Income tax on items of comprehensive income		(5,307)	353,938
Other comprehensive income for the year net of tax		(397,086)	(723,975)
Total comprehensive income for the year		(5,197,157)	(2,539,247)
Basic loss per share (cents per share)	26	(2.202)	(0.758)
Diluted loss per share (cents per share)	26	(2.202)	(0.758)

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 30 June 2017**

	NOTE	2017 \$	2016 \$
CURRENT ASSETS			
Cash and cash equivalents	5	5,666,779	3,147,294
Trade and other receivables	6	308,007	382,323
TOTAL CURRENT ASSETS		5,974,786	3,529,617
NON-CURRENT ASSETS			
Advance to Ophir Production Sdn Bhd	6	10,040,613	6,568,663
Financial assets at fair value through other comprehensive income	7	38,928	21,235
Investments in an associate and a joint venture	8,9	78,347	142,449
Exploration and evaluation assets	10	39,657,763	41,208,791
TOTAL NON-CURRENT ASSETS		49,815,651	47,941,138
TOTAL ASSETS		55,790,437	51,470,755
CURRENT LIABILITIES			
Trade and other payables	11	359,284	634,419
Provisions	12	138,008	130,176
Derivative financial liability	14	386,596	-
TOTAL CURRENT LIABILITIES		883,888	764,595
NON-CURRENT LIABILITIES			
Borrowings	13	10,162,204	-
Deferred tax liabilities	15	7,667,744	8,521,949
TOTAL NON-CURRENT LIABILITIES		17,829,948	8,521,949
TOTAL LIABILITIES		18,713,836	9,286,544
NET ASSETS		37,076,601	42,184,211
EQUITY			
Issue capital	16	68,856,339	68,856,339
Reserves	17	1,265,110	1,572,649
Accumulated losses		(33,044,848)	(28,244,777)
TOTAL EQUITY		37,076,601	42,184,211

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

Consolidated Statement of Changes in Equity

Year Ended 30 June 2017

	Contributed equity	Accumulate d losses	Financial assets at fair value through other comprehensiv e 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	-	(4,800,071)	-	-	-	(4,800,071)
<i>Other comprehensive income</i>						
Exchange differences of translation of foreign operations net of tax	-	-	-	(409,472)	-	(409,472)
Changes in fair value on financial assets at fair value through other comprehensive income net of tax	-	-	12,386	-	-	12,386
Total other comprehensive income	-	-	12,386	(409,472)	-	(397,086)
Total comprehensive income for the year	-	(4,800,071)	12,386	(409,472)	-	(5,197,157)
Transactions with owners in their capacity as owners						
Share-based payments expense	-	-	-	-	89,547	89,547
At 30 June 2017	68,856,339	(33,044,848)	(814,978)	1,042,525	1,037,563	37,076,601

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

Consolidated Statement of Changes in Equity

Year Ended 30 June 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	-	(1,815,272)	-	-	-	(1,815,272)
<i>Other comprehensive income</i>						
Exchange differences of translation of foreign operations net of tax	-	-	-	101,884	-	101,884
Changes in fair value on financial assets at fair value through other comprehensive income net of tax	-	-	(825,859)	-	-	(825,859)
Total other comprehensive income	-	-	(825,859)	101,884	-	(723,975)
Total comprehensive income for the year	-	(1,815,272)	(825,859)	101,884	-	(2,539,247)
Transactions with owners in their capacity as owners						
Share issue	1,020,000	-	-	-	-	1,020,000
Cost of issue	(12,000)	-	-	-	-	(12,000)
At 30 June 2016	68,856,339	(28,244,777)	(827,364)	1,451,997	948,016	42,184,211

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

Consolidated Statement of Cash Flows

Year Ended 30 June 2017

	NOTE	2017 \$	2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Administration fees received		61,007	42,120
Interest received		2,555	4,828
Payments to suppliers		(1,137,904)	(1,948,108)
Interest paid		(208,008)	-
Net cash outflow from operating activities	(i)	(1,282,350)	(1,901,160)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to suppliers - exploration		(194,137)	(206,949)
Repayment of loan from Peakco Limited	6,9	-	440,000
Loans to Ophir Production Sdn Bhd	8	(6,391,207)	(2,268,364)
Proceeds from sale of investments		-	53,964
Net cash outflow from investing activities		(6,585,344)	(1,981,349)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowing	14	10,583,788	-
Proceeds from share issue	16	-	1,020,000
Cost of share issue	16	-	(12,000)
Net inflow from financing activities		10,583,788	1,008,000
Net increase / (decrease) in cash and cash equivalents		2,716,094	(2,874,509)
Exchange (losses) / gains		(196,609)	189,719
Cash and cash equivalents at beginning of the year		3,147,294	5,832,084
CASH AND CASH EQUIVALENTS AT 30 JUNE	5	5,666,779	3,147,294

(i) RECONCILIATION OF NET CASH FROM OPERATING ACTIVITIES WITH LOSS AFTER INCOME TAX

Loss after income tax		(4,800,071)	(1,815,272)
<i>Non cash items:</i>			
Borrowing Costs		54,275	-
Exchange rate changes on the balances held in a foreign currency		2,659	(229,603)
Employee Provisions expense		7,832	5,108
Depreciation		-	1,832
Share based payments expense		89,547	-
Share of loss and impairment of Peakco Limited	9	64,103	117,883
Share of loss of Ophir Production Sdn Bhd	8	2,520,364	1,261,490
Finance costs		356,392	-
Impairment of exploration assets		1,745,165	-
<i>Changes in assets and liabilities:</i>			
Decrease in receivables		20,040	30,056
Decrease in tax liabilities		(483,143)	(649,889)
Increase in payables		(859,513)	(622,765)
Net Cash outflow from Operating Activities		(1,282,350)	(1,901,160)

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

Notes to the Financial Statement

30 June 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 year ended 30 June 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. Financial information for Octanex Limited as an individual entity is included in Note 27. The financial report was authorised by the directors for issue on 28 September 2017.

(a) Statement of compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, including the Accounting Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. The consolidated financial statements and notes comply with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

(b) Basis of preparation

The financial report is presented in Australian dollars, which is the consolidated group's functional currency, rounded to the nearest dollar. It has been prepared under the historical cost convention as modified by the revaluation of the available for sale investments at fair value.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of Australian

Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(q). The accounting policies set out below have been applied consistently to all periods presented in the financial report.

(c) Early adoption of standards

From 1 July 2010 the group has elected to apply AASB 9 Financial Instruments (as issued in December 2009) and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 from 1 July 2010, because the new accounting policies provide more reliable and relevant information for users to assess the amounts, timing and uncertainty of future cash flows. In accordance with the transition provisions, comparative figures have not been restated. Refer Note 1(k) for further details on the impact of the change in accounting policy. As permitted under the transitional provisions, the group has elected not to adopt the December 2010 revised version of AASB 9, which addresses the accounting for financial liabilities and derecognition of financial assets and liabilities.

(d) Principles of consolidation

The consolidated entity financial statements consolidate those of the company and all of its subsidiaries as at year end.

(i) Subsidiaries

The company controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in subsidiaries are carried at their cost of acquisition in the parent entity note

All transactions and balances between companies within the consolidated entity are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a consolidated entity perspective. Amounts reported in the

Notes to the Financial Statement

30 June 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the consolidated entity. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

(ii) Investments in associates and joint ventures

Associates are those entities over which the consolidated entity is able to exert significant influence but which are not subsidiaries. Peak Oil & Gas Limited is an Associate of Octanex for the purposes of these accounts.

A joint venture is an arrangement that the consolidated entity controls jointly with one or more other investors, and over which the consolidated entity has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities. A joint arrangement in which the consolidated entity has direct rights to underlying assets and obligations for underlying liabilities is classified as a joint operation. Ophir Production Sdn Bhd is treated as a joint venture company for the purposes of these accounts. Investments in associates and joint ventures are accounted for using the equity method. Interests in joint operations are accounted for by recognising the consolidated entity's assets (including its share of any assets held jointly), its liabilities (including its share of any liabilities incurred jointly), its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and its expenses (including its share of any expenses incurred jointly).

Any goodwill or fair value adjustment attributable to the consolidated entity's share in the associate or joint venture is not recognised separately and is included in the amount recognised as investment. The carrying amount of the investment in associates and joint ventures is increased or decreased to recognise the consolidated entity's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the consolidated entity.

When the consolidated entity's share of losses exceeds its interest in the associate or joint venture the entity discontinues recognising its share of

further losses. The interest in an associate or joint venture is the carrying amount of the investment in the associate or joint venture (refer Notes 8 and 9) together with long-term interests that in substance form part of the entity's net investment in the associate or joint venture (refer Note 6).

Unrealised gains and losses on transactions between the consolidated entity and its associates and joint ventures are eliminated to the extent of the consolidated entity's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

(iii) Joint operations*Jointly controlled operations and assets*

The interest of the company and of the consolidated entity in unincorporated joint operations and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint operation.

The financial statements of the jointly controlled operations and assets are prepared for the same reporting period as the parent company using consistent accounting policies.

(iv) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the 'Investment in associates' and 'Share of associates' net profit accounts. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the associates or, if not consumed or sold by the associate, when the consolidated entity's interest in such entities is disposed of.

(e) Taxes*Income Tax*

Income taxes are accounted for using the comprehensive balance sheet liability method whereby:

Notes to the Financial Statement

30 June 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- The tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- Current and deferred tax is recognised as income or expense except to the extent that the tax related to equity items or to a business combination;
- A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- Deferred tax asset and liabilities are measured at the tax rates that are expected to apply to the period where the asset is realised or the liability settled.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Tax Consolidation

The company and its wholly owned resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Octanex Limited. Current tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of the assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation. Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised by the

Company as amounts payable (receivable) to / (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by the Company as an equity contribution or distribution. The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(f) Foreign Currency Translation

The functional and presentation currency of Octanex Limited and its Australian subsidiaries is Australian dollars (A\$).

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in the Statement of Profit or Loss and Other Comprehensive Income, except when they are deferred in equity as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into dollars at the rate of exchange prevailing at the reporting date and their Statements of Profit or Loss and Other Comprehensive Income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Notes to the Financial Statement

30 JUNE 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Receivables

Trade receivables are recognised at original invoice amounts less an allowance for uncollectible amounts and have repayment terms between 30 and 90 days. Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence (such as significant financial difficulties on the part of the counterparty or default) that the company will not be able to collect all amounts due according to the original terms.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and at call bank deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(i) Payables

Trade, accruals and other payables are recorded initially at fair value and subsequently at amortised cost. Trade and other payables are non-interest bearing and are normally settled on 60-day terms.

(j) Assets Held for sale

When the group intends to sell a non-current asset or a group of assets (a disposal group), and if sale within 12 months is highly probable, the asset or disposal group is classified as 'held for sale' and presented separately in the statement of financial position. Liabilities are classified as 'held for sale' and presented as such in the statement of financial position if they are directly associated with a disposal group.

Assets classified as 'held for sale' are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some 'held for sale' assets such as financial assets or deferred tax assets, continue to be measured in accordance with the group's accounting policy for those assets.

(k) Equity investments

All equity investments are measured at fair value. Equity investments that are held for trading are measured at fair value through profit or loss. For all other equity investments, the group can make an irrevocable election at initial recognition of each investment to recognise changes in fair value through other comprehensive income ("OCI") rather than profit or loss.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed as profit or loss. The group subsequently measures all equity investments at fair value. The directors have elected to present fair value gains and losses on equity investments in OCI. There is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as other revenue when the group's right to receive payments is established and as long as they represent a return on investment.

(l) Property, plant and equipment

Computer and other equipment

Computer and other equipment (comprising fittings and furniture) are initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management. Computer equipment and other equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of computer equipment and other equipment. The following useful lives are applied:

- Computer equipment: 4 years
- Other equipment: 10 years

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within other income or other expenses.

(m) Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the company. Transactions costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the consideration received, net of any income tax benefit. Ordinary shares are classified as equity.

Notes to the Financial Statement

30 JUNE 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration

(n) Impairment

At each reporting date the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the profit or loss where the asset's carrying value exceeds its recoverable amount.

(i) Calculation of recoverable amount

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other groups or assets, in which case, the recoverable amount is determined for the class of assets to which the asset belongs.

(ii) Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Restoration, rehabilitation and environment expenditure

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are provided for as part of the cost of those activities. Costs are estimated on the basis of current legal requirements, anticipated technology and future costs that have been discounted to their present value. Estimates of future costs are reassessed at each reporting date.

(p) Exploration and evaluation assets

Exploration and evaluation assets, including the costs of acquiring permits or licences, are capitalised as exploration and evaluation assets on an area of interest basis. Exploration and evaluation assets are only recognised if the rights to tenure of the area of interest are current and either:

- i. the expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale or partial sale: or
- ii. activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if the facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):

- i. the exploration and evaluation tenure right has expired or are expected to expire in the near future, and is not expected to be renewed.
- ii. substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- iii. exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- iv. sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale

Proceeds from the sale of exploration permits or recoupment of exploration costs from farmin arrangements are credited against exploration costs previously capitalised. Any excess of the proceeds over costs recouped are accounted for as a gain on disposal. *Farmouts in the exploration and evaluation phase* The group does not record any expenditure made by the farminee on its account. It also does not recognise any gain or loss on its exploration and evaluation farmout arrangements, but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any additional cash consideration received directly from the farminee is credited against costs previously capitalised in relation to the whole interest, with any excess accounted for as a gain on disposal.

Notes to the Financial Statement

30 JUNE 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Accounting estimates and judgements

Management determine the development, selection and disclosure of the company's critical accounting policies and estimates and the application of these policies and estimates. There are no estimates and judgements that are considered to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. There is, however, a risk that actual expenditure to achieve minimum work obligations could differ from estimates disclosed in the notes to the financial statements (see Note 18). The estimated amounts represent the higher end of possible future expenditure. Work requirements achieved by farm-ins materially reduce the level of expenditure incurred by the company to comply with work program commitments.

Per Notes 1(p), management exercises judgement as to the recoverability of exploration expenditure. Any judgment may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes, once activities in the area of interest have reached a stage which permits a reasonable assessment of technical feasibility and commercial viability, that the capitalised expenditure is unlikely to be recovered by future sale or exploitation, then the relevant capitalised amount will be written off through the statement of profit or loss and other comprehensive income.

Management have determined that there are no impairment indicators for the capitalised exploration and evaluation expenditure relating to WA-54-R (note 10) relying upon and applying the tests contained in AASB 6.20, in particular on the basis that the Cornea Joint Venture continues to undertake work to address Cornea's key barriers to commercialisation. The objective of the current work activities is to support design of a production test well to achieve economic production. The Joint Venture has applied to the regulator to vary the conditions of the Retention Lease to move the timing for a production test well from the current year (May 17-May 18) so that integrated reservoir modelling and facilities work using the recently identified low-capex development concept can be completed in order to design a production test well capable of delivering sufficient threshold productivity to demonstrate economic viability for the development of the field. The consolidated entity is subject to income taxes in numerous jurisdictions. The determination of the consolidated entity's provision for current income tax as well as deferred tax assets

and liabilities involves significant judgements and estimates on certain matters and transactions, for which the ultimate outcome may be uncertain. If the final outcome differs from the consolidated entity's estimates, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Management has assessed the company's investment in Ophir Production Sdn Bhd (OPSB) and Peakco Limited (Peak). Management has concluded that OPSB is a joint venture company and that Peak meets the definition of an associate. AASB 128 requires the use of equity accounting for investment in joint venture companies and associates. Management has assessed recoverability of the advance to Ophir Production Sdn Bhd ("OPSB") and has decided its carrying value to be appropriate (Refer Note 6). In determining the recoverable amount management have made assumptions and estimates 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.

(r) Revenue

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

Interest

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

(s) Share-based payment transactions

Equity settled transactions

The fair value of options granted are recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the grantee become unconditionally entitled to the options. The fair value at grant date is independently determined using an option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Notes to the Financial Statement

30 JUNE 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of profit or loss and other comprehensive income with a corresponding adjustment to equity.

(t) Fair value

Fair values may be used for financial asset and liability measurement as well as for sundry disclosures.

Fair values for financial instruments traded in active markets are based on quoted market prices at reporting date. The quoted market price for financial assets is the current bid price and the quoted market price.

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. Assumptions used are based on observable market prices and rates at reporting date. Estimated discounted cash flows are used to determine fair value of the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

(u) Borrowing Costs

Borrowing costs incurred for the construction of a qualifying asset are capitalised during the period of time that it is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed when incurred.

(v) Convertible Notes

The conversion feature of the convertible notes represents an embedded financial liability (Note 14) in a host liability (Note 13). 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.

(w) Earnings per Share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to members of Octanex by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares during the year.

In calculating the weighted average number of ordinary shares outstanding, the partly paid shares are accounted for on a pro-rata basis according to the amount of call outstanding in relation thereto.

Diluted earnings per share

Earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

(x) New and revised accounting standards issued not yet effective

The company has adopted all of the new and revised Accounting Standards issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2016.

The Directors do not believe that new and revised standards issued by AASB that are not yet effective will have any material financial impact on the financial statement

Notes to the Financial Statement

30 JUNE 2017

NOTE 2 OTHER INCOME

		Consolidated	
	NOTE	2017 \$	2016 \$
Sundry income – director related	21	52,830	18,840
Net foreign exchange gain		26,819	271,943
Sundry income - other		-	49,003
Total income		<u>79,649</u>	<u>339,786</u>

NOTE 3 EXPENSES

Audit fees	23	62,128	66,955
Consulting		44,207	191,246
Directors' remuneration	20	-	(151,104)
Exploration expensed		-	575
Management fees		(16,397)	75,000
Reporting, registry and stock exchange		32,567	41,383
Office expenses		222,117	234,622
Other expenses		192,590	200,069
Project costs		34,515	206,939
Salaries		340,216	412,100
Share based payments: fair value of directors' options at grant date	16	89,547	-
Impairment of exploration assets		1,745,165	125,533
Total expenses		<u>2,746,655</u>	<u>1,403,318</u>

NOTE 4 INCOME TAX

Components of income tax benefit

Current tax expense

Current period	(859,513)	(351,418)
Adjustment for prior period	-	(271,347)

Deferred tax expense

Origination and reversal of temporary differences	-	-
Total	<u>(859,513)</u>	<u>(622,765)</u>

Notes to the Financial Statement

30 JUNE 2017

NOTE	Consolidated	
	2017 \$	2016 \$
NOTE 4 INCOME TAX (Continued)		
Reconciliation between tax benefit and pre-tax loss		
Loss before tax	(5,659,584)	(2,438,037)
Income tax benefit using statutory income tax rate of 30%	(1,697,875)	(731,411)
Tax effect of adjustment recognised in the period for:		
Prospectus costs	(3,005)	(3,005)
Adjustment for prior periods	-	(271,347)
Non-assessable income	(7,812)	(108,220)
Impairment of OPSB advance	756,109	378,447
Other non-deductible expenses	93,070	112,771
Income tax benefit	(859,513)	(622,765)
Franking credit balance:		
Franking account balance as at end of year	1,741,532	1,741,532

NOTE 5 CASH AND CASH EQUIVALENTS

Cash at bank and on hand	5,666,779	3,417,2
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Cash at bank and on hand includes \$5,142,101 held with the OCBC Bank in Singapore (2016: \$5,023,806). 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 primarily to be used to fund cash calls for the Ophir project or to repay borrowings from SIP.

Cash and cash equivalents are subject to interest rate risk as they earn floating rates. In the year to 30 June 2017 the average floating rate for the Consolidated entity was 0.05% (2016: 0.1%). Details of interest rate risk and sensitivity can be found in Note 22. At 30 June 2017 all bank deposits are at call.

NOTE 6 TRADE AND OTHER RECEIVABLES

Current

Other receivables		295,973	367,044
Director-related entities - other receivables	21	12,034	15,279
		308,007	382,323

Non current

Advance to Ophir Production Sdn Bhd	8	10,040,613	6,568,663
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Notes to the Financial Statement

30 JUNE 2017

NOTE 6 TRADE AND OTHER RECEIVABLES (Continued)

The carrying amount of all receivables is equal to their fair value as they are short term.

At 30 June 2017 no receivables are impaired or past due except for the impairment of the non-current advance to Ophir Production Sdn Bhd (Note 8).

The Advance to OPSB represents total advances made by the company to OPSB less a share of OPSB's losses to date. OPSB losses represent costs that are not reimbursable from PETRONAS, such as financing costs. All OPSB expenditure eligible for reimbursement from PETRONAS is capitalised by OPSB as amounts receivable from PETRONAS.

The application of Octanex's share of OPSB losses to the Advance is in accordance with the accounting standards which require the company to apply its 50% share of OPSB's losses firstly against the carrying value of the equity investment in OPSB. Once that investment value is extinguished to nil value, the remaining losses are then applied to the Advance made to OPSB as shown below.

Reconciliation of Advance to OPSB

		Consolidated	
	NOTE	2017 \$	2016 \$
Balance of equity accounted loss after application to Equity Investment	8	(4,061,168)	(1,540,804)
Advance to OPSB		14,101,781	8,109,467
Share of equity accounted loss applied		(4,061,168)	(1,540,804)
Carrying amount of Advance	21	10,040,613	6,568,663

The Advance and the Equity Investment in OPSB are expected to be recovered from OPSB after it has repaid its project financing facilities. OPSB will commence receiving compensation following commencement of production at the Ophir field, with such remuneration to comprise capital and operating costs reimbursement as well as remuneration fee linked to capex and production factors. Reimbursement of capital and operating costs is guaranteed to OPSB by PETRONAS pursuant to the Risk Service Contract.

All receivables are non-interest bearing.

NOTE 7 OTHER FINANCIAL ASSETS (NON-CURRENT)

Financial Assets at fair value through other comprehensive income

Investment in director-related equities	7(a)(b)	38,927	21,234
At cost:			
Shares in controlled entities	7(c)	1	1
		38,928	21,235

Notes to the Financial Statement

30 JUNE 2017

NOTE	Consolidated	
	2017 \$	2016 \$
NOTE 7 OTHER FINANCIAL ASSETS (NON-CURRENT) (Continued)		
(a) Director-related Entities:		
<i>Eneget Limited</i>		
Principal activity is oil and gas exploration (Note 21)	38,927	21,234
(b) Reconciliation of the carrying amount of Financial Assets at fair value through other comprehensive income		
Balance at beginning of year	21,234	126,830
Net revaluation increment (decrement)	17,693	(105,596)
	38,927	21,234

Details of market price risk and sensitivity can be found in Note 22.

(c) Shares in Controlled Entities

<i>United Oil & Gas Pty Ltd</i>	1	1
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United Oil & Gas Pty Ltd, a company incorporated in Australia, is owned 50% by Octanex and 50% by a fully owned subsidiary of Octanex, Strata Resources Pty Ltd.

The consolidated entity did not consolidate United Oil & Gas Pty Ltd on the grounds that balances were not considered material

NOTE 8 INVESTMENT IN A JOINT VENTURE COMPANY

The consolidated entity has a 50% (2016: 50%) interest in Ophir Production Sdn Bhd (OPSB), a jointly controlled entity, incorporated in Malaysia and involved with offshore oilfield development in Malaysia.

The consolidated entity's interest in OPSB is accounted for using the equity method in the consolidated financial statements. Summarised financial information in the joint venture, based on Malaysian accounting standards (which follow IFRS), is set out in this note together with a reconciliation with the carrying amount of the investment in the consolidated financial statements.

OPSB – Summarised Financial Information

OPSB Summarised Statement of Financial Position

Current Assets (including cash \$3,475,937 (2016: \$2,582,720))	8,775,542	3,345,180
Non-Current Assets	68,232,939	26,519,092
Current liabilities	(21,744,304)	(2,712,944)
Non-Current Liabilities	(37,645,983)	(30,704,191)
Equity	17,618,194	(3,552,862)

Notes to the Financial Statement

30 JUNE 2017

NOTE	Consolidated	
	2017 \$	2016 \$
NOTE 8 INVESTMENT IN A JOINT VENTURE COMPANY (Continued)		
<i>OPSB Summarised Statement of Profit or Loss</i>		
Revenue	43,633,943	13,194,382
Expenses	(48,674,672)	(15,717,362)
Loss before tax	(5,040,729)	(2,522,980)
Income tax benefit	-	-
Loss after tax	(5,040,729)	(2,522,980)
Consolidated entity's share of loss for the year	(2,520,364)	(1,261,490)

OPSB has syndicated term loan facilities of up to US\$84 million for 75% of the planned capital expenditure for the development of the Ophir field, 75% of the first three quarters of operating expenditure and a bank guarantee facility of US\$9 million. The loan term is up to four years (from 4 January 2016) and Octanex has provided a proportionate corporate guarantee for undertaking in respect of the facilities.

Octanex has also provided a proportionate corporate undertaking to PETRONAS for the contract performance obligations of OPSB in relation to the Ophir Risk Service Contract.

OPSB has no contingent liabilities.

Reconciliation of Equity Investment in OPSB

The equity investment in OPSB is carried at nil cost at 30 June 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 equity investment in OPSB. The cost of the investment in OPSB is expected to be recovered from OPSB in the form of dividends after repayment of the Advance (refer Note 6).

Octanex cumulated share of OPSB losses at end of year
(Share of equity accounted loss required by accounting standards)

	(5,601,972)	(2,999,724)
Cost of OPSB equity investment	1,458,920	1,458,920
Share of equity accounted loss applied	(1,458,920)	(1,458,920)
Carrying amount of OPSB equity investment	-	-
Balance of equity accounted loss after application to Equity Investment	(4,061,168)	(1,540,804)

OPSB - Commitments

OPSB's capital and operating expenditure commitments are as follows:

Payable not later than one year	23,639,482	20,243,839
Payable later than one year but not later than three years	27,158,035	-
	50,797,518	20,243,839

Notes to the Financial Statement

30 JUNE 2017

NOTE	Consolidated	
	2017	2016
	\$	\$

NOTE 9 INVESTMENT IN AN ASSOCIATE

The company has a 13.96% (2016: 13.96%) interest in Peakco Limited ("Peakco"), an Australian Securities Exchange listed company involved with natural resources exploration.

The company's interest in Peakco is accounted for using the equity method in the consolidated financial statements. The following table illustrates the summarised financial information of the company's investment in Peakco:

Current Assets	114,473	279,606
Non-Current Assets	14,099	6,850
Current liabilities	(30,924)	(41,342)
Equity	<u>97,648</u>	<u>245,114</u>
Cost of the investment	1,335,305	1,335,305
Share of equity accounted loss required by accounting standards	(861,897)	(837,013)
Impairment of investment	<u>(395,061)</u>	<u>(355,843)</u>
Carrying amount of the investment	<u>78,347</u>	<u>142,449</u>

There are no contingent liabilities in the associate

Exploration commitments are:

Payable not later than one year	20,000	-
Payable later than one year but not later than three years	<u>60,000</u>	<u>-</u>
	<u>80,000</u>	<u>-</u>

NOTE 10 EXPLORATION AND EVALUATION ASSETS

Carrying amount at beginning of year		41,208,791	40,974,942
Impairment of exploration assets	30	(1,745,165)	(125,533)
Cost incurred during the year		<u>194,137</u>	<u>359,382</u>
Carrying amount at end of year		<u>39,657,763</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.

Notes to the Financial Statement

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NOTE 10 EXPLORATION AND EVALUATION ASSETS (Continued)

30/06/2017	30/06/2016
Exploration 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	
WA-54-R	WA-54-R

WA-54-R, WA-323-P, WA-330-P, WA-362-P and WA-363-P are held through joint operations and details of the interests held in the retention lease and six the exploration permits can be found in Note 18.

WA-407-P and WA-420-P are 100% held by the wholly-subsiary, Octanex Bonaparte Pty Ltd (previously named Goldsborough Energy Pty Ltd). WA-387-P is held 100% by the wholly-owned subsidiary, Octanex Exmouth Pty Ltd (previously named Exmouth Exploration Pty Ltd).

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

NOTE 11 TRADE AND OTHER PAYABLES

		Consolidated	
	NOTE	2017	2016
		\$	\$
Financial liabilities at amortised cost			
<i>Current</i>			
Trade creditors and accruals		109,081	361,381
Director-related entities - other payables	21	250,203	273,038
		<u>359,284</u>	<u>634,419</u>

Trade and other payables are current liabilities of which the fair value is equal to the current carrying amount. Information about the company's exposure to foreign exchange risk in relation to trade payables, including sensitivities to changes in foreign exchange rates, is provided in Note 22.

Notes to the Financial Statement

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		Consolidated	
	NOTE	2017	2016
		\$	\$
NOTE 12 PROVISIONS			
Current			
Annual Leave		19,480	16,644
Directors' retirement benefit (1)		82,125	82,125
Long service leave		36,403	31,407
		<u>138,008</u>	<u>130,176</u>

(1) On the 29th October 1997 a deed of appointment was signed by EG Albers. The deed detailed terms of continuation of his appointment as chairman of Octanex Limited. Amongst other things, it provides for a payment of a retirement benefit to EG Albers as chairman. A deed of variation was signed 16 August 2016, and effective 30 June 2016, that varied the terms of calculation of the Retirement Benefit under the original Deed. The amount reflects the 24 years of service EG Albers has provided to the company.

NOTE 13 NON CURRENT BORROWINGS

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 31 December 2018, 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.

Convertible notes

Carrying amount at beginning of year		-	-
Drawdown of convertible notes		10,583,788	-
Movements in exchange rates	14	(183,372)	-
Less embedded derivative liability		(264,564)	-
Effective Interest expense		234,360	-
Less interest paid		(208,008)	-
Carrying amount at end of year		<u>10,162,204</u>	<u>-</u>

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

NOTE 14 DERIVATIVE FINANCIAL LIABILITY

Convertible notes

At inception	13	264,564	-
Changes in fair value		122,032	-
Balance at end of year		<u>386,596</u>	<u>-</u>

Notes to the Financial Statement

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NOTE 14 DERIVATIVE FINANCIAL LIABILITY (Continued)

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

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

Tranche B	
Exercise price:	A\$0.20
Market price:	A\$0.07
Expected volatility:	70.2%
Risk free interest rate:	1.66%

NOTE 15 DEFERRED TAX LIABILITIES

Consolidated	Deferred Tax Assets		Deferred Tax Liabilities		Net Deferred Tax	
	2017	2016	2017	2016	2017	2016
	\$	\$	\$	\$	\$	\$
Investment revaluations	-	(1,593)	3,715	-	3,715	(1,593)
Exploration costs	-	-	12,290,125	12,755,433	12,290,125	12,755,433
Borrowing costs	-	-	72,593	88,878	72,593	88,878
Accrued expenses	(8,250)	(9,000)	-	-	(8,250)	(9,000)
Provisions	(41,402)	(39,053)	-	-	(41,402)	(39,053)
Carried forward tax losses	(4,649,037)	(4,272,716)	-	-	(4,649,037)	(4,272,716)
	<u>(4,698,689)</u>	<u>(4,322,362)</u>	<u>12,366,433</u>	<u>12,844,311</u>	<u>7,667,744</u>	<u>8,521,949</u>

	Opening Balance at 1 July 2016	Charged / (credited) to Income Statement	Charged / (credited) directly to Equity	Closing Balance at 30 June 2017
	\$	\$	\$	\$
Investment revaluations	(1,593)	-	5,308	3,715
Exploration costs	12,755,433	(465,308)	-	12,290,125
Borrowing costs	88,878	(16,285)	-	72,593
Accrued expenses	(9,000)	750	-	(8,250)
Provision	(39,053)	(2,349)	-	(41,402)
Carried forward tax losses	(4,272,716)	(376,321)	-	(4,649,037)
	<u>8,521,949</u>	<u>(859,513)</u>	<u>5,308</u>	<u>7,667,744</u>

Notes to the Financial Statement

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NOTE 15 DEFERRED TAX LIABILITIES (Continued)

	Opening Balance at 1 July 2015	Charged / (credited) to Income Statement	Charged / (credited) directly to Equity	Closing Balance at 30 June 2016
	\$	\$	\$	\$
Consolidated				
Investment revaluations	(775,820)	-	774,227	(1,593)
Exploration costs	13,046,016	(290,583)	-	12,755,433
Borrowing costs	-	88,878	-	88,878
Interest receivable	24,589	(24,589)	-	-
Accrued expenses	(9)	450	-	(9,000)
Provision	(36,534)	(2,519)	-	(39,053)
Carried forward tax losses	(3,878,314)	(394,402)	-	(4,272,716)
	<u>8,370,487</u>	<u>(622,765)</u>	<u>774,227</u>	<u>8,521,949</u>

NOTE 16 CONTRIBUTED EQUITY

Issued Capital	2017 Shares	2016 Shares	2017 \$	2016 \$
Ordinary shares fully paid (a)	242,712,947	202,465,561	68,856,339	58,894,364
Ordinary shares partly paid(b)	-	67,078,910	-	9,961,975
Ordinary shares issued pursuant to trustee stock scheme(c)	30,000,000	30,000,000	-	-
Balance at end of year	<u>272,712,947</u>	<u>299,544,471</u>	<u>68,856,339</u>	<u>68,856,339</u>

(a) Ordinary shares fully paid

Movements during the year

Balance at beginning of year	202,465,561	192,265,561	58,894,364	56,806,364
Trustee shares sold	-	3,000,000	-	300,000
Issue costs	-	-	-	-12,000
Share cancellation and consolidation (1)	40,247,386	-	9,961,975	-
Partly paid shares fully paid	-	7,200,000	-	1,800,000
Share buy back	-	-	-	-
Balance at end of year	<u>242,712,947</u>	<u>202,465,561</u>	<u>68,856,339</u>	<u>58,894,364</u>

(b) Ordinary shares partly paid(i)

Movements during the year

Balance at beginning of year	67,078,910	74,278,910	9,961,975	11,041,975
Partly paid shares fully paid	-	-7,200,000	-	-1,080,000
Share cancellation and consolidation (1)	-67,078,910	-	-9,961,975	-
Balance at end of year	<u>-</u>	<u>67,078,910</u>	<u>-</u>	<u>9,961,975</u>

Notes to the Financial Statement

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NOTE 16 CONTRIBUTED EQUITY (Continued)

(1) At the annual general meeting on 24 November 2016, shareholders provided approval for the share capital of the Company to be reduced by:

- i. 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
- ii. 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.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(c) Ordinary Shares Issued Pursuant to Trustee Stock Scheme

	2017 Shares	2016 Shares	2017 \$	2016 \$
Movements during the year				
Balance at beginning of year	30,000,000	33,000,000	-	-
Trustee shares sold	-	(3,000,000)	-	-
Balance at end of year	30,000,000	30,000,000	-	-

In November 2015, the members of Octanex voted to extend the existing trustee stock scheme by five years.

The company has unlimited authorised capital with no par value.

Terms and Conditions of Contributed Equity

- i. Ordinary shares confer on the holder the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of (irrespective of the amounts paid up on) shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

Trustee Stock Scheme

Octanex is party to a Trustee Stock Scheme, pursuant to which ordinary shares ranking equally with other ordinary shares on issue were issued to a trustee. When those shares are sold by the trustee the net proceeds are paid to the Company by way of subscription moneys. At reporting date all shares issued to the trustee remained unsold. The trustee does not exercise voting rights in respect of shares held pursuant to the scheme.

Unlisted Options - (Share Based Payment)

Following approval by shareholders at the general meeting in November 2016 7,170,000 options were granted to directors. Existing options are

Number	Expiry Date	Exercise price	Vesting criteria
6,600,000	15 October 2018	\$0.1534	No
1,000,000	19 May 2018	\$0.15	No
1,000,000	11 June 2018	\$0.15	No
1,000,000	11 June 2018	\$0.15	Yes
4,000,000	11 June 2018	\$0.15	Yes and varying expiry dates
250,000	1 February 2018	\$0.20	No
250,000	1 February 2018	\$0.25	No
7,170,000	24 November 2019	\$0.08	No

Notes to the Financial Statement

30 JUNE 2017

NOTE 16 CONTRIBUTED EQUITY (Continued)

	2017 Options	2016 Options
Unlisted Options		
Balance at beginning of year	15,100,000	15,100,000
Options granted	7,170,000	-
Options cancelled	(1,000,000)	-
Balance at end of year	<u>21,270,000</u>	<u>15,100,000</u>

The 7,170,000 options granted to directors on 24 November 2016 were valued using the Binomial Option Valuation model and the following inputs:

Exercise price:	8.0 cents
Share price at approval date:	4.5 cents
Maximum option life	3.0 years
Expected volatility	72%
Risk free interest rate	1.55%

Expected volatility was based on the average volatility of a peer group of eleven companies within the oil and gas exploration industry. The implied volatility of the eleven companies was in the range of 36% to 104%. The fair value of this share based payment at grant date was \$89,547. The options were fully vested at grant date so a share based payment expense with a corresponding increase in equity of \$89,547 has been recognised for the year ended 30 June 2017.

	Consolidated	
NOTE	2017 \$	2016 \$

NOTE 17 RESERVES

Financial assets at fair value through other comprehensive income reserve	(814,978)	(827,364)
Option reserve	1,037,563	948,016
Foreign currency translation reserve	1,042,525	1,451,997
	<u>1,265,110</u>	<u>1,572,649</u>

Financial assets at fair value through other comprehensive income reserve

Balance at beginning of financial year	(827,364)	(1,505)
Changes in fair value on financial assets at fair value through other comprehensive income	17,694	(1,179,797)
Income tax on other comprehensive income	(5,308)	353,938
	<u>(814,978)</u>	<u>(827,364)</u>

The financial assets at fair value through other comprehensive income reserve represents the changes in fair value on the group's equity instruments including realised gains or losses on those investments. Further information on the investments is set out in Notes 7 and 22.

Notes to the Financial Statement

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NOTE 17 RESERVES (Continued)

		Consolidated	
	NOTE	2017 \$	2016 \$
<i>Option reserve</i>			
Balance at beginning of financial year		948,016	948,016
Share based payment expense		89,547	-
		<u>1,037,563</u>	<u>948,016</u>

The options reserve relates to share options granted to the company secretary, the directors and individuals (Note 16).

Foreign currency translation reserve

Balance at beginning of financial year	1,451,997	1,350,113
Movement for the year	(409,472)	101,884
	<u>1,042,525</u>	<u>1,451,997</u>

The foreign currency translation reserve relates to the consolidation of foreign currency denominated fully owned subsidiary entities. At 30 June 2017 the following companies and currencies held in those companies were consolidated.

Octanex Pte Ltd – United States Dollars
Octanex Malaysia Sdn Bhd – Malaysian Ringgits

NOTE 18 EXPLORATION AND EVALUATION EXPENDITURE COMMITMENTS

The consolidated entity share of minimum work requirements in exploration permit and retention lease interests held by the consolidated entity or in joint operations is estimated at reporting date:

Payable not later than one year	196,875	116,406
Payable later than one year but not later than three years	7,687,500	1,758,594
	<u>7,884,375</u>	<u>1,875,000</u>

NOTE 19 INTEREST IN UNINCORPORATED JOINT OPERATIONS

The consolidated entity has an interest in the assets, liabilities and output of joint operations for the exploration and development of petroleum in Australia. The consolidated entity has taken up its share of joint operations transactions based on its contributions to the joint operations. The consolidated entity's interests in the joint operations:

Joint Operation	2017 Interest	2016 Interest	Permits Held
Winchester Project	25%	25%	WA-323-P & WA-330-P
Northern Deeps	33.33%	33.33%	WA-362-P & WA-363-P
Cornea	18.75%	18.75%	WA-54-R

Notes to the Financial Statement

30 JUNE 2017

		Consolidated	
	NOTE	2017 \$	2016 \$
NOTE 19 INTEREST IN UNINCORPORATED JOINT OPERATIONS (Continued)			
Assets and liabilities of the joint operations are included in the financial statements as follows:			
CURRENT ASSETS			
Cash and cash equivalents		1,730	12,411
Receivables	6	1,410	249
NON-CURRENT ASSETS			
Exploration and evaluation assets	10	30,789,438	30,731,805
CURRENT LIABILITIES			
Payables	11	209	5,738
Payables – director-related entity	11, 21	9,762	11,968

There are no contingent liabilities in any of the joint operations. Minimum work requirements in exploration permit and retention lease interests held in joint operations is estimated at reporting date:

Payable not later than one year	46,875	116,406
Payable later than one year but not later than three years	7,687,500	58,594
	<u>7,734,375</u>	<u>175,000</u>

NOTE 20 KEY MANAGEMENT PERSONNEL

Executive Directors	Non-Executive Directors	
EG Albers	DC Coombes	SK Kler
RL Clark	G Guglielmo	JMD Willis
	KK How	

Individual compensation disclosures

Information regarding individual director's compensation is provided in the remuneration report section of the directors' report. There are no employees who meet the definition of key management personnel other than the executive directors of the company. A summary of the remuneration report is shown below.

		Short Term		Post Employment		Equity Settled	Total
		Directors Fees	Salary	Super	Retirement Benefits	Options	
		\$	\$	\$	\$	\$	\$
TOTAL	2017	-	202,666	19,190	-	89,547	311,403
	2016	(143,324)	200,000	11,220	-	-	67,896

Notes to the Financial Statement

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NOTE 21 RELATED PARTY DISCLOSURES

The consolidated financial statements of the Group include:

Name	2017 Interest	2016 Interest	Country of Incorporation
Octanex Operations Pty Ltd	100%	100%	Australia
Strata Resources Pty Ltd	100%	100%	Australia
Octanex Exmouth Pty Ltd (1)	100%	100%	Australia
United Oil & Gas Pty Ltd	100%	100%	Australia
Octanex NZ Limited - <i>deregistered May 2017</i>	-	100%	New Zealand
Goldsborough Pty Ltd	100%	100%	Australia
Octanex Bonaparte Pty Ltd (2)	100%	100%	Australia
Braveheart Energy Pty Ltd	100%	100%	Australia
Octanex Cornea Pty Ltd (3)	100%	100%	Australia
Octanex Winchester Pty Ltd (4)	100%	100%	Australia
Winchester Exploration Pty Ltd	100%	100%	Australia
Octanex Pte Ltd	100%	100%	Singapore
Octanex Malaysia Sdn Bhd	100%	100%	Malaysia
Octanex Operations Pty Ltd	100%	100%	Australia
Strata Resources Pty Ltd	100%	100%	Australia
Octanex Exmouth Pty Ltd (1)	100%	100%	Australia

Previously named

1. Exmouth Exploration Pty Ltd
2. Goldsborough Energy Pty Ltd
3. Cornea Energy Pty Ltd
4. Winchester Resources Pty Ltd

Director-related Entities

Companies in which an Octanex director controls or significantly influences, that provide services to the group or to a joint operation in which the group has an interest, or that also hold an interest in those joint operations or in which the group holds an investment.

(i) Providers of Services by Related Party

During the year services and/or facilities were provided under normal commercial terms and conditions by:

Exoil Pty Ltd, (Exoil), a director-related entity of EG Albers
 Natural Resources Group Pty Ltd (NRG), a director-related entity of EG Albers
 Upstream Consulting Limited, (Upstream), a director-related entity of JMD Willis
 Petroleum Advisors (PA), a director related entity of G Guglielmo
 Samika Pty Ltd (Samika), a director-related entity of RL Clark

Consolidated	Service Provided	2017 \$	2016 \$
Exoil	Office services and amenities in Melbourne	222,459	234,875
NRG	Management and administration services to the Group	40,000	80,000
NRG	Management of exploration tenements	42,665	59,000
NRG	Management services to Ophir project	40,000	120,000
PA	Management services to Ophir project	3,000	28,000
Samika	Management of retention lease	2,667	-
Upstream	Office services and amenities in New Zealand	-	7,188
Upstream	Management services to Ophir project	10,305	3,000

Notes to the Financial Statement

30 JUNE 2017

NOTE 21 RELATED PARTY DISCLOSURES (Continued)

The group holds interests in petroleum exploration joint operations with certain director-related entities:

As a participant of the Cornea Joint Venture with Cornea Petroleum Pty Ltd, Cornea Oil & Gas Pty Ltd, Coldron Pty Ltd, Octanex Cornea Pty Ltd, Moby Oil & Gas Pty Ltd, Enegex Limited, Cornea Resources Pty Ltd and Auralandia Pty Ltd, all director-related entities of EG Albers.

Amounts payable to related parties including those under joint operation arrangements:

	Consolidated	
NOTE	2017 \$	2016 \$
Payables		
Exoil Pty Ltd	50,172	72,288
Natural Resources Group Pty Ltd	199,906	195,750
Petroleum Advisors	-	5,000
Samika Pty Ltd	125	-
	<u>250,203</u>	<u>273,038</u>

(ii) Providers of Services to Related Party

During the year accounting services were provided under normal commercial terms and conditions to:

Cornea Resources Pty Ltd, a director-related entity of EG Albers
 Enegex Limited, a director-related entity of EG Albers
 Peakco Limited, a director-related entity of EG Albers

Sundry Revenue		
Enegex Limited	9,380	11,210
Cornea Resources Pty Ltd – Operator Cornea JV	510	520
Ophir Production Sdn Bhd (Note 21 (iii))	28350	-
Peakco (Note 21 (iv))	14,590	7,110
	<u>52,830</u>	<u>18,840</u>

Receivables from related parties:

Cornea Resources Pty Ltd – Operator Cornea JV	561	572
Enegex Limited	4,301	6,886
Peakco Limited	7,172	7,821
	<u>12,034</u>	<u>15,279</u>

(iii) Advance to Ophir Production Sdn Bhd

At 30 June 2017, the company has a gross advance to OPSB of \$14,101,781 (2016 \$8,109,467). After application of the company's share of OPSB losses, the advance is \$10,10,040,613 (2016 \$6,568,663) (Note 6). The advance is expected to be recovered from OPSB after it has repaid its project financing facilities. OPSB will commence receiving compensation following commencement of production at the Ophir field, with such remuneration to comprise capital and operating costs reimbursement as well as remuneration fee linked to capex and production factors. Reimbursement of capital and operating costs is guaranteed to OPSB by PETRONAS pursuant to the Risk Service Contract. The group holds 50% of Ophir Production Sdn Bhd.

Notes to the Financial Statement

30 JUNE 2017

NOTE 21 RELATED PARTY DISCLOSURES (Continued)

(iv) Investments in director-related companies

At 30 June 2017, the company carried an investment in an ASX listed company Peak Limited, (Note 9), which is a director-related entity of EG Albers.

At 30 June 2017, the company carried an investment in an ASX listed company Enege Limited, (Note 7), which is a director-related entity of EG Albers.

NOTE 22 FINANCIAL INSTRUMENTS

	Consolidated	
NOTE	2017	2016
	\$	\$
Categories of Financial Instruments		
Financial Assets		
Cash & cash equivalents	5,666,779	3,147,294
At fair value through other comprehensive income	38,928	21,235
Trade and other receivables – current ex prepayments	66,023	86,064
Trade and other receivables – non current	10,040,613	6,568,663
	<u>15,812,343</u>	<u>9,823,256</u>
Financial Liabilities		
Financial Liabilities at amortised cost		
Trade and other payables	359,284	634,419
Convertible Notes	10,162,204	-
At fair value through profit and loss	386,596	-
	<u>10,908,084</u>	<u>634,419</u>

Recognition and derecognition

Purchases and sales of financial assets and financial liabilities are recognised on trade date which is the date on which the consolidated entity commits to purchase or sell the financial assets or financial liabilities. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership. Exposure to credit, interest rate, liquidity, foreign currency, market price and currency risks arises in the normal course of the consolidated entity's business. The consolidated entity's overall risk management approach is to identify the risks and implement safeguards which seek to minimise potential adverse effects on the financial performance of the consolidated entity's business.

The board of directors are responsible for monitoring and managing the financial risks of the consolidated entity.

Fair value

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

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

Notes to the Financial Statement

30 JUNE 2017

NOTE 22 FINANCIAL INSTRUMENTS (Continued)

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 30 June 2017 and 30 June 2016 on a recurring basis are as follows:

30 June 2017	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Assets</i>				
Listed securities and debentures	38,928	-	-	38,928
<i>Liabilities</i>				
Derivative financial liability	-	-	(386,589)	(386,589)
Net fair value	<u>38,928</u>	<u>-</u>	<u>(386,589)</u>	<u>(347,661)</u>
 30 June 2016	 Level 1 \$	 Level 2 \$	 Level 3 \$	 Total \$
<i>Assets</i>				
Listed securities and debentures	<u>21,235</u>	<u>-</u>	<u>-</u>	<u>21,235</u>
Net fair value	<u>21,235</u>	<u>-</u>	<u>-</u>	<u>21,235</u>

Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. At the reporting date there was no credit risk as the consolidated entity has no trade sales or trade receivables.

Interest rate risk

All financial liabilities and financial assets at floating rates expose the company to cash flow interest rate risk. The consolidated entity has no exposure to interest rate risk at reporting date, other than in relation to cash and cash equivalents which attract an interest rate. Convertible notes are at a fixed rate of interest.

Sensitivity Analysis

At reporting date a 1% (100 basis point) increase/decrease in the interest rate would increase/decrease the consolidated entity by \$39,667 (2016: \$22,031).

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. Liquidity risk is monitored to ensure sufficient monies are available to meet contractual obligations as and when they fall due.

The following are the contractual maturities of the financial liabilities, including interest payments. Contractual amounts have not been discounted.

Notes to the Financial Statement

30 JUNE 2017

NOTE 22 FINANCIAL INSTRUMENTS (Continued)

	Carrying Amount \$	Contractual cash flows \$	0-12 months \$	1-2 years \$	2-10 years \$
30 June 2017					
Consolidated					
<i>Non-derivative Financial Liabilities</i>					
Trade and other payables	359,284	359,284	359,284	-	-
Convertible notes	10,162,204	11,362,204	800,000	10,562,204	-
	<u>10,521,488</u>	<u>11,721,488</u>	<u>1,159,284</u>	<u>10,562,204</u>	<u>-</u>
30 June 2016					
Consolidated					
<i>Non-derivative Financial Liabilities</i>					
Trade and other payables	634,419	634,419	634,419	-	-
Non current payables	-	-	-	-	-
	<u>634,419</u>	<u>634,419</u>	<u>634,419</u>	<u>-</u>	<u>-</u>

Foreign currency risk

The consolidated entity is exposed to foreign currency risk arising from purchases of goods and services that are denominated in a currency other than the Australian dollar functional currency. The consolidated entity incurs seismic, exploration, development and well drillings costs in US dollars. To this extent, the consolidated entity is exposed to exchange rate fluctuations between the Australian and US dollar. At 30 June 2017 the consolidated entity has a foreign currency exposure by holding US dollars in bank accounts totalling US\$4,221,978 (2016: \$2,237,216) and an advance to Ophir Production Sdn Bhd of US\$10,847,090 (2016: \$6,022,090) which is offset by borrowings of US\$8,000,000 (2016: Nil). A one cent movement in the USD/AUD exchange rate would move consolidated equity by AUD\$82,560 (2016: \$103,448). Loans to Ophir Production Sdn Bhd are in USD.

Equity price risks

Equity price risk applies to at fair value through other comprehensive income investments. The portfolio of investments is managed internally by Octanex management who buy and sell equities based on their own analyses of returns. The investments are subject to movements in prices of the investment markets.

	NOTE	Consolidated 2017 \$	2016 \$
Financial Assets at fair value through other comprehensive income			
<i>Investments in listed equities</i>			
Energex Limited		38,928	21,235

Notes to the Financial Statement

30 JUNE 2017

NOTE 22 FINANCIAL INSTRUMENTS (Continued)

The consolidated entity and company investments in listed equities are listed on the Australian Securities Exchange. A 10% increase / decrease at the reporting date in closing share price of each share held would have increased/decreased consolidated equity by \$3,893 (2016: \$2,123). There would have been no effect on profit.

Capital Management

When managing capital, the directors' objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

It is the company's plan that capital, as and when required, further, will be raised by any one or a combination of the following manners: placement of shares to excluded offerees, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares. Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the consolidated entity's intention to meet its exploration obligations by either partial sale of its interests or farmout.

No company in the consolidated entity is subject to any externally imposed capital requirements.

NOTE 23 AUDITOR'S REMUNERATION

	NOTE	2017 \$	2016 \$
Amounts received or due and receivable by:			
Grant Thornton Audit Pty Ltd - Auditor of the consolidated entity and company		53,000	56,730
<i>Related practices of the parent company auditor</i>			
<i>Audit and review of the financial reports</i>			
SJ Grant Thornton – Auditor of Octanex Malaysia Sdn Bhd		-	1,652
Grant Thornton Singapore – Auditor of Octanex Pte Ltd		9,128	8,573
<i>Tax services</i>			
SJ Grant Thornton - Octanex Malaysia Sdn Bhd		-	1,324
		<u>62,128</u>	<u>68,279</u>

NOTE 24 SEGMENT INFORMATION

Under AASB 8 Operating Segments, 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 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.

All interest received has been derived in Australia, All exploration and evaluation assets are held in Australia.

Notes to the Financial Statement

30 JUNE 2017

NOTE 25 EVENTS AFTER THE END OF THE REPORTING PERIOD

There are no significant after balance date events to the date of signing of this report.

NOTE 26 LOSS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

Net loss	(4,800,071)	(1,815,272)
	Number of Shares	Number of Shares
Weighted average number of shares	217,945,331	239,487,044

In calculating the weighted average number of shares for the purposes of calculating basic and diluted earnings per share, the partly paid shares (converted into fully paid shares on a 3:5 basis (see Note 16(i)) have been accounted for on a pro-rata basis according to the amount of call that was outstanding in relation thereto.

Unlisted options outstanding during the year (Refer Note 16) are not dilutive at the 30th June 2017 as the exercise price is higher than the average share price for the year then ended.

NOTE 27 PARENT ENTITY INFORMATION

The following details information related to the parent entity, Octanex Limited at 30 June 2017. The information presented here has been prepared using consistent accounting policies as presented in Note 1, except for the use of the cost method for investment in subsidiary companies by the parent.

	NOTE	Consolidated 2017 \$	2016 \$
Current assets		5,973,359	3,510,120
Non-current assets		73,728,737	67,579,803
Total assets		<u>79,702,096</u>	<u>71,089,923</u>
Current liabilities		819,591	654,535
Non-current liabilities		22,943,718	13,115,577
Total liabilities		<u>23,763,309</u>	<u>13,770,112</u>
Contributed equity		68,856,339	68,856,339
Options reserve		1,037,563	948,016
Financial assets at fair value through other comprehensive income reserve		(639,113)	(639,113)
Accumulated losses		<u>(13,316,002)</u>	<u>(11,845,431)</u>
Total equity		<u>55,938,787</u>	<u>57,319,811</u>
Loss for the year		(1,470,571)	(302,251)
Other comprehensive income for the year		-	(203,950)
Total comprehensive income for the year		<u>(1,470,571)</u>	<u>(506,201)</u>

Notes to the Financial Statement**30 JUNE 2017****NOTE 27 PARENT ENTITY INFORMATION (Continued)**

No dividends were paid by the parent entity in 2017 (2016: Nil).

The company's share of minimum work requirements contracted for under exploration permit interests held in joint operation is estimated at reporting date:

Payable not later than one year	25,625	63,635
Payable later than one year but not later than three years	4,202,500	32,031
	<u>4,228,125</u>	<u>95,666</u>

NOTE 28 CONTINGENT LIABILITIES*Performance Guarantee*

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 29 CONTINGENT ASSET*Peako Limited Loan – Proceeds Sharing Agreement*

In lieu of the balance of monies of \$1,284,744 owing on the Peako Limited ("Peako") loan 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.

NOTE 30 IMPAIRMENT OF EXPLORATION AND EVALUATION ASSET

Octanex has decided to fully impair its interest in WA-387-P (\$1,745,165 at 30 June 2017). A number of seismic industry factors including reduced seismic vessel availability and large multi client speculative surveys have limited Octanex's ability to acquire 2D seismic in the Permit. Octanex has applied for relief from the 2D seismic obligation and is waiting for a decision from the Joint Authority.

Additional Information (unaudited)

As at 28 September 2017 Octanex holds the following interests in Petroleum Tenements:

Octanex Licences

Permit	Location	Octanex interest %	Operator
Ophir SFRSC	Malay Basin, Offshore Peninsular Malaysia	50% (via Octanex Pte Ltd)	Ophir Production Sdn Bhd
WA-54-R	Browse Basin, Offshore Western Australia	18.75% comprised of: 10.25% Octanex Limited 8.50% Octanex Cornea Pty Ltd	Cornea Resources Pty Ltd
WA-330-P	Dampier Sub Basin, Carnarvon Basin, Offshore Western Australia	25% via Octanex Winchester Pty Ltd	Santos Offshore Pty Ltd
WA-323-P	Dampier Sub Basin, Carnarvon Basin, Offshore Western Australia	25% via Octanex Winchester Pty Ltd	Santos Offshore Pty Ltd
WA-362-P	Exmouth Plateau, Carnarvon Basin, Offshore Western Australia	33.33% comprised of: 11.667% via Octanex Limited 11.667% via Strata Resources 9.999% via Octanex Exmouth Pty Ltd	Eni Australia Limited
WA-363-P	Exmouth Plateau, Carnarvon Basin, Offshore Western Australia	33.33% comprised of: 11.667% via Octanex Limited 11.667% via Strata Resources 9.999% via Octanex Exmouth Pty Ltd	Eni Australia Limited
WA-420-P	Bonaparte Basin, Offshore Western Australia	100% via Octanex Bonaparte Pty Ltd	Octanex Bonaparte Pty Ltd
WA-407-P	Bonaparte Basin, Offshore Western Australia	100% via Octanex Bonaparte Pty Ltd	Octanex Bonaparte Pty Ltd

Shareholder Information (compiled as at 18 September 2017)

Ordinary share capital

As at 18 September 2017 the company had on issue the following shares:

Fully Paid Ordinary Shares	Trustee Shares
272,712,947 held by 1,421 shareholders	30,000,000 held by Doravale Enterprises Pty Ltd (the Trustee) ¹
All issued fully paid ordinary shares carry one vote per share	Other than in extremely limited circumstances, the Trustee has bound itself by the deed of covenant entered into in association with the Scheme not to vote at the meetings of members of Octanex.

¹ These ordinary shares were issued to the Trustee on trust for sale in accordance with a scheme of arrangement approved by the Supreme Court of Victoria on 17 November 2010 in Matter SCI 210 04962 (the Scheme). As previously advised to the ASX and to members, those shares are ordinary shares held on trust for sale by the trustee on the basis that the net proceeds of sale will present the subsection moneys thereof. The shares may be sold as fully paid up or as partly paid up. Until sold, by the terms of the Scheme, the Trustee will not participate in dividends or distributions are to the account of the members of Octanex pro rata their respective shareholdings.

Options

As at 18 September 2017 the company had on issue 21,270,000 options held by 19 option holders. Options do not carry any voting right or rights to dividends.

Distribution of holders

Holding Ranges	Holders	Total Units	% Issued Share Capital
1 - 1,000	170	53,403	0.02%
1,001 - 5,000	634	1,616,965	0.59%
5,001 - 10,000	144	1,149,497	0.42%
10,001 - 100,000	362	12,824,982	4.70%
Over 100,000	111	257,068,100	94.26%
Totals	1,421	272,712,947	100.00%

* Based on the price per security, number of holders with an unmarketable holding: 824

Substantial shareholders

Substantial shareholders as disclosed in substantial shareholding notices given to the Company are as follows:

Shareholder	Interest in voting rights	% of Voting Rights
The Albers Group	152,260,730	55.83
Sabah International Petroleum	40,332,663	14.79%

Twenty largest shareholders as at 18th September 2017*

Holder	Number of shares	% of Fully Paid Shares
Sabah International Petroleum Ltd	40,332,663	14.79%
Gascorp Australia Pty Ltd	35,200,014	12.91%
Mr Ernest Geoffrey Albers & Mrs Pamela Joy Albers	25,868,034	9.49%
Mr Ernest Geoffrey Albers	15,387,606	5.64%
Sacrosanct Pty Ltd	14,436,081	5.29%
Great Missenden Holdings Pty Ltd	12,946,004	4.75%
National Gas Australia Pty Ltd	7,200,000	2.64%
Great Australia Corporation Pty Ltd	6,291,000	2.31%
Bass Strait Group Pty Ltd	6,059,049	2.22%
Cue Petroleum Pty Ltd	5,763,357	2.11%
The Albers Companies Incorporated Pty Ltd	3,780,491	1.39%
Australis Finance Pty Ltd	3,773,188	1.38%
Fugro Exploration Pty Ltd	3,691,721	1.35%
Mrs Pamela Joy Albers	3,062,500	1.12%
Miller Anderson Pty Ltd	3,000,000	1.10%
Bond Street Custodians Limited	2,819,512	1.03%
Great Missenden Group Pty Ltd	2,765,060	1.01%
Albers Family Custodian Pty Ltd	2,542,875	0.93%
Sequest Petroleum Pty Ltd	2,248,000	0.82%
Wilstermere Corporation Pty Ltd	2,106,500	0.77%
Total Top 20	199,273,655	73.07%

* Excluding 30,000,000 Trustee Shares held by Doravale Enterprise Pty Ltd

Glossary

ASX	Australian Securities Exchange
AUD/A\$	Australian currency
Bbl(s)	Barrel(s), an oil barrel is equivalent to 0.159 cubic metres
BCF	One billion cubic feet of natural gas
BOPD	Barrel of oil per day
Contingent resources	Quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies
Economic interest	The working interest share of production which is adjusted for production that is delivered to host governments under the petroleum contracts
FDP	Field Development Plan
Group	Parent entity and its subsidiaries
GST	Goods and services tax
IFRS	International Financial Reporting Standards
MMBBL	One million barrels
MMCFD	One million standard cubic feet of natural gas per day
Octanex or company	Octanex Limited and includes, where the context requires, its subsidiaries
OPSB	Ophir Production Sdn Bhd
PRMS	Petroleum Resources Management System
RSC	Risk Service Contract (also known as Small Field Risk Service Contract)
SFRSC	Small Field Risk Service Contract (also known as Risk Service Contract)
SPE	Society of Petroleum Engineers
TCF	One trillion cubic feet of natural gas



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