



OCTANEX

Quarterly Activity Report 30 September 2016

HIGHLIGHTS

- Ophir platform construction (onshore fabrication), now at 85% complete
- Ophir drilling rig procurement activities well advanced – contract award imminent
- Ophir FPSO procurement activities well advanced – letter of award expected shortly
- Ascalon Retention Lease application under assessment
- 2D seismic re-processing commenced for WA-362-P and WA-363-P

PORTFOLIO SUMMARY

Increase production exposure

Ophir oil development

2 appraisal assets

Exploration portfolio

OCTANEX STRATEGY

Octanex is seeking to increase its exposure to production and development assets while moderating exploration activities.

Octanex has a 50% interest in the Ophir oil field development, offshore Malaysia. Octanex also has interests in two pre-development assets; the Cornea oil field and Ascalon gas discovery, both offshore Western Australia.

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

COMPANY OVERVIEW

ASX Code	Fully paid:	OXX
	Partly paid:	OXXCB
Share price*	OXX	\$0.035
	OXXCB	\$0.004
Shares on issue	OXX:	232M ¹
	OXXCB:	67M
Options		15.1M
Cash		\$2.6M
		¹ Inclusive of 30M held by trustee
		As at 30 September 2016

DIRECTORS

Geoffrey Albers	Chairman & CEO
Rae Clark	Executive Director & COO
James Willis	Non-Executive Director
Tino Guglielmo	Non-Executive Director
David Coombes	Non-Executive Director
Kevin How Kow	Non-Executive Director
Suhnylla Kler	Non-Executive Director

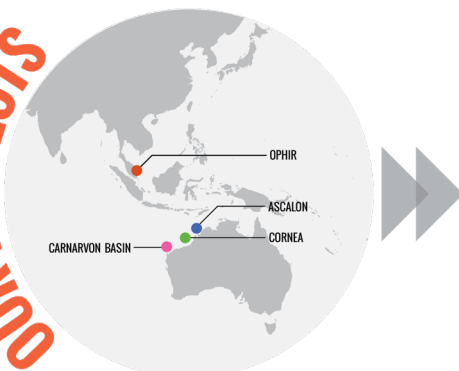
CONTACT DETAILS

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OUR PROJECTS



PROJECTS	OIL	GAS	INTEREST
DEVELOPMENT			
• Ophir Oil Field	🔥	🔥	50%
APPRAISAL			
• Greater Cornea Fields	🔥	🔥	100%
• Ascalon Gas Discovery	🔥	🔥	100%
EXPLORATION			
• Carnarvon Basin	🔥	🔥	33.33%
WA-362-P & WA-363-P	🔥	🔥	Carried by ENI
WA-323-P & WA-330-P	🔥	🔥	25%
WA-387-P	🔥	🔥	Carried by Santos 100%

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ASSETS AND ACTIVITIES OVERVIEW

DEVELOPMENT ASSET

Ophir Oil Field, Malaysia, 50% Interest

Octanex has a 50% interest in Ophir Production Sdn Bhd (OPSB), the joint venture company that holds the Risk Service Contract (RSC) for the development of the Ophir oil field, offshore Peninsular Malaysia.

Under the terms of the RSC, the Contractor (OPSB) is the service provider and Operator of the field, while PETRONAS is the resource owner. Upfront investment of capital is contributed by the Contractor with the Contractor compensated via the reimbursement of costs plus a remuneration fee for services rendered. The remuneration fee is linked to production volumes and development costs. RSC terms provide that reimbursement of approved capital and operating costs is guaranteed by PETRONAS.

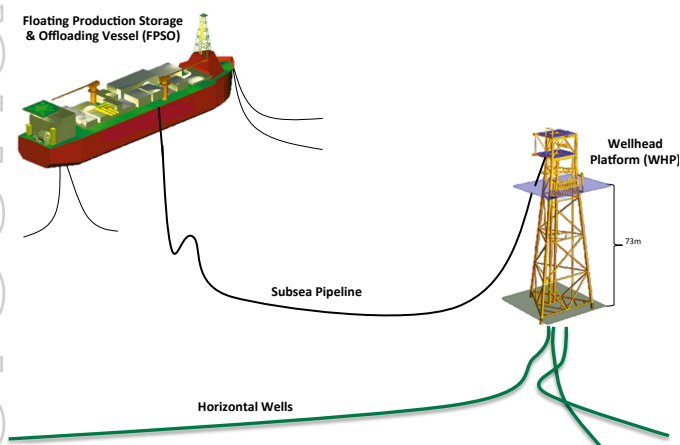


Figure 1 Ophir Development Schematic

OPSB was formed by Octanex together with its two Malaysian joint venturers, Scomi Energy Services Bhd (Scomi) and Vestigo Petroleum Sdn Bhd (Vestigo). Octanex holds a 50% interest in OPSB with Scomi 30% and Vestigo 20%. Scomi is a Malaysian upstream oil and gas services company listed on the Main Board of Bursa Malaysia. Vestigo is a wholly owned subsidiary of PETRONAS Carigali Sdn Bhd, with a focus on marginal field development.

Octanex's share of the Ophir project is fully funded via OPSB's 75% project financing and Octanex's \$17Million Share Placement and Convertible Note Agreement with Sabah International Petroleum (SIP).

SIP is wholly owned by Sabah Development Bank Berhad ("SDB"). SDB, itself is wholly owned by the Ministry of Finance, Sabah.

The Ophir development is now benefitting from current reduced industry costs and a low risk development concept involving three production wells, a single wellhead platform and oil export via a leased floating production storage and offloading (FPSO) unit.

"First Oil" from the Ophir field is scheduled to be produced in the second half of 2017, following an agreement with Petronas to extend the project schedule. This timetable avoids risks associated with the monsoon season, enables greater cost savings to be realised and offers the project a greater opportunity to realise higher oil prices.



Figure 2 Ophir Jacket Construction

During the quarter works continued on both the jacket and topsides. The Ophir platform is being fabricated at the Muhibbah yard at Klang approximately 40km south west of Kuala Lumpur.



Figure 3 Ophir Topsides in Progress

Procurement activity in relation to the drilling rig and FPSO continued during the quarter, with contracts for each expected to be awarded shortly.

Both the drilling rig and FPSO will be chartered on a duration/work basis.

PRE-DEVELOPMENT ASSETS

Greater Cornea Fields, Browse Basin, 18.75% interest

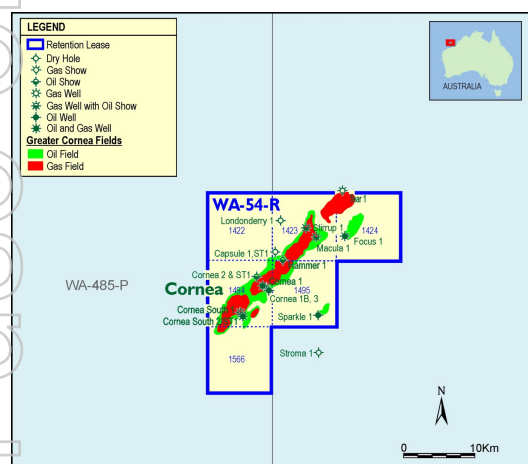


Figure 4 Greater Cornea Field Retention Lease Location Map

The company holds a 18.75% interest in the Cornea Joint Venture. The Cornea Joint Venture ownership is the following:

Octanex	18.750%
Energex Limited (ASX: ENX)	14.875%
Cornea Resources Pty Ltd (Operator)	13.100%
Others	53.275%

The assets of the Cornea Joint Venture comprise the Cornea (Central and South), Focus and Sparkle Oil Fields and the Cornea North (Tear) Gas Field and are located in the Browse Basin, offshore from Western Australia. They are held via a Retention Lease (WA-54-R) over 6 graticular blocks, amounting to an area of 497km².

The oil volumes in the Greater Cornea Fields are such that, if threshold production flow rates can be demonstrated, but dependent on oil price, the economics may provide a reasonable expectation of commercial development.

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

Table 1 Probabilistic In-place and Contingent Oil Resources for Cornea Central and South Fields (no development risk applied)

The WA-54-R work program is aimed at overcoming the various challenges likely to be faced in bringing the Greater Cornea Fields into commercial production.

At the time the Retention Lease was granted, production uncertainty was considered to be the greatest barrier to the development of the Greater Cornea Fields. Given the potential size of the oil resource, and the oil price then prevailing (in the order of US\$110/bbl), it was understood that resolving the production uncertainty could provide a reasonable expectation for future development.

Accordingly, the Retention Lease work program substantially addressed the technical challenges of the Fields; with the first three years of the Lease designed to support the quantification of drilling challenges, culminating in a Year-4 production test. The work programme was thus designed on the premise that Cornea's challenge was whether it would produce, rather than whether production would be economic.

Recent economic modelling demonstrates the fundamental shift in the field's commerciality in the current sustained low oil price environment, as well as demonstrating that the Greater Cornea Fields are not presently economic (even were the production uncertainties resolved). "Oil price" was identified as the input to which the field is now most sensitive, rather than "production", which was the case in 2013.

Recent technical work has included drilling studies, particularly focusing on the use of technology to address key uncertainties. Additional field development concept work has focussed on an appropriate production system. The presently preferred configuration being a Mobile Drilling and Production Unit (MODPU) and tanker.

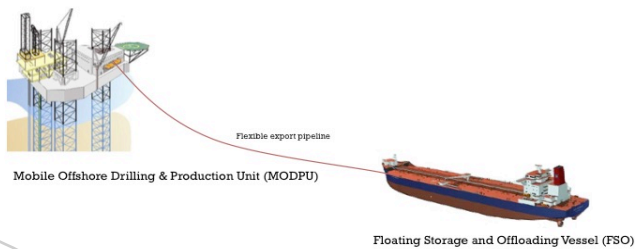


Figure 5 Preferred Field Development Concept using MODPU and FSO

Our studies indicate that the material and sustained fall in the price of oil since the grant of the Retention Lease has resulted in an assessment that a development of the Greater Cornea Fields would not be presently commercial, even were the production uncertainties to be resolved.

Given the ~60% decline in oil price, the most significant hurdle to commerciality of the Greater Cornea Fields is no longer producibility, but is “oil price”. As such, the WA-54-R work program no longer appropriately addresses the Greater Cornea Fields’ most significant barrier to development. Accordingly, the Cornea Joint Venture intends to apply to vary the conditions of WA-54-R in order that the work programme is focussed on the “oil price” barrier to development now faced by the Greater Cornea Fields.

Ascalon Gas Discovery, Bonaparte Basin
100% interest

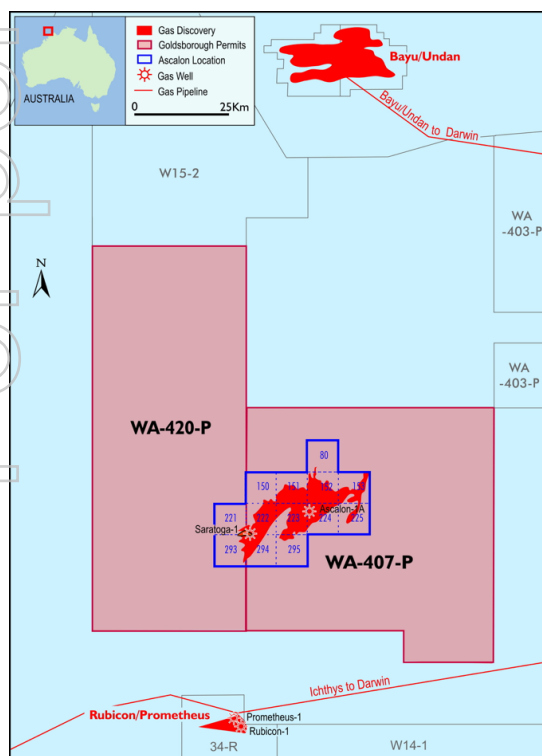


Figure 6 Ascalon Gas Accumulation Location Map

Discovered in 1995 by Mobil, the Ascalon gas accumulation is currently located mostly within exploration permit WA-407-P and extending into the adjacent WA-420-P. Octanex has been granted Declarations of Location in respect to the Ascalon discovery. Octanex lodged applications for Retention Licences in respect to each Location in March 2016.

The gas is contained in a faulted horst structure within shallow marine sandstones of the Late Permian, Cape Hay Formation of the Hyland Bay Subgroup. Mapping on modern 3D seismic database, which we acquired over the feature, and newly reprocessed 2D seismic, indicates a closure over an area of 260km² with a maximum closure height of 380m. The lowest closing contour appears coincident with lowest known gas defined from logs in the Ascalon-1A well. Modern petrophysics indicates a 146m gross gas column within the Cape Hay Formation in the Ascalon-1A well, which is located off the crest of the structure. The reservoir sandstones within the Cape Hay Formation are tight, not unlike those in the nearby Petrel and Tern gas discoveries.

The probabilistically determined contingent resources estimates for the Ascalon Gas Discovery, are shown in Table 2 below.

	P90	P50	P10
Contingent gas resource - Octanex 100% (TCF)	1.04	3.01	8.74

Table 2 Ascalon gas discovery – Probabilistic Contingent Gas Resources (no development risk applied)

The key contingency that stands in the way of classification of the Contingent Resources of the Ascalon gas accumulation as “Reserves”, is the distinction between commercial and sub-commercial accumulations. On the basis of the SPE/WPC/AAPG Resource Classification System, it is clear that the Ascalon accumulation must be assessed as commercial before any “Reserves” classification should be assigned to it.

The commerciality of Ascalon is dependent on gas market factors; both gas market demand, and pricing, as well as access to market. Located offshore

from northern Australia, the most likely market for Ascalon's gas is presently considered to be LNG, which would necessitate access to pipeline and LNG infrastructure. The P50 estimate of the contingent resource at Ascalon is 3 TCF of natural gas, which at current LNG gas prices would not support a standalone LNG development.

Ascalon is located in proximity to a number of gas discoveries some of which will, or may, be commercialised in coming years. The development of other nearby gas discoveries may provide opportunities for Ascalon to be developed to tie-back to another development.

EXPLORATION INTERESTS

Carnarvon Basin Exploration Interests

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

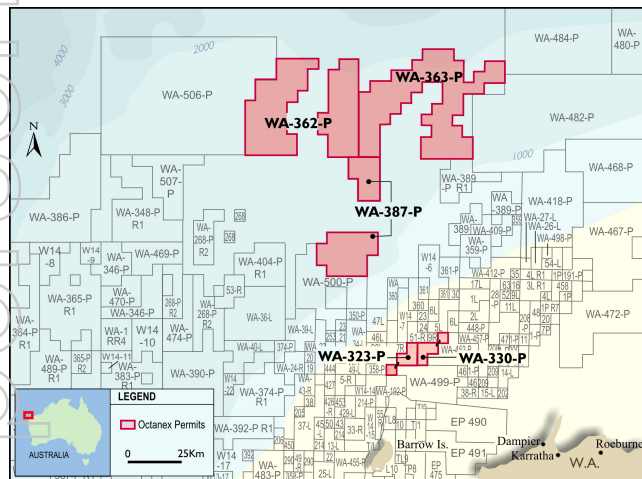


Figure 7 Carnarvon Basin Interests

Dampier Sub-Basin

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

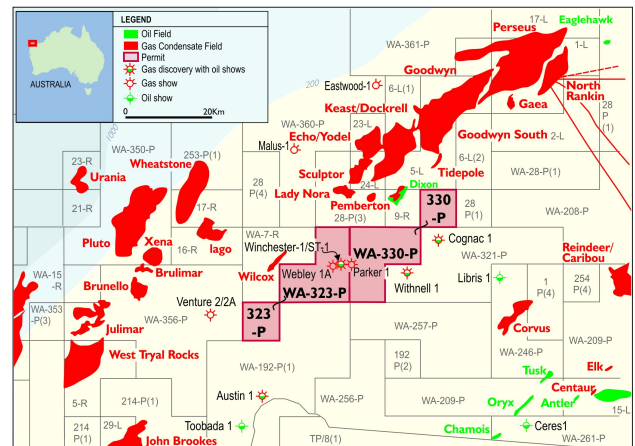


Figure 8 WA-323-P & WA-330-P and Winchester-1/ST1 Location Map

WA-323-P and WA-330-P comprise a discrete project area of 640 km² on the Parker Terrace, in proximity to the onshore Devils Creek gas processing facility. The Winchester-1/ST1 discovery well was drilled from a location within WA-323-P during 2013. The estimated size of the Winchester discovery, by itself, is considered to be insufficient to be developed economically. Further contributions from possible deeper or adjacent hydrocarbon zones to the Winchester location would be required to augment the discovered resource. The Winchester discovery is located near existing pipeline and processing infrastructure and likely future infrastructure extensions.

Interpretation of the reprocessed data Winchester 3D seismic survey by the operator is continuing with the Prospects and Leads inventory being updated to incorporate prospects and leads identified from the reprocessed Winchester 3D survey. Octanex is currently being carried by Santos though exploration activity in each permit.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

OCTANEX N.L.

ABN

61 005 632 315

Quarter ended ("current quarter")

30 September 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation	(64)	(64)
(b) development		
(c) production		
(d) staff costs	(113)	(113)
(e) administration and corporate costs	(262)	(262)
1.3 Dividends received (see note 3)		
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Research and development refunds		
1.8 Other (provide details if material)	18	18
1.9 Net cash used in operating activities	(420)	(420)

2. Cash flows from investing activities

- 2.1 Payments to acquire:
- (a) property, plant and equipment
 - (b) tenements (see item 10)
 - (c) investments
 - (d) other non-current assets

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Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment		
	(b) tenements (see item 10)		
	(c) investments		
	(d) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities		

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares		
3.2	Proceeds from issue of convertible notes		
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options		
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities		

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,143	3,143
4.2	Net cash used in operating activities (item 1.9 above)	(420)	(420)
4.3	Net cash from / (used in) investing activities (item 2.6 above)		
4.4	Net cash from / (used in) financing activities (item 3.10 above)		
4.5	Effect of movement in exchange rates on cash held	(81)	(81)
4.6	Cash and cash equivalents at end of period	2,642	2,642

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5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	2,642	3,143
5.2 Call deposits		
5.3 Bank overdrafts		
5.4 Other (provide details)		
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,642	3,143

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	33
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

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7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	136
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

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Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities – Convertible Notes	US\$12m	US\$nil
8.2 Credit standby arrangements		
8.3 Other (please specify)		
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	50
9.2 Development	
9.3 Production	
9.4 Staff costs	113
9.5 Administration and corporate costs	200
9.6 Other – Advance to joint venture company	1,250
9.7 Total estimated cash outflows	1,613

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced		See Activity Report		
10.2 Interests in mining tenements and petroleum tenements acquired or increased		See Activity Report		

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Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:
(Company secretary)

Date: 28 October 2016

Print name: R.J. Wright

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

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