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29 November 2017

Chairman's Address
2017 Annual General Meeting

2016/17 was a significant year for Octanex - it completed its first offshore development by taking the greenfields Ophir oil and gas accumulation into production via its 50% shareholding in Ophir Production Sdn Bhd (OPSB) (the contractor for the Ophir oil field development, offshore Peninsular Malaysia).

Reduced industry costs, "fit for purpose" marginal field facilities design and focused execution by the contractor, OPSB, have resulted in significant cost savings against the revised , PETRONAS approved, field development budget of US$90Million, thus setting a new benchmark for low cost marginal field development offshore Malaysia. OPSB has carried out the development under a Risk Services Contract (RSC) with PETRONAS. Under the terms of the Ophir RSC, the Contractor (OPSB) is the service provider, developer and Operator of the field, while PETRONAS remains the resource owner. Upfront investment of capital is contributed by the Contractor, with the Contractor compensated by PETRONAS via the reimbursement of costs plus a remuneration fee for services rendered. Reimbursement of capital and operating costs are guaranteed to OPSB by PETRONAS pursuant to the RSC. The remuneration fee is linked to production volume and capital cost key performance indicators, and paid from proceeds of Ophir crude sales.

Since Ophir commenced production last month, several production challenges have been encountered. Initial facilities debottlenecking activities have been implemented to address facilities constraints identified during commissioning. Mitigation strategies are also now being assessed for higher than predicted gas production which is constraining oil production.

Our experience in the development of Ophir is informing our approach to our other pre-development assets.

The Cornea Retention Lease, in the Browse Basin offshore from Western Australia, was granted 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 at a time when oil prices were in excess of US$100 per barrel and had been as high as US$140 a barrel. To address the challenges to development of Cornea; the first three years of the Lease were designed to support the quantification of drilling and produceability challenges in the US$100 per barrel environment.

Demonstrating Cornea's ability to achieve threshold production was then seen as, and remains, the key barrier to commercialisation of Cornea. A production test well, designed to achieve such economic production for a given development was identified as a key means of moving Cornea towards development. However, the reduced oil price environment has since impacted negatively on the development scenarios we studied.

Thus, the factors that set the parameters for a Cornea development have changed considerably since the Retention Lease was granted, as has the basis of design for a viable Cornea production well test. We have now formulated a possible favourable 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 threshold productivity using and required by this much reduced infrastructure concept.

The Cornea Joint Venture has applied to the authorities to vary the conditions of WA-54-R so as to enable the work programme to focus on the elements that might achieve threshold production for our new infrastructure concept within the current "reset" oil price regime.

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 withdrew the Retention Lease applications and has initiated further studies of the Ascalon gas accumulation which are designed to review resource estimates and well deliverability. These studies will inform the future workscopes aimed at monetising Ascalon gas.

Ascalon is located at a water depth of less than 100m, approximately 450km west of Darwin and in proximity to three gas pipelines; the Bayu-Undan and Ichthys pipelines to Darwin and the Blacktip pipeline to Wadeye. It is one of a number of gas accumulations including Petrel, Tern, Prometheus and Rubicon that could be linked by offshore pipeline to shore for domestic gas production, for LNG export, or for industrial purposes.

An application for a Location over the Winchester gas discovery has recently been 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.

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.

E.G. Albers
Chairman
Melbourne
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