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Octanex 2018 Chairman Address

2017/18 evolved into a most difficult and disappointing year. The major focus for the year was on the Ophir field development. We hold a 50% shareholding interest Ophir Production Sdn Bhd (OPSB), the contractor to PETRONAS (as principal) for the development. We commenced the year anticipating commencement of production. The development was completed, highly successfully, substantially below the original budget at time of contract award and considerably below the final revised budgets. It was completed on time, through a most challenging oil price environment. However, contrary to our expectations, production was short-lived, with the development thus proving to be uneconomic.

The Ophir field had been promoted by PETRONAS as a discovered oil field and was offered by them under Malaysia's Risk Service Contract (RSC) regime on the basis of a guaranteed return of the contractor's capital and operating costs, together with incentive-based remuneration linked to time, capital cost and production performance.

Key achievements of the Ophir development included:

- Zero Lost Time Incidents incurred over 1.5 million hours (facilities and drilling);
- 45% capex saving against initial field development plan (US$74.9M vs US$135M) setting the benchmark for low cost development offshore Peninsular Malaysia;
- FPSO facilities daily OPEX rate 25% below agreed budget and one of the lowest in the world (US$31.7k/day);
- First Suction Pile Technology platform offshore Peninsular Malaysia - installed and welded out in 72 hours, thereby significantly reducing offshore costs and risks, and.
- Malaysian content exceeding 99%

Octanex had intended its 50% shareholding in OPSB to be a country-entry. Our lack of success at leveraging from these achievements to secure additional projects from PETRONAS has compounded the disappointing result of the Ophir development.

Upon the field meeting the contractual "economic cut-off" criteria, termination of the RSC was effected by OPSB. Negotiations with Petronas regarding handover and termination matters were concluded earlier this month; facilities (wellhead platform, wells, pipeline) have been handed over and reimbursement of costs has commenced with final reimbursement expected in quarter-2, 2019. OPSB has been relieved of most further project expenditure following novation of FPSO contracts entered into by OPSB in relation to the project.

OPSB's focus is now on project close-out and company wind-down activities, including final operating quarter PETRONAS cost recovery audit, GST reimbursements and loan facility close-out steps.

OPSB funded the Ophir development via syndicated term loan facilities (Project Financing Facilities), with the balance of expenditure funded by OPSB's shareholders in proportion to their equity shareholding interest in OPSB (50% in Octanex's case).

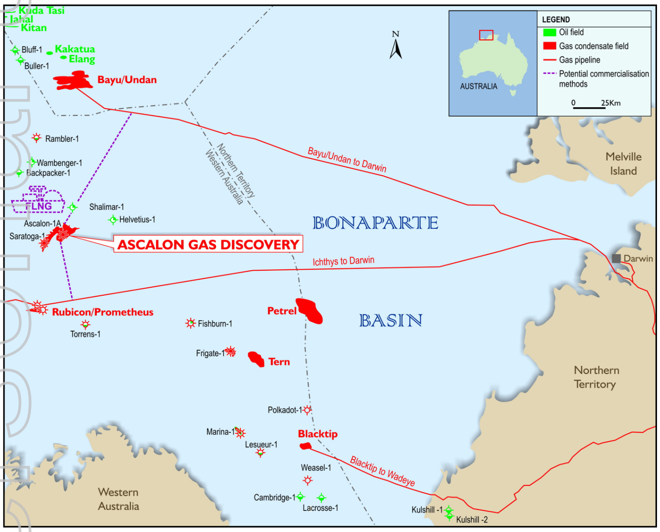
The syndicated loan facilities are expected to be paid out in through the PETRONAS reimbursement. The quantum of funds available for repayment of shareholder loans, following repayment of the syndicated loan facilities, can be projected within a meaningful range, given the remaining expenditure requirements can now be reasonably forecast and with the reduced number of outstanding variables.

Octanex largely facilitated its shareholder loans to OPSB through a Sabah International Petroleum Ltd (SIP) convertible note facility, presently drawn to US$8million (against a US $12million facility). Unless SIP elects to convert the convertible notes into Octanex shares (the drawn facility is comprised of two equal tranches of convertible notes, with conversion prices of $0.15 and $0.20), Octanex will be required to redeem the convertible notes at maturity (30 June 2019). Octanex is seeking to restructure the redemption terms of the convertible note in line with its share of projected shareholder loan repayments from OPSB.

We are continuing evaluation activities in relation to our 100% interest in the Ascalon gas field (in the Bonaparte Basin), held via two exploration permits, particularly focusing on leveraging learnings from southern North Sea Permian tight gas discoveries that have been developed through offshore stimulation in recent years.

Ascalon has an aerial extent of 320 km2, a proven source/charge, trap, seal and a high reservoir pressure (10,500 psi), which is 3,500 psi over normally pressured and may be due to a much deeper closing contour and greater gas in place.

Proximity to existing infrastructure and gas resources, presents several potential opportunities for the future development of Ascalon. Located in shallow water (68 m), wells can be drilled using a jack-up rig while unmanned wellhead platform development options reduce potential CAPEX and OPEX.



Ascalon location and proximity to gas infrastructure

The Cornea Retention Lease (in the Browse Basin) was granted in 2014 following the significant new information gained from the Cornea – 3 well in which Octanex actively participated. Cornea presents 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 development. Cornea's attributes make is particularly sensitive to well construction and execution and it is of critical importance to maximise reservoir management and sweep efficiency.

Having identified a production test well (a well designed to achieve threshold productivity and prove up well construction methods and technologies) as a key milestone for progressing commercialisation of Cornea, The Cornea JV designed a Retention Lease program consisting of studies work in the first three years of the Lease term to support a production test well in Year 4.

Commercialisation is not a static matter and the oil price environment since late 2014 has posed a significant challenge to the Cornea field's commerciality, having rendered as non-viable field development concepts that were previously considered as potentially viable. Consequently, although the Cornea JV's work completed in the first three years of the Lease supported a technically feasible well, it did not support a successful production test well that would be indicative of commerciality.

The Cornea JV therefore applied in March 2017 to vary the terms of the Lease work program and, in August 2017, to suspend and extend the term of the Lease in order to carry out additional work identified as necessary in order to underpin the design of a production test well responding to the changed oil price environment.

In late May 2018 (being the first month of year-5 of the Retention Lease) the Cornea JV was advised that the Joint Authority intends to vary the work program to move the year-4 well to year-5, but not to suspend the term of the Retention Lease. In July 2018 the Cornea JV made a submission to the Joint Authority regarding the intended decision. This included commentary on the practical difficulties imposed by the Joint Authority's intended decision and the timing thereof, including the lack of time in which to complete the varied year-4 work program (advised after the end of year-4), timing for completing the year-5 work program and difficulties created for timing of a renewal application for the Lease. No response has yet been received from the Joint Authority.

We divested a number of exploration permits during the year. In January Octanex joined with Eni Australia Limited in withdrawing from WA-362-P and WA-363-P. In June the Winchester Joint Venture (Santos 75% / Octanex 25%) applied for consent to surrender WA-330-P and also decided not to lodge the earlier anticipated application for Retention Lease in respect of the Winchester gas discovery in WA-323-P. The permit, which was in year 5 and not eligible for a further renewal, has therefore expired.

During the year David Coombes, Tino Guglielmo and Suhnylla Kler resigned from the board of Octanex, and Jack Tuohy resigned as a secretary. I thank each of them for their service.

I extend my thanks to SIP 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
Melbourne
28 November 2018