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EXPIRY OF RETENTION LEASE WA-54-R

Octanex Limited (ASX:OXX) advises that the Cornea Retention Lease WA-54-R in which it had an 18.75% interest has expired following withdrawal of its renewal application.

WA-54-R's initial five year term ended on 5 May 2019. For a Retention Lease to be granted and subsequently renewed, the Commonwealth-Western Australia Joint Authority (JA) must be satisfied that the accumulation is "not presently commercial but is likely to be commercially viable within 15 years".

The Cornea Joint Venture's renewal application was predicated on the work completed over the initial lease term, especially the last two years of the lease. It was accompanied by detailed oil, gas and water production simulation forecasts generated from an integrated reservoir model prepared by a team of independent specialists comprising a petrophysicist, geologists, geophysicists and reservoir engineers. The development concept and cost estimates were prepared by an independent engineering firm.

The Cornea accumulation has had 18 wells drilled into it and its immediate environs. The renewal application and our studies demonstrated that the field is not presently commercially viable, even adopting an extremely cost efficient development concept of a platform and subsea storage unit. The renewal application demonstrated the oil price, production and cost parameters required for the field to be commercially viable. It identified numerous avenues by which the field's commercial viability could be improved. The submission proposed a work program focused on strategies for accessing more oil volumes and lowering the development cost.

A renewal of the Retention Lease would have allowed for the possibility that oil demand would result in oil prices recovering sufficiently over the next five years to meet or exceed the necessary threshold oil price needed to justify any further substantial investment in either drilling or development.

The National Offshore Petroleum Titles Administrator (NOPTA) has provided a "request for further information" in relation to the renewal application, as is typical with all titles administration matters. However, this "request" was unusual in that it does not in fact request any information or seek any clarifications. Rather, it advises that "*insufficient information has been provided to demonstrate that recovery of petroleum from the lease area is likely to become commercially viable within 15 years, and therefore to support a recommendation to renew Petroleum Retention Lease WA-54-R*" with extremely wide and general reasons cited without reference to any of the detailed supporting content provided by the Joint Venture in its renewal application.

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Having reviewed NOPTA's "request", the Joint Venture considered that NOPTA was unlikely to support renewal of WA-54-R and that the JA is therefore unlikely to grant such renewal.

WA-54-R presented an unusual retention lease circumstance, having been granted over an oil accumulation, rather than a gas accumulation. The Cornea JV's decision to apply for a Retention Lease in 2013 reflected advice from the Joint Authority in early 2013 that it should do so. In September 2013 the Coalition Government's Policy for Resources and Energy was released with measures aimed at ensuring that Retention Leases are held for "*a legitimate need to secure gas for long-lived production projects*". The Cornea JV lodged its application for Retention Lease the next month (October 2013) and WA-54-R was granted in May 2014, reflecting the Joint Authority's earlier advice to the Cornea JV, notwithstanding the September 2013 policy change.

The Cornea JV believes that NOPTA and the JA intended to apply the September 2013 policy and deny a renewal of the Cornea Retention Lease, despite the Cornea JV's significant investment in Cornea. This investment includes the drilling of Cornea-3. The Cornea JV increased its investment over the course of the Retention Lease, recently completing an integrated reservoir model in accordance with the work program variation approved by the JA.

The Cornea JV has considered avenues open to it, including pathways for administrative review in the event of a negative decision and has formed the view that NOPTA's letter reflects an insurmountable hurdle. To develop Cornea, significant production and oil price hurdles must be overcome. The Cornea JV believes that, for a marginal field such as Cornea to have any chance of development, it must be supported by a constructive and commercial approach from the relevant regulator.

The Cornea JV therefore decided to withdraw its application to renew WA-54R, which withdrawal has been approved. As a result, the Cornea JV has been advised that WA-54-R is no longer in force.