

OCTANEX NL

ABN 61 005 632 315

HALF-YEAR FINANCIAL REPORT AND DIRECTORS' REPORT

31 DECEMBER 2006

DIRECTORY

BOARD OF DIRECTORS

E.G. Albers (Chairman)
P.J. Albers
A.P. Armitage
G.A. Menzies

SECRETARY

D.B. Hill

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AUDITOR

PKF
Chartered Accountants
Level 11, CGU Tower
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Melbourne, Victoria 3000

SHARE REGISTRY

Link Market Services Limited

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Melbourne, Victoria 3000
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STOCK EXCHANGE LISTING

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NSX Code: OCT

INCORPORATED IN VICTORIA

13 March 1980

WEBSITE: www.octanex.com.au

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CURRENCY

The company's functional and presentation currency is Australian Dollars

FORWARD LOOKING STATEMENTS

This report includes certain forward-looking statements that have been based on current expectations about future acts, events and circumstances. These forward-looking statements are, however, subject to risks, uncertainties and assumptions that could cause those acts, events and circumstances to differ materially from the expectations described in such forward-looking statements.

These factors include, among other things, commercial and other risks associated with the meeting of objectives and other investment considerations, as well as other matters not yet known to the company or not currently considered material by the company.

DIRECTORS' REPORT

The directors present their report on the results of Octanex NL (the “company” or “Octanex”) for the half-year ended 31 December, 2006.

DIRECTORS

The Directors in office during the entire half-year and to the date of this report are:-

Mr EG Albers (Director since 2/10/1984) Chairman and chief executive officer

Mr Albers specialises in the petroleum industry and has a Bachelor of Laws degree from Melbourne University. He has had many years experience in commercial activities and corporate law. Mr Albers is the Chairman and Public Officer of the Company; his other directorships include Cue Energy Resources Ltd, Bass Strait Oil Company Ltd, Moby Oil & Gas Limited and various unlisted public companies.

Mrs PJ Albers (Director since 23/3/1996) Non-executive director

Mrs Albers is a primary producer whose commercial experience includes acting as director of a number of exploration companies.

Mr AP Armitage (Director since 15/1/1997) Independent non-executive director

Mr Armitage is a Fellow of the Institute of Chartered Accountants in Australia with over 30 years experience in business. He has previously practised in the insolvency and management consulting areas and more recently as a business consultant in Asia. Mr Armitage is a Fellow of the AICD.

Mr G Menzies (Director since 26/8/2004) Independent non-executive director

Mr Menzies is a barrister and solicitor and has carried on practice as a sole practitioner since 1987. He specialises in corporate reconstructions and capital raisings and obtained his Master of Laws from Melbourne University. Mr Menzies is also a director of Moby Oil & Gas Limited.

OPERATING RESULT FOR THE YEAR

The economic entity, being the company and its controlled entity recorded a loss after tax for the half year of \$61,593.

REVIEW OF OPERATIONS

Octanex holds interests in three oil and gas exploration joint ventures with activities located on the North West Shelf offshore from Western Australia; and a further joint venture with activities offshore from South Australia.

Dampier Joint Venture WA-321-P, WA-323-P & WA-330-P

Octanex holds a 50% interest in the Dampier Project in which three underlying contiguous tenements comprise a discrete project area of 1,200 kms². They are explored as a joint venture. During the half year the joint venture continued the processing of the Tourmaline Survey of 1,578 line km of new 2D seismic over the Permits.

The Dampier project area covers parts of the Rankin Trend, Kendrew Trough, Parker Terrace (Kendrew Terrace), Madeleine Trend and part of Lewis Trough. All are proven locations for the formation and location of oil and gas. Major commercial hydrocarbon discoveries in close proximity include the giant gasfields of the North West Shelf; these being the Goodwyn, North Rankin and Perseus Gasfields, while the significant oil fields in Lambert, Wanaea and Cossack are in the same region. The undeveloped Dixon gas and condensate discovery is in immediately adjacent acreage. Recently, important new gas discoveries have been made at Pluto and Wheatstone, to the west.

The proximity of existing infrastructure and the likely future extensions, as well as new infrastructure bodes well for any discovery, whether oil or gas, in this project area. Significant future demand for

DIRECTORS' REPORT (cont'd)

gas to supply the North West Shelf JV LNG plant and the proposed Pluto LNG development are anticipated, so that any gas discovery in our permits should be valuable and capable of monetisation.

Geologic and seismic interpretation of the Late Jurassic, Angle Formation submarine fan play continues. A sand pinchout trend has been defined along the west flank of the Hartog anticlinal trend, and a drape trap over the North Webley horst structure similar to, and on trend with, the adjacent Dixon Field has been identified. There is potential for a Triassic or Early Jurassic structural traps within both the North Webley and Webley horst structures. Further potential is seen in the vicinity of the Withnell well which had good hydrocarbon shows.

Northern Deeps Joint Venture – WA-362-P & WA-363-P

Octanex holds a 35% interest in two exploration blocks known as WA-362-P and WA-363-P. The permits, which cover an area of approximately 21,765 kms², are on the northern margin of the Exmouth Plateau, 300-400 kms north west of the Western Austral coastline. The Exmouth Plateau is the largely unexplored deepwater frontier of the Carnarvon Basin, Australia's largest petroleum basin which includes the giant gas resources of the North West Shelf (Rankin Trend), the Greater Gorgon region and Io/Janz.

The Carnarvon Basin is one of a number of sedimentary basins and sub-basins which together lay within the extensive world class North West Shelf hydrocarbon province of Australia. This province contains an estimated 2.6 billion barrels of oil, 2.6 billion barrels of condensate and 152 trillion cubic feet of gas within numerous hydrocarbon fields. The WA-362-P and WA-363-P permits lie 150 kilometres north west of the presently producing North Rankin Field complex, which was discovered in 1971, and has provided the bulk of more than 7.75 million tonnes of LNG which has been exported overseas.

The planned 3 year work program by the consortium includes reprocessing existing seismic data acquisition, and the acquisition of more than 2,200 kms of 2D seismic.

Western Otway Joint Venture – EPP 34

EPP 34, in which Octanex has a 15% interest, is located in the Otway Basin, offshore from South Australia, and covers an area of 76 graticular blocks or approximately 4,850 sq km in water depths ranging from 75 metres in the north to over 2,000 metres in the southwest. The main potential identified in EPP 34 lies in prospects and leads within the Late Cretaceous Sherbrook Group plays, to the north and south of the inverted Morum High, which bisects EPP 34 centrally. Hydrocarbon source may be derived from Late Jurassic to Late Cretaceous petroleum systems, which are considered to be mature for hydrocarbon generation in the Morum Sub-basin. A 1,000 line km 2D seismic survey is planned for 2007.

Southern Exmouth Joint Venture – WA-384-P and WA-385-P

In August 2006 two new exploration permits were granted to a joint venture between Octanex NL (50%) and Strata Resources NL (50%). The two new exploration permits known as WA-384-P and WA-385-P located in the southern Exmouth Sub-basin will be explored as one joint venture. More recently in late February a further permit WA-394-P was granted, located adjacent to WA-384-P. The joint venture has committed to shoot not less than 2,250 line km of 2D seismic survey over the permits in the first three years of the Permits.

The two new permits are located within a poorly explored region just south of Australia's newest oil province (Enfield, Lavenda, Skiddaw and Stybarrow discoveries). There is a significant amount of

DIRECTORS' REPORT (cont'd)

non-exclusive seismic available. A typical North West Shelf type Mesozoic sedimentary section is inferred in the northern part of the permits, with the Jurassic section apparently in the "oil window".

INVESTMENTS

The Company's investments comprise shareholdings in each of Methanol Australia Limited ("MEO"), and Cue Energy Resources Ltd. Since 31 December 2006, Octanex has sold 1,000,000 shares in MEO. As a result the Company holds, as at the date of this report, 3,077,944 shares in MEO representing 1.3% of the issued paid up capital of MEO.

Additional information about MEO may be obtained from MEO, from documents lodged by MEO with ASX and from the MEO website www.methanol.com.au

The Octanex Group presently holds 36,380,140 shares, presently representing 5.7% of the issued capital of Cue Energy Resources Ltd ("Cue").

Additional information about Cue may be obtained from Cue, from documents lodged by Cue with ASX and from the Cue website www.cuenrg.com.au

AUDITOR'S INDEPENDENCE DECLARATION

The Company has obtained an independence declaration from the auditor, PKF, a copy of which is attached to this report.

WEBSITE

The Company has a website at www.octanex.com.au where relevant Company documents are displayed.

On behalf of the Board



E.G. Albers
Director

Melbourne, 16th March 2007

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Octanex NL, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) at the date of this declaration there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

On behalf of the Board.

E.G. Albers
Director



Melbourne 16th March 2007

**CONDENSED INCOME STATEMENT
HALF-YEAR ENDED 31 DECEMBER 2006**

	NOTE	31/12/2006 \$	CONSOLIDATED 31/12/2005 \$
Expenses	3	(145,572)	(122,170)
Income	3	<u>47,040</u>	<u>132,563</u>
(Loss)/ profit before income tax		(98,532)	10,393
Income tax benefit		<u>36,939</u>	<u>18,840</u>
(Loss)/ profit after income tax		<u>(61,593)</u>	<u>29,233</u>
Basic (loss)/ earnings per share		(0.001)	0.0006
Diluted (loss)/ earnings per share		(0.001)	0.0006

The Condensed Consolidated Income Statement is to be read in conjunction with the Notes to the Financial Statements.

**CONDENSED BALANCE SHEET
AT 31 DECEMBER 2006**

	31/12/2006	CONSOLIDATED 30/6/2006
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	1,784,265	1,680,185
Trade and other receivables	<u>36,000</u>	<u>279,370</u>
TOTAL CURRENT ASSETS	<u>1,820,265</u>	<u>1,959,555</u>
NON-CURRENT ASSETS		
Other financial assets	6,755,862	7,509,436
Deferred tax asset	222,929	174,065
Deferred exploration costs carried forward	<u>999,785</u>	<u>952,639</u>
TOTAL NON-CURRENT ASSETS	<u>7,978,576</u>	<u>8,636,140</u>
TOTAL ASSETS	<u>9,798,841</u>	<u>10,595,695</u>
CURRENT LIABILITIES		
Trade and other payables	<u>180,504</u>	<u>174,116</u>
TOTAL CURRENT LIABILITIES	<u>180,504</u>	<u>174,116</u>
NON-CURRENT LIABILITIES		
Provisions	18,166	18,166
Deferred tax liability	<u>1,742,066</u>	<u>1,956,213</u>
TOTAL NON-CURRENT LIABILITIES	<u>1,760,232</u>	<u>1,974,379</u>
TOTAL LIABILITIES	<u>1,940,736</u>	<u>2,148,495</u>
NET ASSETS	<u>7,858,105</u>	<u>8,447,200</u>
EQUITY		
Issued capital	3,956,700	3,956,700
Reserves	3,145,029	3,672,531
Retained earnings	<u>756,376</u>	<u>817,969</u>
TOTAL EQUITY	<u>7,858,105</u>	<u>8,447,200</u>

The Condensed Consolidated Balance Sheet is to be read in conjunction with the Notes to the Financial Statements.

**CONDENSED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2006**

	CONSOLIDATED	
	31/12/2006	31/12/2005
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(98,028)	(39,067)
Proceeds from sale of tenements	-	345,186
Receipts from joint venture participants	154,427	-
Interest received	<u>47,681</u>	<u>63,134</u>
Net cash from operating activities	<u>104,080</u>	<u>369,253</u>
Net increase in cash assets	104,080	369,253
Cash assets at the beginning of the half-year	<u>1,680,185</u>	<u>2,366,984</u>
Cash assets at the end of the half-year	<u>1,784,265</u>	<u>2,736,237</u>

The Condensed Consolidated Cash Flow Statement is to be read in conjunction with the Notes to the Financial Statements.

**CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	Issued Capital	Reserves	CONSOLIDATED Retained Earnings	Total Equity
	\$	\$	\$	\$
At 1 July 2006	3,956,700	3,672,531	817,969	8,447,200
Loss for the period	-	-	(61,593)	(61,593)
Revaluation of listed shares	<u>-</u>	<u>(527,502)</u>	<u>-</u>	<u>(527,502)</u>
At 31 December 2006	<u>3,956,700</u>	<u>3,145,029</u>	<u>756,376</u>	<u>7,858,105</u>
At 1 July 2005	3,956,700	10,116,211	(965,572)	13,107,339
Profit for the period	-	-	29,233	29,233
Revaluation of listed shares	<u>-</u>	<u>(3,970,793)</u>	<u>-</u>	<u>(3,970,793)</u>
At 31 December 2005	<u>3,956,700</u>	<u>6,145,418</u>	<u>(936,339)</u>	<u>9,165,779</u>

The Condensed Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

NOTE 1 CORPORATE INFORMATION

The financial report of Octanex NL (the company) for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 16 March 2007. Octanex NL is a company incorporated and domiciled in Australia. Its shares are publicly listed on the National Stock Exchange of Australia.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Octanex NL as at 30 June 2006.

It is also recommended that the half-year financial report be considered together with any public announcements made by Octanex N.L. and its controlled entity during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of preparation

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis except for available-for-sale investments that are measured at fair value.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Summary of significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006.

(c) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Octanex N.L. and its subsidiary as at 31 December 2006 ('the group').

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	CONSOLIDATED	
	31/12/2006	31/12/2005
	\$	\$
NOTE 3 EXPENSES AND INCOME		
(i) Expenses		
Administration expenses - director related	60,180	57,246
Administration expenses - other	45,252	49,924
Directors' remuneration	15,900	15,000
Exploration costs written off	<u>24,240</u>	<u>-</u>
Total Expenses	<u>145,572</u>	<u>122,170</u>
(ii) Income		
Interest received	47,040	64,456
Gain from sale of assets	<u>-</u>	<u>68,107</u>
	<u>47,040</u>	<u>132,563</u>

NOTE 4 EXPLORATION EXPENDITURE COMMITMENTS

Estimated expenditure to satisfy contractual and permit work obligations at balance date were:

Not later than 1 year	865,000	852,048
Payable later than one year but not later than three years	<u>2,885,000</u>	<u>1,232,383</u>
	<u>3,750,000</u>	<u>2,084,431</u>

NOTE 5 SEGMENT INFORMATION

The group operates in Australia in the petroleum exploration industry.

NOTE 6 SUBSEQUENT EVENTS

Since balance date the company has sold 1,000,000 shares in MEO Australia Limited for proceeds of \$555,688.

NOTE 7 RELATED PARTIES

Transactions with Directors and Director-Related Entities

During the half-year, fees were paid under normal commercial terms and conditions to director-related entities of E.G. Albers, for project administration and management in the amount of \$51,780 (2005: \$52,871) and to AP Armitage for secretarial services \$8,400 (2005: \$4,375).

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF OCTANEX NL**



Chartered Accountants
& Business Advisers

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Octanex NL and its controlled entities, which comprises the condensed consolidated balance sheet as at 31 December 2006, and the condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the half-year ended on that date, a statement or description of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising Octanex NL and the entities it controlled at 31 December 2006 or from time to time during the half year ended on that date.

Directors' Responsibility for the Half-Year Financial Report

The directors of Octanex NL are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of Octanex NL's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Octanex NL, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Octanex NL is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of Octanex NL's consolidated financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

PKF

PKF
Chartered Accountants

16 March 2007
Melbourne

M L Port
Partner



Chartered Accountants
& Business Advisers

16 March 2007

The Directors
Octanex NL
Level 25
500 Collins Street
MELBOURNE VIC 3000

Dear Directors

INDEPENDENCE DECLARATION

As lead engagement partner for the review of the half year financial report of Octanex NL for the period ended 31 December 2006 and in accordance with section 307C of the Corporations Act 2001, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (b) any applicable code of professional conduct in relation to the review.

PKF

PKF
Chartered Accountants

M L Port
Partner

16 March 2007
Melbourne