

# **OCTANEX NL**

ABN 61 005 632 315

## **HALF-YEAR FINANCIAL REPORT AND DIRECTORS' REPORT**

**31 DECEMBER 2007**

## **DIRECTORY**

### **BOARD OF DIRECTORS**

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

### **SECRETARY**

D.B. Hill

### **REGISTERED OFFICE**

Level 21,  
500 Collins Street,  
Melbourne, Victoria 3000

Telephone: +61 (03) 9629 6100  
Facsimile: +61 (03) 9629 6278  
E-mail: [admin@octanex.com.au](mailto:admin@octanex.com.au)

### **AUDITOR**

BDO Kendalls Audit & Assurance (NSW-VIC)  
Pty Ltd  
GPO Box 4736  
Melbourne, Victoria 3001

### **SHARE REGISTRY**

Link Market Services Limited

Level 4  
333 Collins Street  
Melbourne, Victoria 3000  
Telephone: (03) 9615 9800  
Facsimile: (03) 9615 9900

### **STOCK EXCHANGE LISTING**

National Stock Exchange of Australia Ltd  
384 Hunter Street  
Newcastle, NSW 2300 Australia  
Website: [www.nsxa.com.au](http://www.nsxa.com.au)

**NSX Code: OCT**

### **INCORPORATED**

Incorporated in Victoria, Australia on  
13 March 1980

**WEBSITE:** [www.octanex.com.au](http://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, 2007.

### **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 to 30/7/2007) Independent non-executive director**

Mr Armitage resigned his directorship during the period.

#### **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 profit after tax for the half year of \$7,164,576. (31/12/2006: loss of \$61,593)

### **REVIEW OF OPERATIONS**

Over the past half year, Octanex has held royalty interests in two petroleum exploration permits and has had interests in four joint ventures with petroleum exploration activities located in the offshore waters of Australia.

### **PETROLEUM EXPLORATION INTERESTS**

#### **WA-322-P (Exmouth Sub-basin)**

In early 2004 the Company, together with its joint venturers, entered into an agreement with BHP Billiton Petroleum Pty Ltd (“BHP”) for the sale and subsequent assignment of a 100% working interest in WA-322-P, a petroleum exploration permit in the offshore Exmouth Sub-basin of Australia.

In return, BHP agreed to the acquisition and processing of 3D seismic in the joint venture’s adjacent exploration permit, WA-329-P, as well as an initial cash payment, a deferred cash payment contingent upon entering the 5<sup>th</sup> permit year or the earlier drilling a well in WA-322-P and the granting of an overriding royalty interest with respect to revenue from any future production from WA-322-P, less applicable petroleum resource rent tax. In addition, BHP were required to offer to reconvey the Permit to the joint venturers should they decide not to proceed further with exploration or to relinquish the Permit before its full-term expiry.

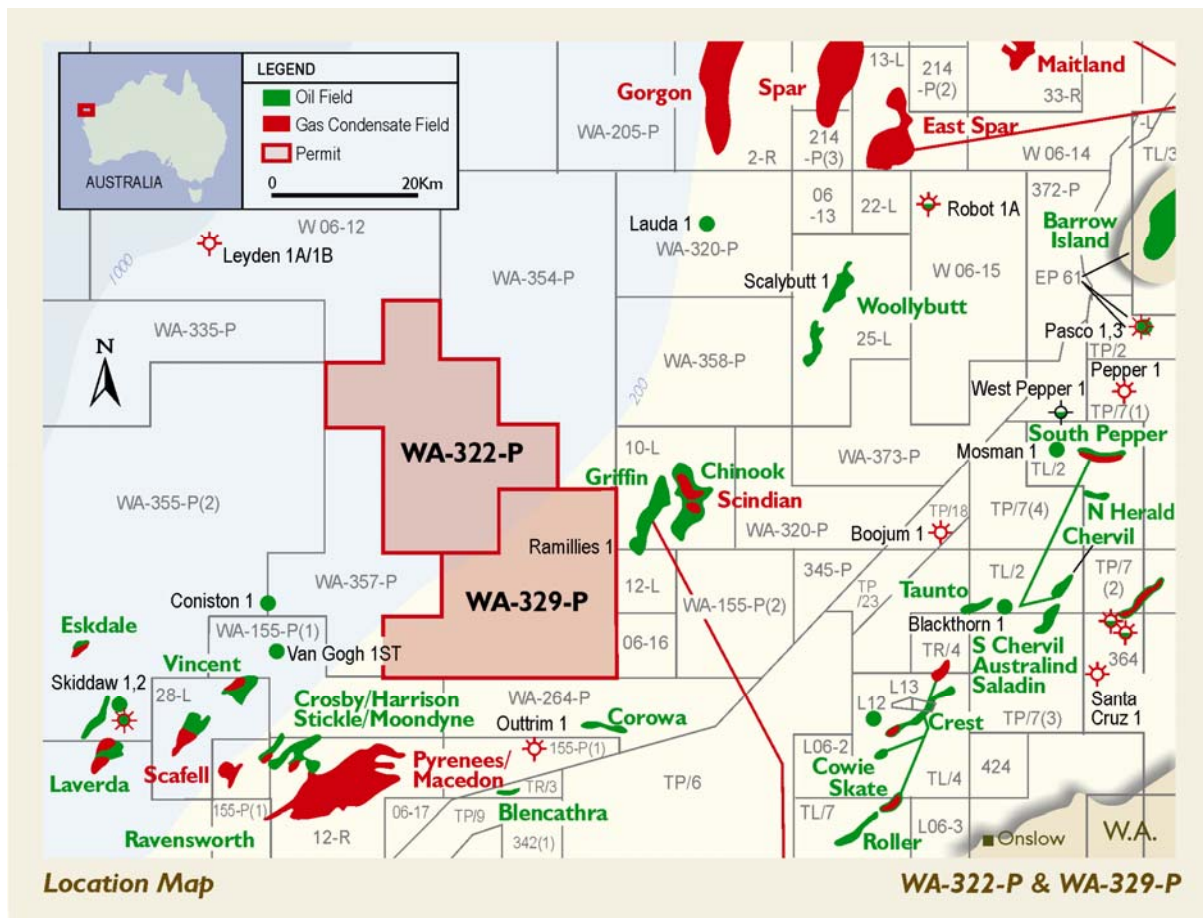
The Exmouth Joint Venturers were informed by BHP in October 2005 that BHP had completed the acquisition of 635 km<sup>2</sup> of 3D seismic in Exploration Permit WA-322-P.

## DIRECTORS' REPORT (Continued)

In November 2007, BHP Billiton (BHPB) and Apache Energy (Apache) made an election to offer to re-convey WA-322-P and WA-329-P to the previous titleholders; Octanex NL, Strata Resources NL (Strata) and Rocky Mountain Minerals, Inc.

Octanex and Strata have elected to accept the reconveyance and have agreed to hold the aggregate 100% interests in each of the Permits by way of their 50/50 owned joint venture company, United Oil & Gas Pty Ltd (United).

Documentation to effect the conveyance of each Permit to United has been lodged with the Designated Authority.



### WA-329-P (Exmouth Sub-basin)

In July 2005, the company and its joint venturers entered into an agreement with BHP Billiton Petroleum Pty Ltd (“BHP”) and Apache Energy Limited (“Apache”) for the sale and subsequent assignment of a 100% working interest in WA-329-P, a petroleum exploration permit in the offshore Exmouth Sub-basin of Australia.

BHP and Apache became responsible for the terms and conditions of the Permit, made a cash payment to us, with a deferred cash payment contingent upon entry into the 5<sup>th</sup> permit year or the earlier the drilling of a well in WA-329-P. In addition, they granted an overriding royalty interest from any future production, less applicable petroleum resource rent tax.

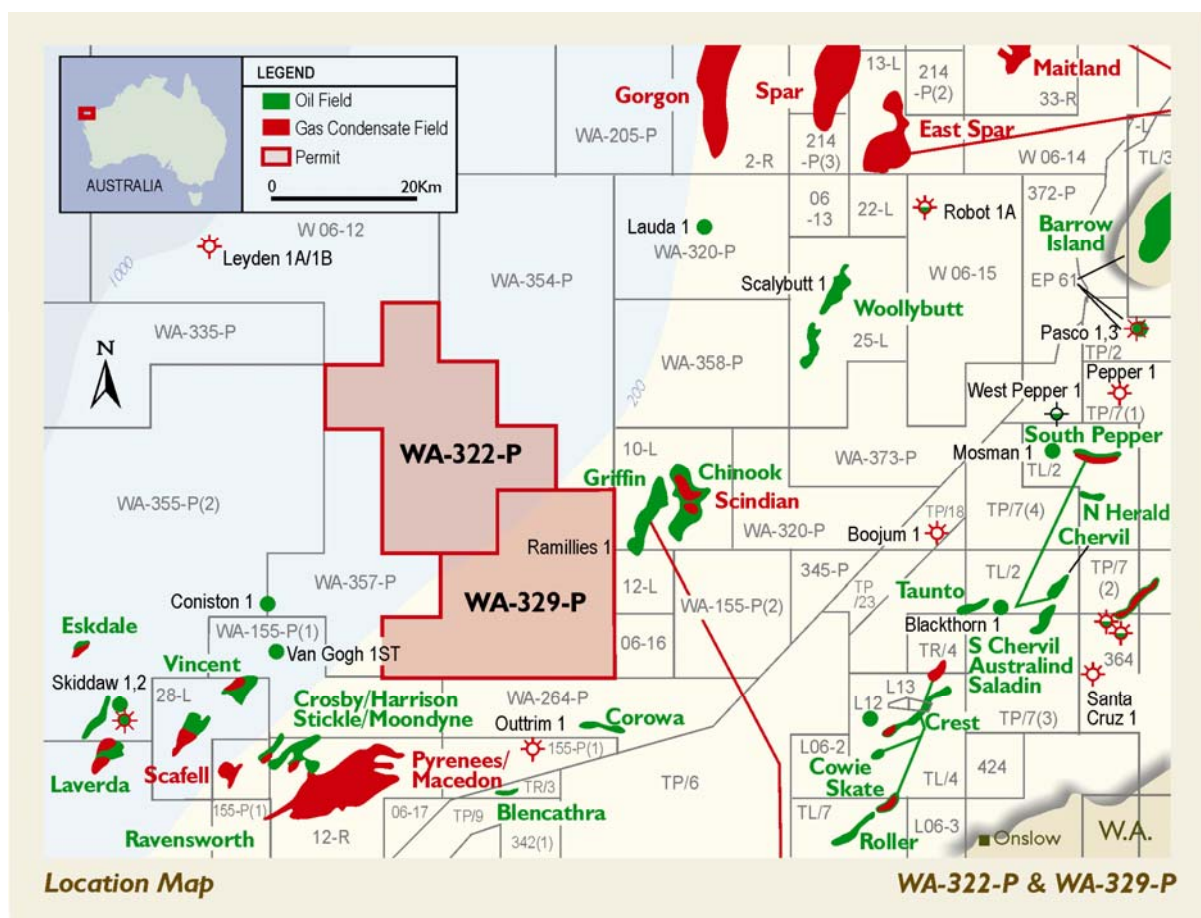
## **DIRECTORS' REPORT (Continued)**

BHP and Apache were required to offer to reconvey the Permit to the joint venturers should they decide not to proceed further with exploration or to relinquish the Permit before its full-term expiry.

In November 2007, BHP Billiton (BHPB) and Apache Energy (Apache) made an election to offer to re-convey WA-322-P and WA-329-P to the previous titleholders; Octanex NL, Strata Resources NL (Strata) and Rocky Mountain Minerals, Inc.

Octanex and Strata have elected to accept the reconveyance and have agreed to hold the aggregate 100% interests in each of the Permits by way of their 50/50 owned joint venture company, United Oil & Gas Pty Ltd (United).

Documentation to effect the conveyance of each Permit to United has been lodged with the Designated Authority.



### **Permit Terms and Variation Sought for WA-322-P and WA-329-P**

WA-322-P was granted on 22 March 2002. WA-329-P was granted on 5 September 2002. Variations of the Permits have been granted, such that Year-4 of each Permit ended on 21 November 2007.

Year-5 for each permit presently has a minimum work requirement of one well. Year-5 for each permit was due to commence on 22 November 2007.

## **DIRECTORS' REPORT (Continued)**

Prior to entering Year-5, United sought a variation of the permit terms for WA-322-P so that the future obligations would be (subject to approval) as follows:

Year-5	Data review Acquire interpreted data from the prior permit holder
Year-6	One well

United has also sought a variation of the permit terms for WA-329-P so that the future obligations would be (subject to approval) as follows:

Year-5	Data review Acquire interpreted data from the prior permit holder
Year-6	One well

In essence, United has sought to move the Year-5 well obligation for each permit to Year-6 and to be relieved of the Year-6 obligation currently applicable to WA-322-P to acquire further 500 kms of 2D seismic.

### **Technical Matters**

United has only relatively limited data relating to the permits. United does not have sufficient technical information to make an informed decision to commit to a well. More time to assess prospectivity is needed and has been sought.

Under the terms of the original agreement with BHPB and Apache, BHPB and Apache are required to provide copies of new data in the possession of BHPB and Apache relating to the permits. While this obligation does not extend to providing interpretation and analysis of such data, BHPB and Apache have offered to sell this interpretative data to the United (see below).

BHPB and Apache, either individually (in the case of WA-322-P) or collectively (in the case of WA-329-P), have acquired a substantial amount of 3D seismic over both permits being part of the HCA04A 3D seismic survey. This includes approximately 640 km<sup>2</sup> of 3D within WA-322-P and 107 km<sup>2</sup> in WA-329-P. The 3D seismic acquired in WA-322-P was well in excess of the Year 6 permit obligations to acquire 500 kms of 2D seismic.

In addition, Octanex and Strata hold the reprocessed Swell-Baylis 3D dataset of some 800 km<sup>2</sup> in WA-329-P.

BHPB and Apache have offered to sell to United various studies undertaken in relation to each permit. United has agreed to negotiate the purchase this information, provided the permit variation requests are granted. Once the information and data has been made available to United, United will be in a significantly improved position to assess the exploration potential of the Permits and to make an informed decision concerning their exploration program in Year-5 and whether to enter Year-6 and to accept a well obligation.

## **DIRECTORS' REPORT (Continued)**

WA-322-P presently includes an obligation to acquire 500 km of 2D data in Year-6. As noted above, WA-322-P has been covered by a comprehensive 3D survey – the HCA04A 3D survey. In light of the extent of this 3D survey, United considers the acquisition of further 2D seismic is pointless as it will add nothing further to an understanding of the exploration potential for the permit.

Accordingly United has requested the authorities that the HCA04A 3D survey conducted within the area of WA-322-P be credited as having met the Year-6 obligation for WA-322-P.

### **Dampier Joint Venture WA-323-P & WA-330-P**

Octanex holds a 50% interest in the Dampier Project in which the two underlying contiguous tenements WA-323-P and WA-330-P which comprise a discrete project area of 640 kms<sup>2</sup>. They are being explored in joint venture with Strata Resources N.L. (50%). During the previous year the joint venture completed the shooting of the Tourmaline Survey of 1,578 line km of new 2D seismic over the Permits. This has since been processed and interpreted. WA-321-P has been the subject of a relinquishment by the joint venture following interpretation of that seismic survey.

The Dampier Joint Venture has sought a variation and suspension and extension for WA-323-P and WA-330-P in order to acquire a magnetic survey over the Webley Horst (see later) and a subsequent 500 kms 2D survey over the permits. In addition, the joint venture has sought to place the current Year-5 well commitment in each of the two permits into the sixth year.

### **Permit Terms and Variation Sought for WA-323-P and WA-330-P**

WA-323-P was granted on 22 March 2002. WA-330-P was granted on 5 September 2002. Variations of the Permits have been granted, such that Year-4 of each Permit was due to end on 21 March 2007 and 4 March 2007, respectively.

Year-5 for each permit presently has a minimum work requirement of one well. Year-5 for each permit was due to commence on 5 March 2007 (WA-330-P) and 22 March 2007 (WA-323-P).

Prior to entering Year-5, the joint venture sought a variation and suspension and extension of the permit terms for WA-323-P so that the future obligations would be (subject to approval) as follows:

Year-4 (ending 31 March 2008)	Studies and magnetic impulse survey
Year-5 (ending 31 March 2009)	Acquire 400 kms 2D seismic
Year-6 (ending 31 March 2010)	One well

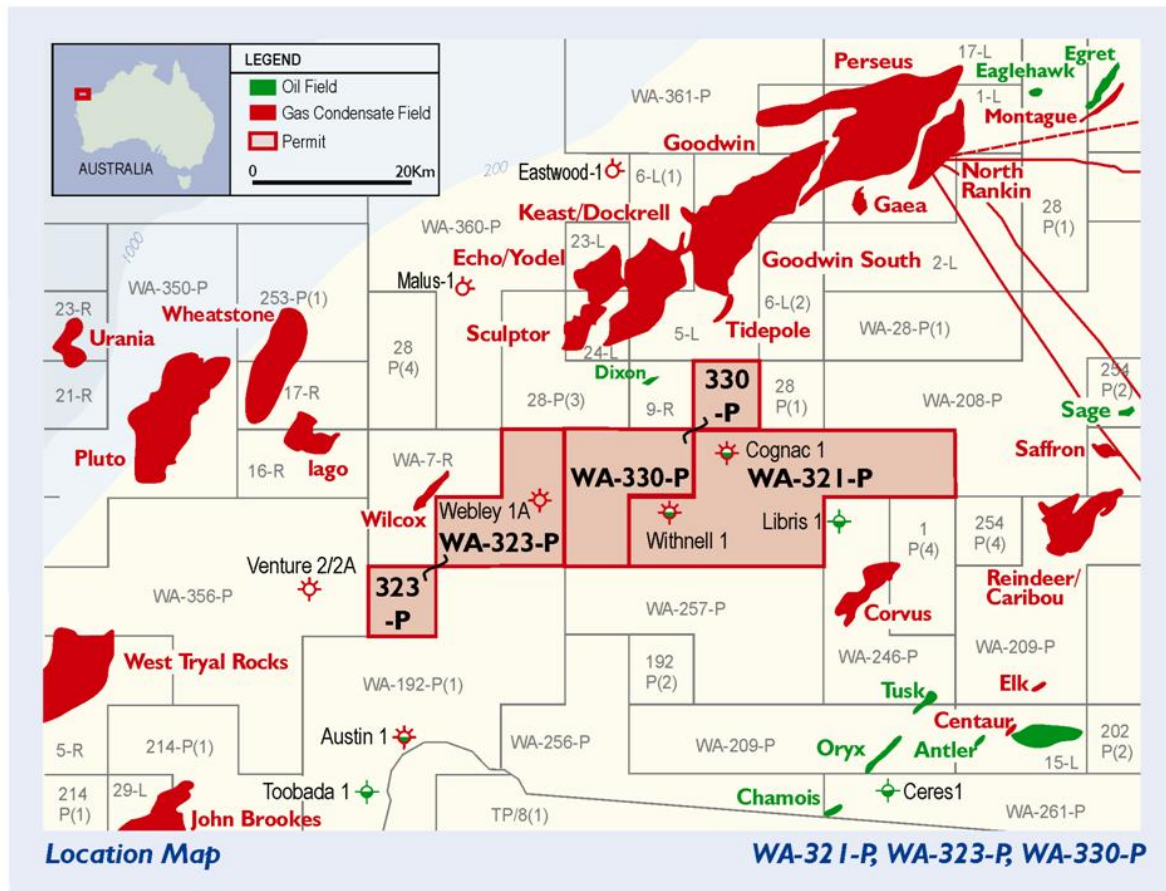
The joint venture has also sought a suspension and extension and variation of the permit terms for WA-330-P so that the future obligations would be (subject to approval) as follows:

Year-4 (ending 31 March 2008)	Studies and magnetic impulse survey
Year-5 (ending 31 March 2009)	Data review and acquire 100 kms of 2D seismic
Year-6 (ending 31 March 2010)	One well

In essence, the joint venture has sought to move the Year-5 well obligation for each permit to Year-6 and to acquire further 500 kms of 2D seismic in lieu of the 400 kms of seismic otherwise due to be acquired.



## DIRECTORS' REPORT (Continued)



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 and Wilcox gas and condensate discoveries are immediately adjacent acreage. Recently, important new gas discoveries have been made at Pluto and Wheatstone, to the west.

A potential drape trap over the North Webley horst structure similar to, and on trend with, the adjacent Dixon Field has been identified. This is currently the main area of focus. There is potential for a Triassic or Early Jurassic structural traps within both the North Webley and Webley horst structures.

The joint venture is presently focussing on the Parker/Webley Horst to demonstrate, as best we can, that there is a structure with Triassic Mungaroo reservoir and with the potential for liquid rich gas that is worth drilling. There are two well and five penetrations (Parker-1 + ST1 (1979/80) and Webley-1 + ST1 & 1A 1998/9) into the Webley horst. None of the Webley-1 well penetrations were deeper than the upper part of the Early Cretaceous regional seal.

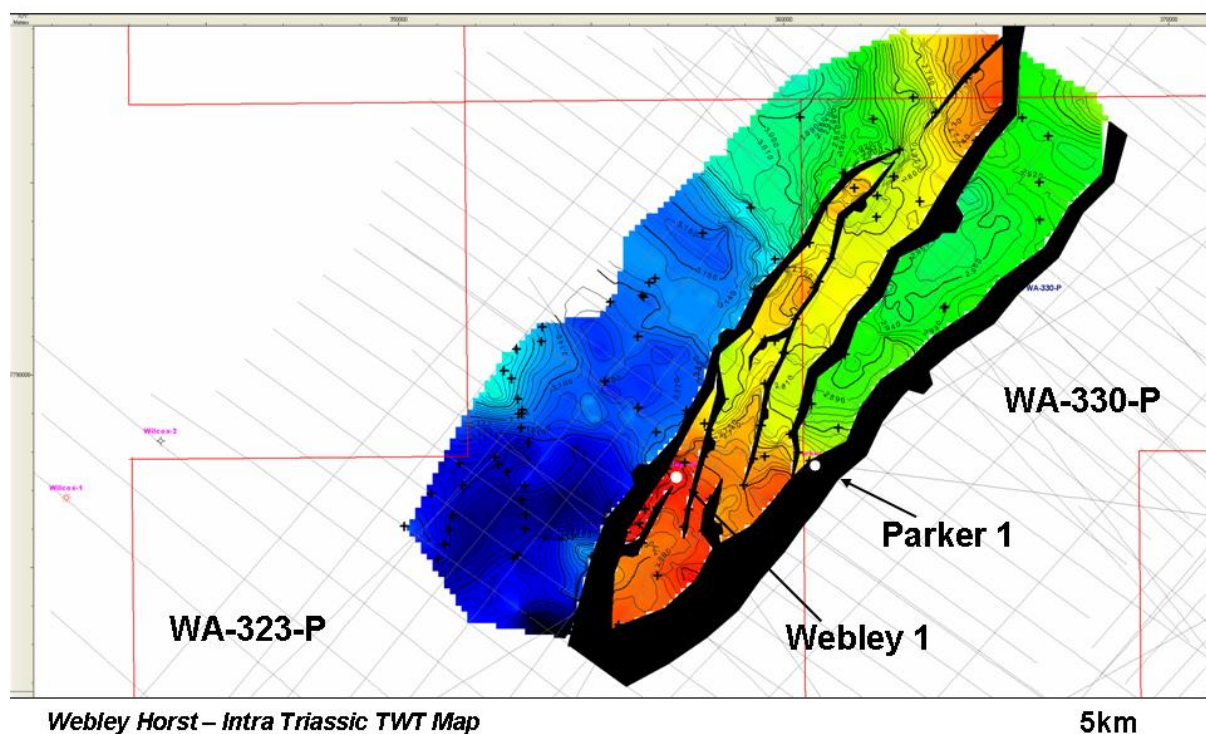


## DIRECTORS' REPORT (Continued)

The Parker-1 well drilled what was thought to be a broad horst, but turned out to be a narrower horst with a terrace fault block on the east side. The well penetrated Middle Jurassic shales on the terrace which were not logged before TD, in stacked sands and shales. The Parker-1 well was side tracked, but again the sands were not logged due to rig (anchor chain broke) and subsequent drilling problems. The sands in both the Parker-1 well and Parker-1 Side Track contained gas shows, but were not logged due to drilling problems. The cuttings contained coal, which are known to occur in the Triassic Mungaroo in nearby wells. While the sands were not dated, none of the nearby wells contain similar stacked sands, except in the Triassic Mungaroo. We are therefore confident that the penetration was of Mungaroo sands.

From our interpretation, it would appear that the Parker well either crossed a fault from Middle Jurassic into Late Triassic sands or penetrated the Triassic sands on the hangingwall block close to a fault. Either way, if the gas shows represent a live gas column there is potential for a gas accumulation that extends updip into the horst to the west and possibly within the terrace block as well, in which event the trap would be much larger.

We are working towards demonstrating a closure in the Webley horst, with the added possibility that stratigraphic trapping may also work in our favour, as a fall-back.



The joint venture considers that the critical elements of reservoir, hydrocarbons, structure, seal and trap are likely in the Parker/Webley horst, but the quality of the seismic (vintage 2D & 3D) and even the new Tourmaline 2D, make definition of trap size, closure/spill point problematic. This is not just a matter of seismic quality. The existence of several important unconformities (near base Cretaceous, Tithonian, Oxfordian, Callovian and Near top Triassic) make mapping difficult, even with good seismic.

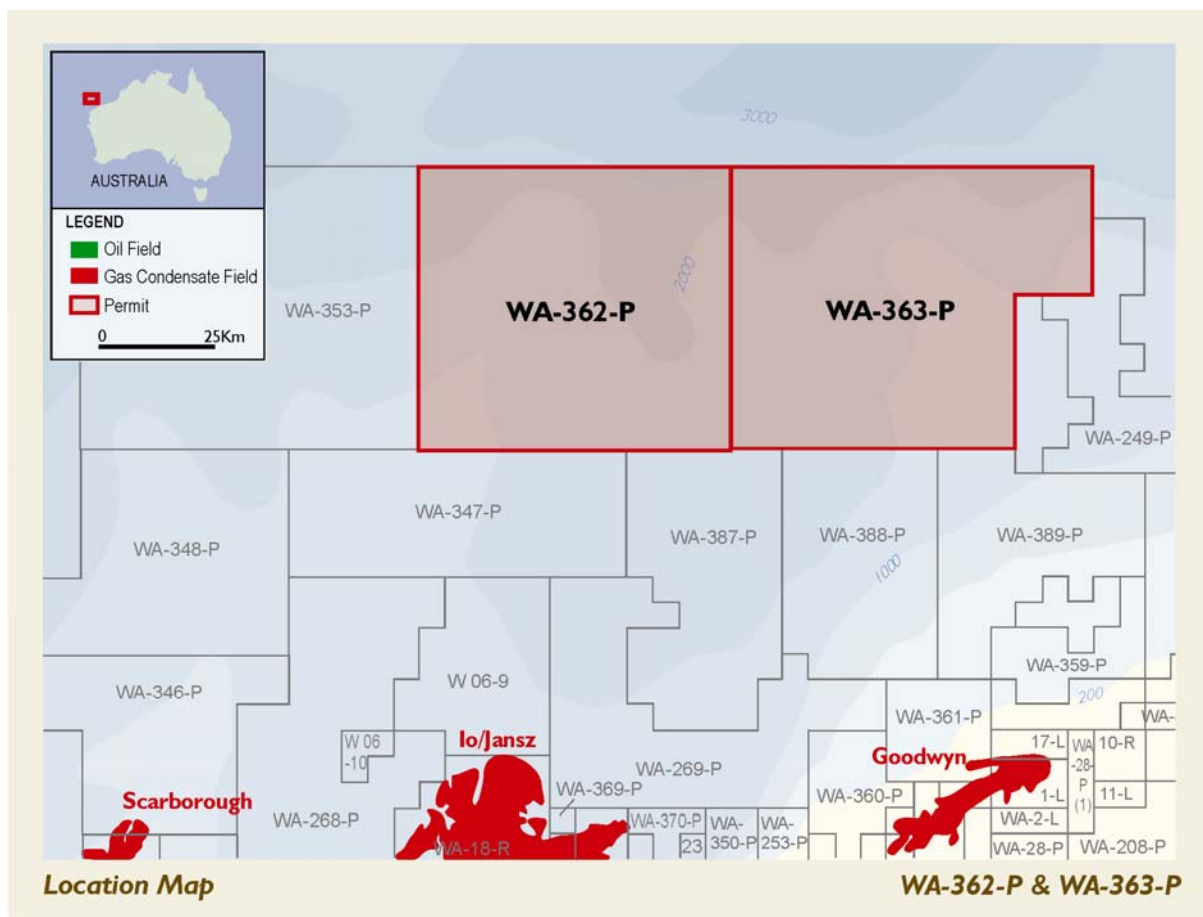
## **DIRECTORS' REPORT (Continued)**

We are investigating whether a 3D seismic survey in this geology or electro-magnetic imaging would enable us to visualise the structure and stratigraphy better or, in the case of electro-magnetic imaging, the presence of hydrocarbons.

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 gas to supply the proposed Pluto LNG development is anticipated, so that any gas discovery in our permits would be valuable and capable of monetisation.

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

During the half year, Octanex disposed of 21% of its 35% interest in the two Outer Exmouth Plateau exploration blocks known as WA-362-P and WA-363-P by entering into a joint venture with OMV Australia Limited (“OMV”) and ENI Australia Limited (“ENI”). The permits, which cover an area of approximately 21,765 kms<sup>2</sup>, are on the northern margin of the Exmouth Plateau, 300-400 kms north west of the Western Australian 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. A map (below) shows the location of the two permits.



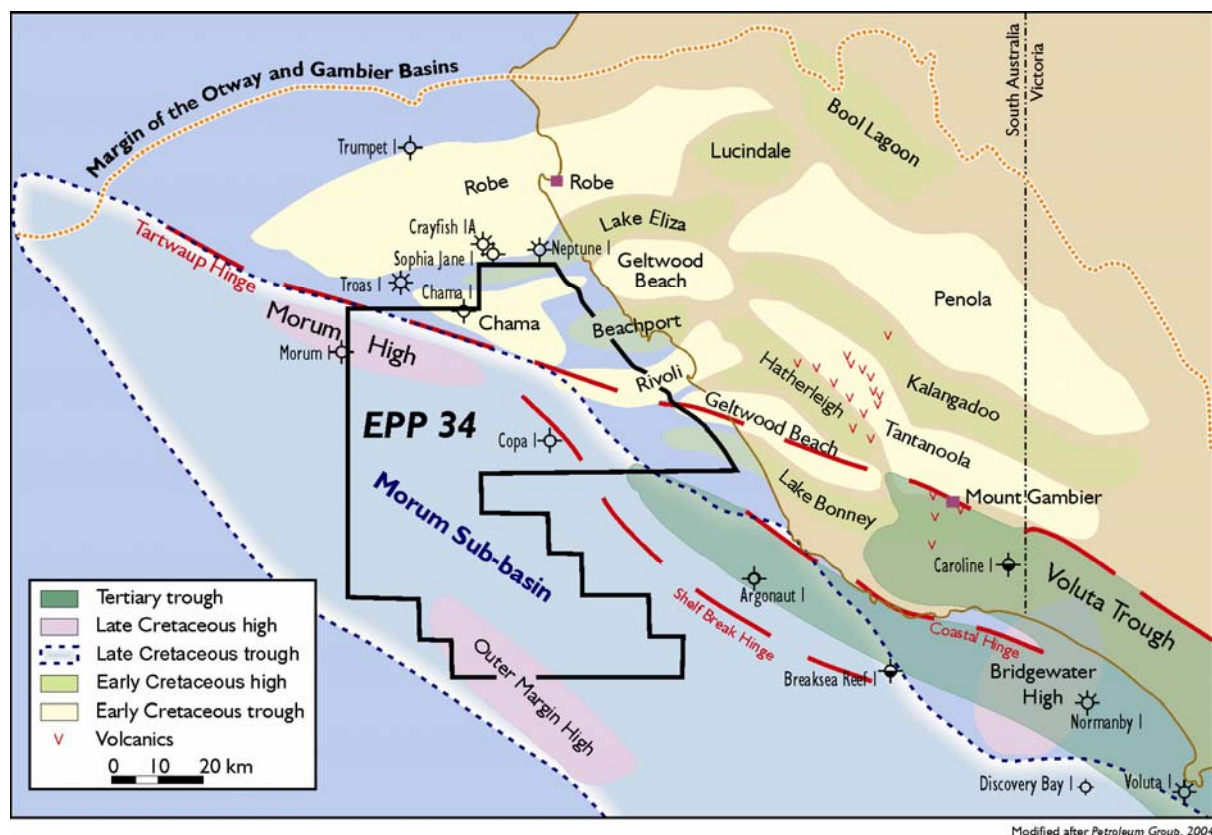
## DIRECTORS' REPORT (Continued)

As part of the arrangements establishing the new joint venture, Octanex has agreed to assign a 21% interest in each permit for a monetary amount, retaining a 14% equity interest in each permit. OMV and ENI have in turn agreed to acquire and process at least 1100 kms of 2D seismic data in each permit. This will meet all the current and future seismic work obligations for each permit. OMV and ENI also have the right under the farmin agreement to earn a further 7% interest from Octanex in each permit (leaving Octanex with a then retained 7% interest in each permit) by meeting all the costs of Octanex for the first two wells that the farminees may elect to drill in each permit.

Octanex is delighted to have concluded this arrangement with two world class operators, each of which have a significant presence in Australia and in circumstances where both OMV and ENI have made plain their intention to comprehensively explore the two permits.

### Western Otway Joint Venture – EPP 34

EPP 34, in which Octanex has an indirect 15% interest through its 50% interest in the joint venture company, United Oil & Gas Pty Ltd, 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 1,100 line km 2D seismic survey is planned for Q2, 2008.



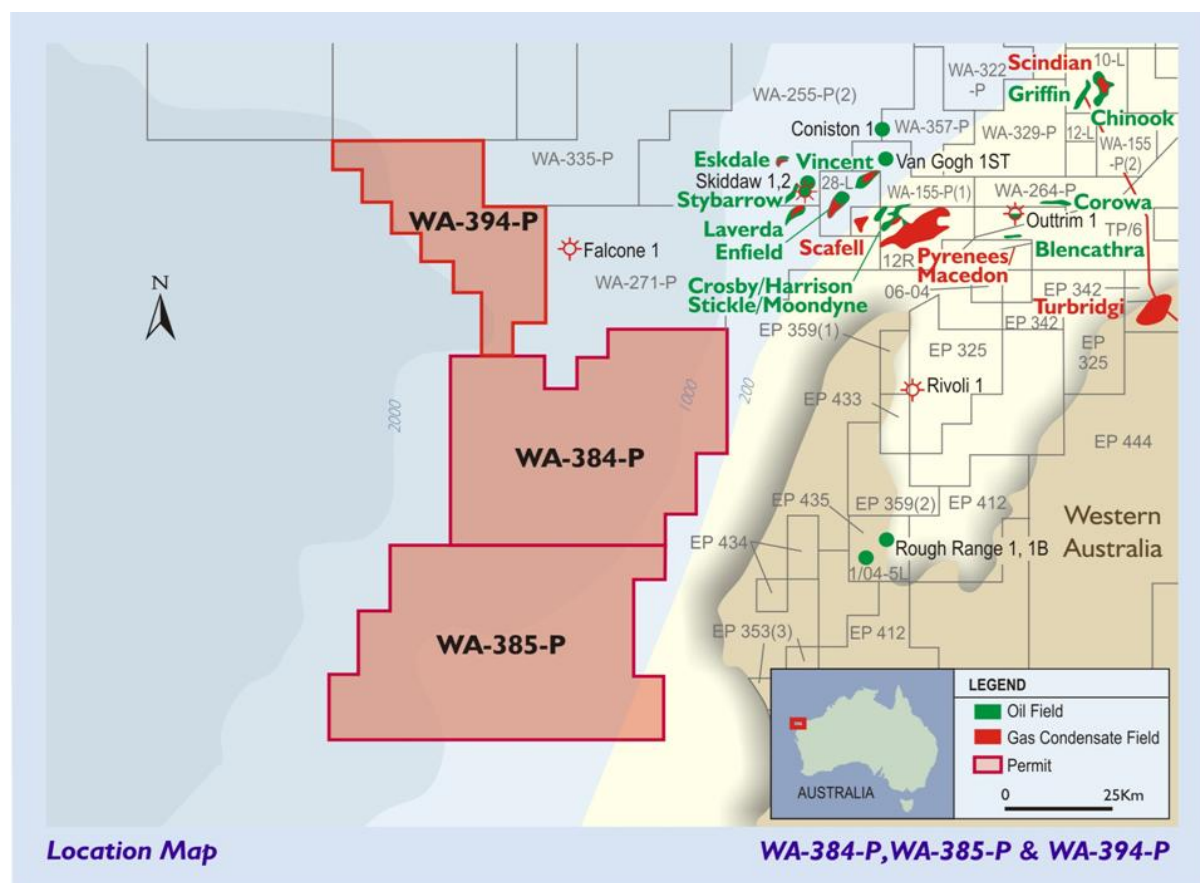
## **DIRECTORS' REPORT (Continued)**

### **Southern Exmouth Joint Venture – WA-384-P, WA-385-P and WA-394-P**

This project area is being explored in WA-384-P and WA-385-P, are located in the southern Exmouth Sub-basin. In late 2007 a further exploration permit, WA-394-P, adjacent to WA-384-P was also granted. A further 375 km of 2D seismic will be shot in this permit. The joint venture has committed to shoot not less than 2,175 line km of 2D seismic survey over the permits.

On 22 February 2008, Octanex announced that it had entered into an agreement with Shell Development (Australia) Pty Ltd (Shell) for the disposition of the 50% working interest of Octanex in each of WA-384-P, WA-385-P and WA-394-P. Octanex's co-venturer in the permits, Strata Resources NL (Strata) has also entered identically worded agreements such that Shell has agreed to acquire a 100% working interest in the permits.

For further detail see Note 9 Subsequent Events in the Notes to the Financial Statements.



## **INVESTMENTS**

The company's remaining investments comprises a shareholding in Cue Energy Resources Ltd ("Cue").

The company has disposed of all of its shares in MEO Australia Limited.

The Octanex Group presently holds 36,380,140 shares of the issued capital of Cue.



## **DIRECTORS' REPORT (Continued)**

Cue's main activities are in Papua New Guinea, Indonesia and New Zealand. In Papua New Guinea, Cue holds a current 3.86% economic interest in the production from the unitised SE Gobe oilfield. Cue's Indonesian project is the Sampang PSC (15%), which it holds in joint venture with Santos Ltd (45%) and others. This joint venture has made the Oyong oil and gas discovery, which is located offshore East Java, in the Madura Strait of Indonesia and is being developed for future oil and gas production. In New Zealand, Cue holds a 5% interest in PEP38413, the permit that contains the Maari oil field in the offshore Taranaki Basin and which is also under development.

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](http://www.cuenrg.com.au)

## **AUDITOR'S INDEPENDENCE DECLARATION**

The Company has obtained an independence declaration from the auditor, BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd, a copy of which is attached to this report.

## **WEBSITE**

The Company has a website at [www.octanex.com.au](http://www.octanex.com.au) where relevant Company documents are displayed.

On behalf of the Board



E.G. Albers  
Director

Melbourne, 13 March 2008

## **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 comprising the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity and the accompanying 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 13 March 2008

**INCOME STATEMENT**  
**HALF-YEAR ENDED 31 DECEMBER 2007**

	NOTE	31/12/2007 \$	CONSOLIDATED 31/12/2006 \$
Income	3	10,527,235	47,040
Expenses	3	<u>(286,682)</u>	<u>(145,572)</u>
Profit (loss) before income tax		10,240,553	(98,532)
Income tax (expense) benefit		<u>(3,075,977)</u>	<u>36,939</u>
Profit / (loss) after income tax		<u>7,164,576</u>	<u>(61,593)</u>
Basic earnings (loss) per share		0.144	(0.001)
Diluted earnings (loss) per share		0.144	(0.001)

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



**BALANCE SHEET**  
**AT 31 DECEMBER 2007**

	<b>CONSOLIDATED</b>	
	<b>31/12/2007</b>	<b>30/6/2007</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	12,979,257	2,681,902
Trade and other receivables	<u>105,776</u>	<u>46,611</u>
<b>TOTAL CURRENT ASSETS</b>	<b><u>13,085,033</u></b>	<b><u>2,728,513</u></b>
<b>NON-CURRENT ASSETS</b>		
Other financial assets	7,706,381	9,759,189
Exploration costs	<u>1,143,514</u>	<u>1,089,069</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<b><u>8,849,895</u></b>	<b><u>10,848,258</u></b>
<b>TOTAL ASSETS</b>	<b><u>21,934,928</u></b>	<b><u>13,576,771</u></b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	182,901	138,626
Current tax liabilities	<u>3,090,586</u>	<u>33,217</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>3,273,487</u></b>	<b><u>171,843</u></b>
<b>NON-CURRENT LIABILITIES</b>		
Provision for share based payment	43,587	-
Deferred tax liability	<u>2,099,762</u>	<u>2,694,758</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b><u>2,143,349</u></b>	<b><u>2,694,758</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>5,416,836</u></b>	<b><u>2,866,601</u></b>
<b>NET ASSETS</b>	<b><u>16,518,092</u></b>	<b><u>10,710,170</u></b>
<b>EQUITY</b>		
Issued capital	3,956,700	3,956,700
Reserves	3,893,579	5,250,233
Retained earnings	<u>8,667,813</u>	<u>1,503,237</u>
<b>TOTAL EQUITY</b>	<b><u>16,518,092</u></b>	<b><u>10,710,170</u></b>

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

**CASH FLOW STATEMENT  
FOR THE HALF-YEAR ENDED  
31 DECEMBER 2007**

	<b>CONSOLIDATED</b>	
	<b>31/12/2007</b>	<b>31/12/2006</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers - exploration	(100,206)	(58,083)
Payments to suppliers - other	(145,679)	(39,945)
Proceeds from sale of tenements	7,432,654	-
Receipts from joint venture participants	-	154,427
Interest received	<u>224,158</u>	<u>47,681</u>
Net cash from operating activities	<u>7,410,927</u>	<u>104,080</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from sale of investments	<u>2,889,616</u>	-
Net cash from investing activities	<u>2,889,616</u>	<u>104,080</u>
Net increase in cash assets	10,300,543	104,080
Exchange gains (losses)	(3,188)	-
Cash assets at the beginning of the half-year	<u>2,681,902</u>	<u>1,680,185</u>
Cash assets at the end of the half-year	<u>12,979,257</u>	<u>1,784,265</u>

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

**STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	<b>CONSOLIDATED</b>				
	<b>Issued Capital \$</b>	<b>Asset Revaluation Reserve \$</b>	<b>Option Reserve \$</b>	<b>Retained Earnings \$</b>	<b>Total Equity \$</b>
At 1 July 2007	3,956,700	5,250,233	-	1,503,237	10,710,170
Investments disposed – revalued amount	-	(2,488,573)	-	-	(2,488,573)
Gain on revaluation of financial assets at fair value	-	1,509,756	-	-	1,509,756
Tax on items taken directly to equity	-	(452,927)	-	-	(452,927)
Cost of share options granted	-	-	75,090	-	75,090
Net income recognised directly in Equity	-	(1,431,744)	75,090	-	(1,356,654)
Profit for the period	-	-	-	7,164,576	7,164,576
Total recognised income and expense for the period	-	(1,431,744)	75,090	7,164,576	5,807,922
At 31 December 2007	<u>3,956,700</u>	<u>3,818,489</u>	<u>75,090</u>	<u>8,667,813</u>	<u>16,518,092</u>
At 1 July 2006	3,956,700	3,672,531	-	817,969	8,447,200
Net loss on revaluation of financial assets at fair value	-	(753,573)	-	-	(753,573)
Tax on items taken directly to equity	-	226,071	-	-	226,071
Net income recognised directly in Equity	-	(527,502)	-	-	(527,502)
Loss for the period	-	-	-	(61,593)	(61,593)
Total recognised income and expense for the period	-	(527,502)	-	(61,593)	(589,095)
At 31 December 2006	<u>3,956,700</u>	<u>3,145,029</u>	<u>-</u>	<u>756,376</u>	<u>7,858,105</u>

The 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 2007**

**NOTE 1 CORPORATE INFORMATION**

The financial report of Octanex NL (the company) for the half-year ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors on 13 March 2008. 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 2007.

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 2007 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, 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 2007, except for the need to apply a policy for share-based payment to such transaction occurring for the first time during this reporting period (Refer Note 2(d)).

**(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 2007 ('the group').

**(d) Share-based payment transactions**

Share-based compensation benefits are provided to Upstream Consulting Pty Ltd ("Upstream") under the terms of a Services Agreement which were agreed by a Directors Resolution on 31 July 2007. Information relating to the agreement is set out in Note 6 and Note 7.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)**

**(d) Share-based payment transactions (Cont)**

*Equity settled transactions*

The fair value of options granted under the Upstream Agreement is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

*Cash settled transactions:*

The Upstream Agreement also provides benefits to the consultant in the form of cash settled share-based payments, whereby service is rendered in exchange for cash, the amounts of which are determined by reference to the price of the phantom shares of Octanex issued to Upstream and movement in the share market price of Octanex.

The ultimate cost of these cash-settled transactions will be equal to the actual cash paid to Upstream, which will be the fair value at settlement date.

The cumulative cost recognised until settlement is a liability and the periodic determination of this liability is as follows:

- (i) at each reporting date between grant and settlement, the fair value of the phantom shares are determined;
- (ii) during the vesting period, the liability recognised at each reporting date is the fair value of the phantom shares at that date multiplied by the expired portion of the vesting period;
- (iii) from the end of the vesting period until settlement, the liability recognised is the full fair value of the liability at the reporting date; and
- (iv) all changes in the liability are recognised in profit or loss for the period.

The fair value of the liability is determined, initially and at each reporting date until it is settled, by applying a Black-Scholes option pricing model, taking into account the terms and conditions on which the phantom shares were granted, and the extent to which Upstream has rendered service to date.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	<b>31/12/2007</b>	<b>CONSOLIDATED 31/12/2006</b>
	\$	\$
<b>NOTE 3 EXPENSES AND INCOME</b>		
<b>(i) Income</b>		
Interest received	266,327	47,040
Foreign exchange gains	596,183	
Profit from sale of investments	2,882,154	-
Profit from sale of exploration tenement	<u>6,782,571</u>	<u>-</u>
	<u>10,527,235</u>	<u>47,040</u>
<b>(ii) Expenses</b>		
Administration fees - director related	79,458	60,180
Administration fees - other	66,147	33,252
Auditor's remuneration	11,500	12,000
Directors' remuneration	10,900	15,900
Exploration costs written off	-	24,240
Share based payments: deemed value of phantom shares and options at grant	<u>118,677</u>	<u>-</u>
Total Expenses	<u>286,682</u>	<u>145,572</u>

**NOTE 4 EXPLORATION EXPENDITURE COMMITMENTS**

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

Not later than 1 year	1,037,500	865,000
Payable later than one year but not later than three years	<u>-</u>	<u>2,885,000</u>
	<u>1,337,500</u>	<u>3,750,000</u>

In addition, if the Octanex group are to maintain its portfolio of tenement interests then it will have to make future binding commitments to carry out specified work programs within the next three year period in order to meet permit terms. We may also elect to carry out exploration over and above our minimum permit commitments or enter into new projects with expenditure obligations. Our estimate of the cost of such possible future (but not as yet committed) work obligations (over and above present actual committed work obligations) is as follows:

Not later than one year	450,000	-
Payable later than one year, but not later than a three years.	<u>40,000,000</u>	<u>20,000,000</u>
	<u>40,450,000</u>	<u>20,000,000</u>

Expenditure commitments include obligations arising from the minimum work obligations for the initial 3 year period of exploration permits and thereafter commitments made annually. Minimum work obligations, may, subject to negotiation and approval, be varied. They may also be satisfied by farmout, sale, relinquishment or surrender of a permit.

Commitments for expenditures within WA-363-P, WA-364-P and WA-394-P are now with ENI and OMV (see Directors Report) and have been excluded in the calculations above.

Commitments for expenditures within WA-384-P, WA-385-P and WA-394-P are now with Shell Development (Australia) Pty Ltd (Refer Note 9) and have been excluded in the calculations above.

Further detail of potential commitments are contained within the Directors Report.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

**NOTE 5 SEGMENT INFORMATION**

The group operates in Australia in the petroleum exploration industry

**NOTE 6 CONTRIBUTED EQUITY**

	<b>31/12/2007</b>		<b>30/6/2007</b>	
	<b>Shares</b>	<b>\$</b>	<b>Shares</b>	<b>\$</b>
<i>Ordinary Shares</i>				
Issued and fully paid	49,653,967	3,956,700	49,653,967	3,956,700

	<b>31/12/2007 Options</b>	<b>30/6/2007 Options</b>
Options outstanding over ordinary shares – listed	30,244,296	30,244,296

**Options over Unissued Shares**

***30 June 2008 Listed Options – exercisable at 25 cents***

The company has previously granted options, offered pro-rata to shareholders, over unissued shares in the company, exercisable at 25 cents on or before 30 June 2008, each option offered conferring the right to subscribe for one fully paid ordinary share. The options do not confer the right to dividends or to vote at meetings of members. Shares allotted on exercise of the options will rank pari passu in all respects with other fully paid ordinary shares. Each option will entitle the holder to participate in new issues in which shares or other securities are offered to members on the prior exercise of the option.

***Unlisted Options***

Under the terms of the Consultancy Services Agreement with Upstream Consulting Pty Ltd (“Upstream”), which were agreed by a Directors Resolution signed on the 31 July 2007, the following options to purchase ordinary fully paid shares in Octanex were granted to Upstream.

Tranche	Exercise Price	Exercisable on or before
1. 750,000	\$0.30	30 June 2008
2. 750,000	\$0.40	30 June 2009
3. 750,000	\$0.50	30 June 2010
4. 750,000	\$0.60	30 June 2011
5. 750,000	\$0.70	30 June 2012

**NOTE 7 PHANTOM SHARES**

Under the terms of the above-mentioned Upstream agreement (Refer Note 6) the following phantom shares were granted whereby the net difference in the value of Octanex shares at exercise date and initial price shall be paid to Upstream.

Tranche	Initial Price	Exercise Date
1. 750,000	\$0.30	30 June 2009
2. 750,000	\$0.40	30 June 2010
3. 750,000	Value as of 30 June 2008	30 June 2011
4. 750,000	Value as of 30 June 2008	30 June 2012
5. 750,000	Value as of 30 June 2008	30 June 2013



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

**NOTE 8 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 \$77,458 (2006: \$51,780). AP Armitage resigned as a director on 30 July 2007. During this period \$2,000 was paid to him for secretarial services (2006: \$8,400).

**NOTE 9 SUBSEQUENT EVENTS**

On 22 February 2008, Octanex announced that it had entered into an agreement with Shell Development (Australia) Pty Ltd (Shell) for the disposition of the 50% working interest of Octanex in each of WA-384-P, WA-385-P and WA-394-P. Octanex's co-venturer in the permits, Strata Resources NL (Strata) has also entered identically worded agreements such that Shell has agreed to acquire a 100% working interest in the permits.

Under the agreements

- \* Shell has agreed it must either commit to a well before the start of Permit Year 5 (21 August 2010 in the case of WA-384-P and WA-385-P and 21 February 2011 in the case of WA-394-P) or reassign to Octanex for nil consideration a 50% interest in any permit where no well commitment is made.
- \* Shell has agreed to make a "Discovery Payment" to Octanex for any Discovery made in the permits but limited to a maximum of three Discovery Payments per permit.

Within six months of having made a discovery Shell must either:

- (i) Pay US\$2,500,000 to Octanex; or
- (ii) Reassign to Octanex a 50% interest in the permit in which the discovery was made.

Following the initial discovery payment, if Shell thereafter:

- (i) spuds an appraisal well in respect of the Discovery; or
- (ii) applies for a location, production licence or retention lease in respect of any Discovery;

then Shell must pay a further US\$2,500,000 to Octanex.

- \* Shell has granted in favour of Strata and Octanex a 0.5% overriding royalty payable on the basis of the gross assessable petroleum receipts recovered from a permit.
- \* Shell has agreed it will make a cash payment to Octanex of US\$5,000,000 with respect to each of the permits. These funds will be held in escrow until approval from the Designated Authority.
- \* If at any time Shell wishes to exit from any permit a 50% interest in the relevant permit must be offered back to Octanex.
- \* The agreements are subject to the usual regulatory approvals from the Designated Authority.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

**NOTE 9 SUBSEQUENT EVENTS (Cont)**

Shell is a world class operator and is committed to the conduct of a thorough assessment of the exploration potential of the three permits. While Octanex no longer has any direct equity interest in the permits it retains significant access to the upside exploration potential in the permits through the mechanism of the Discovery Payments described above and the Overriding Royalty.



## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Octanex NL

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Octanex N.L., which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entity it controlled at the half-year.

#### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the disclosing entity 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 the disclosing entity's financial position as at 31 December 2007 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 N.L., 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*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's review report was made.

### *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 N.L. is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 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.



**BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd**



**Nicholas E. Burne**

Director

Melbourne  
13 March 2008



BDO Kendalls

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**UNQUALIFIED INDEPENDENCE DECLARATION BY LEAD AUDITOR FOR HALF-YEAR  
REVIEW CONDUCTED UNDER CORPORATIONS ACT**

**DECLARATION OF INDEPENDENCE BY NICHOLAS E. BURNE TO THE DIRECTORS OF  
OCTANEX N.L.**

As lead auditor for the review of Octanex N.L. for the half-year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

**BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd**

**NICHOLAS E. BURNE**

Director

Melbourne  
13 March 2008