

OCTANEX N.L.

ABN 61 005 632 315

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2008

DIRECTORY

BOARD OF DIRECTORS

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

SECRETARY

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500 Collins Street,
Melbourne, Victoria 3000

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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
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STOCK EXCHANGE LISTING

National Stock Exchange of Australia Ltd
384 Hunter Street
Newcastle, NSW 2300 Australia
Website: www.newsx.com.au

NSX Code:

OCT	Ordinary Shares
OCTOF	Options 30 June 2009

INCORPORATED IN VICTORIA

13 March 1980

WEBSITE

www.octanex.com.au

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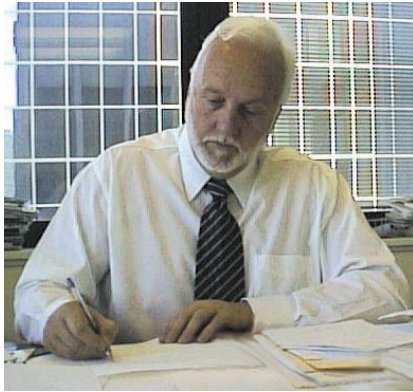
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FORWARD LOOKING STATEMENTS

This Financial 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.

CHAIRMAN'S REVIEW



Octanex NL has enjoyed a busy and fruitful year, with much activity, both in exploration and commercial terms, in all permits in which we hold interests.

The focus of most of this activity was in our acreage offshore from Western Australian where our exploration permits in the Southern Exmouth, Exmouth, Exmouth Plateau and the Dampier Sub-basin were all the subject of intense exploration and or commercial activity.

In the early part of 2007/2008 we farmed down our interests in two large permits, WA-362-P and WA-363-P, on the northern margin of the Exmouth Plateau, a largely unexplored deepwater frontier of the Carnarvon Basin, to OMV and ENI, two international companies of high repute. OMV and ENI have already shot 7,600 km of new 2D seismic in these and two other adjacent permits and are planning a large infill survey. If wells are drilled, we will be free carried through the first two wells in each of WA-362-P and WA-363-P. We look forward to taking advantage of any first-in-the-basin opportunities that may present as the first explorers in these untested blocks, and are encouraged by the early success of Hess and BHP in their outer Exmouth Plateau acreage.

In late 2007 we were advised that BHP and Apache intended to offer to reconvey to us WA-322-P and WA-329-P in the Exmouth Sub-basins, as the previous holders. Octanex and Strata elected to take the reconveyance, which was effected in early 2008. We also elected to purchase interpretative data from BHP and Apache, which has only recently been received. We have sought suspensions and variations to these permits while we review the last 3D seismic acquired by BHP/Apache and the interpretatives data. We plan to re-offer these permits for farmout in the near future.

In the Dampier Sub-basin we focussed on the Parker/Webley and Withnell/Cognac trends and decided to relinquish WA-321-P. However, we have increased our enthusiasm for WA-323-P and WA-330-P where we have developed a significant play in the Parker/Webley Trend. We now believe that the Parker 1 well was a significant gas discovery in the Triassic, thus opening up potential for a major gas/condensate/oil play in our two permits. Our dilemma was how to explore this area, given the renowned difficulty of seismic due to the carbonates in the strata. For a more detailed discussion on our activities in this important area, see the Review of Operations in the Directors Report.

We came to the conclusion that an OBC 3D seismic survey presented the best hope for being able to penetrate the carbonates and “see” what features may be represented by the Parker/Webley block. Serendipitously, the Geokinetics group of OBC survey vessels became available, located in near proximity to our permits, the only such group operating in Australia. There are no OBC operators in Australia, now, to our knowledge. We were able to secure the services of Geokinetics to undertake a high quality OBC 3D seismic survey over the most prospective parts of the Parker/Webley horst block.

We entered into a transaction with Geokinetics whereby, in return for their turn-key acquisition of the Winchester data, we and our joint venturer agreed to pay to Geokinetics a total of US\$9.75 million. We have already paid US\$2,500,000 to Geokinetics, with the balance payable in the future, but being subject to accelerated payments as certain trigger events occur. The principle events are the farmout or sale or renewal of the WA-323-P and WA-330-P permit. Given the location of the permits, we have formed the view these events are likely to occur within the next three years. This view is based on our assessment of the attractiveness of the

WA-323-P and WA-330-P assets, as amplified by the acquisition of the Winchester OBC data, and our success to date in entering into similar farmout and or sale transactions elsewhere in the region.

In the Southern Exmouth Basin we negotiated with and, late in the year, we settled an agreement with Shell Development Australia Pty Ltd to acquire 100% working interests in our three Southern Exmouth permits WA-384-P, WA-385-P and WA-394-P. We received a cash consideration for the conveyance as well as the potential for discovery bonus payments and a royalty payment.

In the Otway Basin we had planned to shoot two surveys; one in EPP34 and the other in Vic/P61. In both cases we encountered environmental issues and, in the case of Vic/P61, because of impossible environmental conditions we were unable to shoot the survey that we had planned and agreed to acquire. We were able to complete our EPP34 survey in the South Australia offshore section. We are reviewing our options in Vic/P61, given the environmental difficulties associated with our survey.

A more detailed description of all of our exploration activities is contained in the Directors Report under the heading Review of Operations.

After fully disposing of our investment in MEO, we decided to re-invest a small proportion of our working capital in Babcock and Brown Power and Orion Petroleum. Unfortunately, Babcock and Brown Power have recently announced large write-downs in values of assets, and its securities have come under even price greater pressure, following our purchase. We are watching developments with interest.

We have spent a considerable amount of time planning and are well-advanced in the process of a merger of interest with our joint venture participant, Strata Resources NL. We plan to provide the consideration in shares in the Company for a Scheme between Strata Resources and its shareholders, as a result of which Octanex NL would become the owner of Strata Resources NL. Any action will be subject to shareholder approval.

Our board of directors reduced in size early in the financial year with the resignations of Mr CR Hart and Mr AP Armitage. We thank them for their services to the Company. No action will be taken to add to the membership of the Board until after the proposed merger with Strata is consummated.

Upstream Consulting Pty Ltd, the principal of which is Mr JMD Willis, ably assisted us in the administration of the Company, particularly its many commercial activities.

Given the uncertainty resulting from the proposed Scheme of Arrangement involving Strata Resources NL and the significant increase in capital that will result, and because of the then uncertainty about the settlement of the Shell transaction (see above), we decided to offer to extend the Company's 30 June 2008 Options that had been issued to shareholders who had supported our earlier Prospectus share issue when we first gained admittance to the National Stock Exchange. This offer was well received and appreciated by our members. As a result, a large proportion of Options were extended to 30 June 2009.

At this time, it is hard to envisage that we will be able to repeat the somewhat hectic activity and successful outcomes of 2007/2008 in the current year. But our main objective is to merge Octanex and Strata, giving us the critical mass and working capital to be able to undertake more expansive moves.

We thank you for your support, and to the shareholders who expressed their appreciations for our efforts, we sincerely thank them.

Our plan is, as always, to generate significant value for shareholders in the medium to long term. We remained as committed as ever to that objective.



E.G. Albers
Chairman
12 September 2008

DIRECTORS' REPORT

The directors present their report on the results of Octanex NL (the “company” or “Octanex”) for the year ended 30 June, 2008.

DIRECTORS

The directors in office during the entire year (except as noted) and to the date of this report are:-

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

Mr Albers is a company director with over 30 years experience as a lawyer and administrator in corporate law, petroleum exploration and resource sector investment. Mr Albers has sponsored the formation of companies that have made the original Maari (Moki) oilfield discovery/development in New Zealand, the Yolla Gas/Condensate discovery in Bass Strait, the Oyong oil and gas discovery/development in Indonesia and the SE Gobe oilfield development in Papua New Guinea.

During the past three years and to the date of this report Mr Albers has also served as a director of stock exchange listed companies MEO Australia Limited, Bass Strait Oil Company Ltd, Moby Oil & Gas Limited and Cue Energy Resources Limited. He is a member of the Petroleum Exploration Society of Australia.

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 G Menzies (Director since 26 August 2003) Independent non-executive director

Graeme Menzies is a barrister and solicitor. He graduated from Melbourne University in 1971 and qualified for admission to the degree of Master of Laws in 1975. He was admitted to practice in 1972. Since 1987 he has carried on practice as a sole practitioner under the name of Menzies & Partners. In the course of his legal practice, Mr. Menzies has been involved in a wide range of activities, including takeovers, litigation in respect thereof, numerous capital raisings and corporate reconstructions. He has been involved in the listing or relisting of a large number of public companies ranging from junior exploration to substantial mining companies. Over recent years, his activities have focused primarily on corporate reconstructions and capital raisings.

Mr Menzies has been a director of a number of stock exchange listed public companies. During the past three years he has served as a director of Moby Oil & Gas Ltd, Papyrus Australia Ltd, Oil Basins Limited and China Cattle Limited.

Mr AP Armitage (Director 15/1/1997 to 30/07/07) Independent non-executive director

Mr Armitage is a Fellow of the Institute of Chartered Accountants in Australia with over 30 years practical 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 Armitage resigned his directorship during the year.

COMPANY SECRETARY

Mr DB Hill

Mr Hill was appointed as Company Secretary on 17 September 1997. David Hill began his professional career with an international accounting firm and since 1980 has held office in a number of listed exploration companies active in the mining and oil and gas sectors in Australia and New Zealand, concentrating on fiscal aspects of project modelling and procurement of capital.

DIRECTORS' REPORT (Continued)**BOARD MEETINGS**

The table below sets out the number of meetings of the board of directors held during the year and the number of meetings attended during each director's period of office.

	Meetings Held	Meetings Attended
EG Albers	4	4
PJ Albers	4	4
GA Menzies	4	4

Following reduction of the number of directors to three, audit committee were activities suspended, with the board undertaking all committee functions.

DIRECTORS' INTERESTS

At the date of this report the relevant interests of each of the directors in the company's securities were:

	Ordinary Shares	30/6/2009 Options
EG Albers	29,802,900	20,527,490
PJ Albers	27,476,941	18,850,970
GA Menzies	-	50,000

The above interests of EG Albers and PJ Albers include 25,764,441 shares and 18,850,910 options in which each director is deemed to hold a relevant interest.

PRINCIPAL ACTIVITIES

The principal activities of the company during the year were petroleum exploration and investment in that sector.

OPERATING RESULT FOR THE YEAR

The economic entity, being the company and its controlled entity recorded a profit for the year after income tax of \$17,865,746 (2007: \$685,268).

CHANGE IN STATE OF AFFAIRS

During the financial year, there was no significant change in the state of affairs of the company, other than as referred to in this report, the financial statements and the notes thereto.

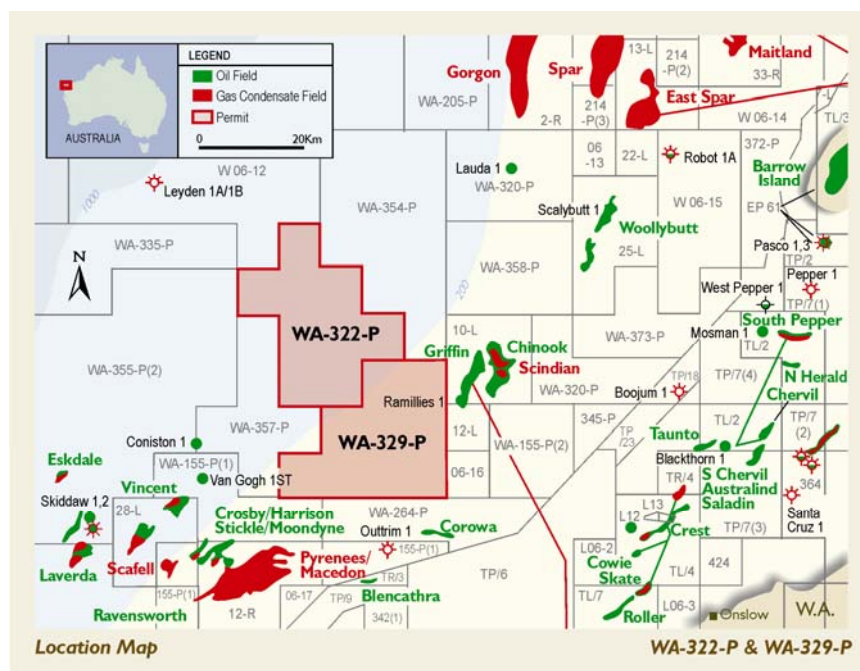
DIVIDENDS

No dividend was proposed, recommended or paid during the year and to the date of this report.

REVIEW OF OPERATIONS

WA-322-P AND WA-329-P EXMOUTH SUB-BASIN (Octanex 50%)

Octanex N.L.	50% and Operator
Strata Resources N.L.	50%



The joint venture is in the process of interpreting and reassessing of permit prospectivity.

DIRECTORS' REPORT (Continued)

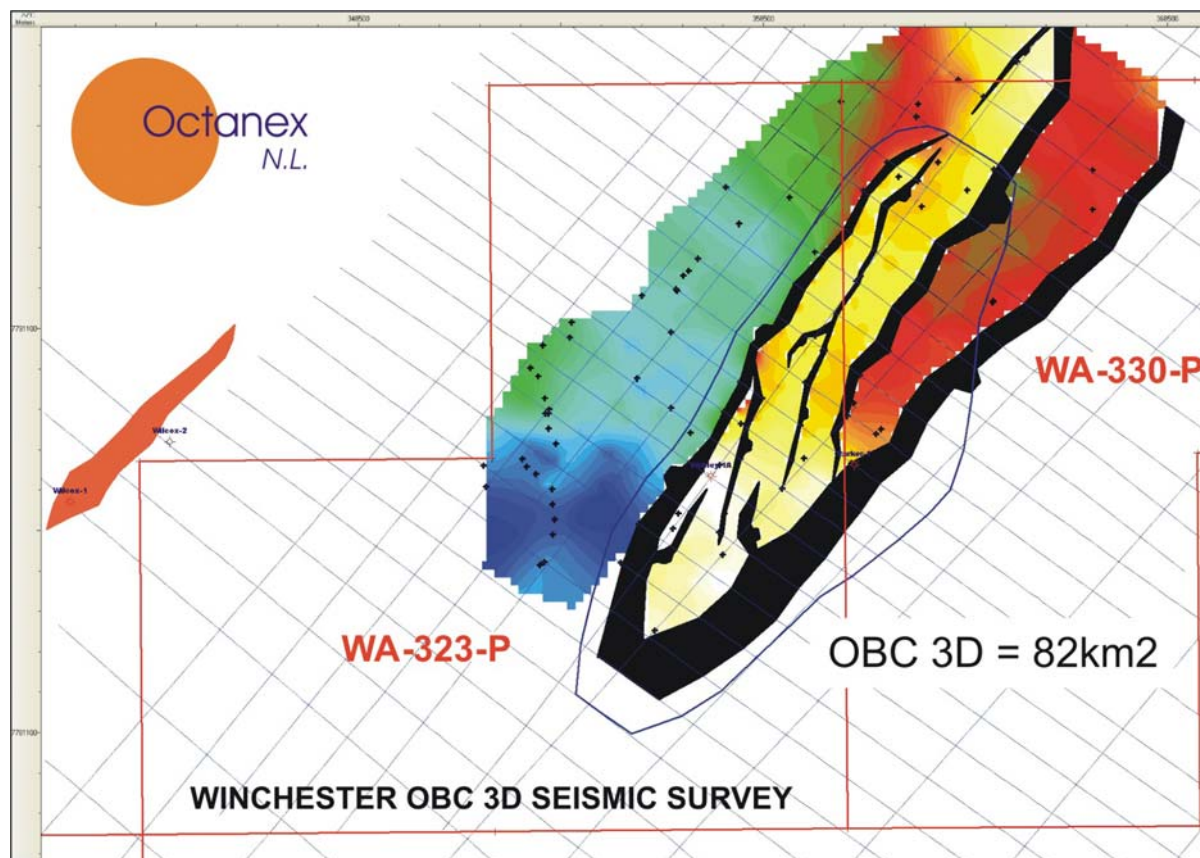
WA-323-P & WA-330-P DAMPIER SUB-BASIN (Octanex 50%)

The above joint venture consists of:

Octanex N.L.	50% and Operator
Strata Resources N.L.	50%

Octanex holds a 50% interest in the Dampier Project which now consists of two contiguous tenements, WA-323-P and WA-330-P, which comprise a discrete project area of 640 kms². Previously, 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 was the subject of a relinquishment during the year following interpretation of that seismic survey.

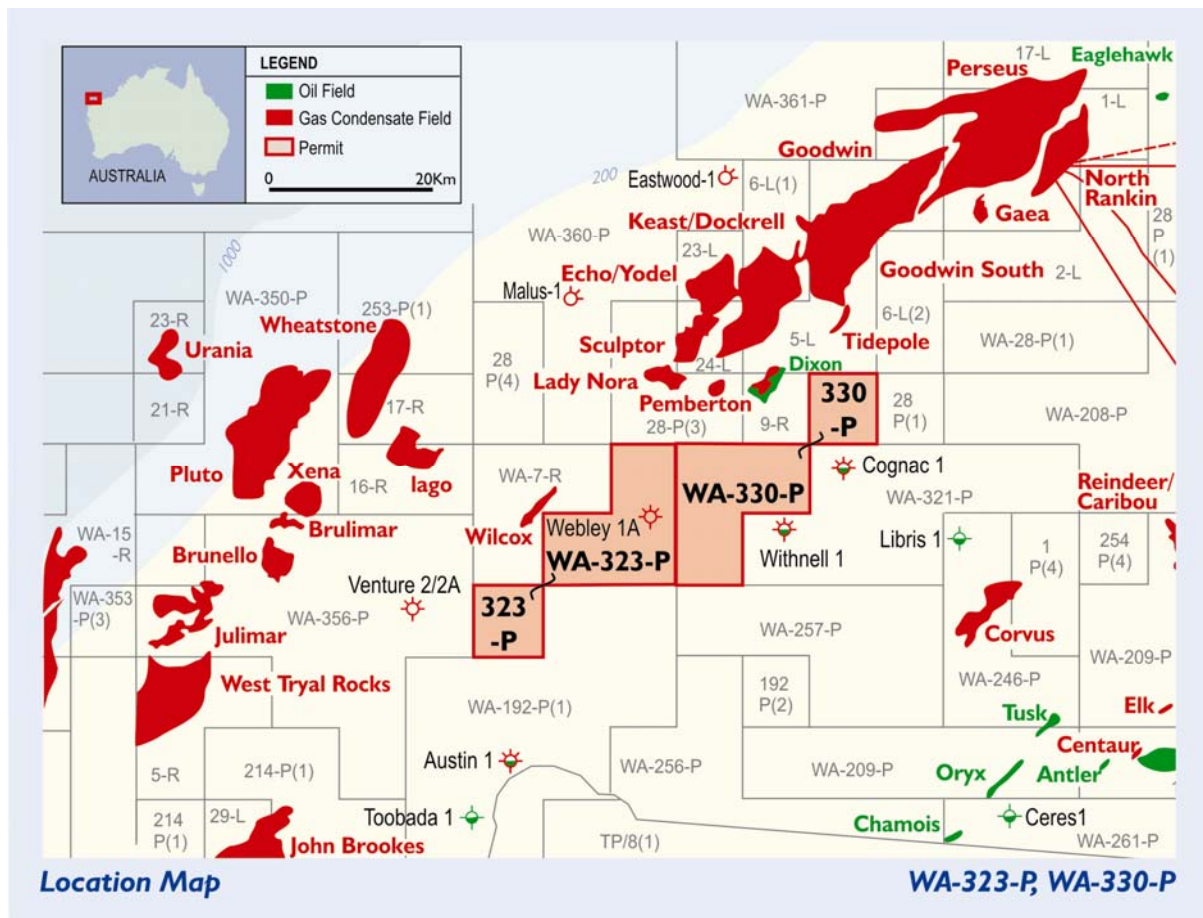
At the close of the year Octanex, with its co-venturer, Strata Resources NL, entered into a US\$9.75 million agreement with Geokinetics (Australasia) Pty Ltd and commenced the acquisition of an off-bottom cable (OBC) 3D seismic survey within WA-323-P and WA-330-P. The total outline area of the survey was some 195 km², of which approximately 82 km² was the subject of high-fold data acquisition, while the remaining perimeter outside the 82 km² area provides further, less intensive, seismic data (see below).



The main area of joint venture focus is a potential drape trap over the Webley/Parker horst structure. This has been identified by the joint venture and named the Winchester Prospect. It is seen as having potential for Triassic and or Early Jurassic structural traps.

The general region is proven for the formation, location and production of both oil and natural gas. Major commercial hydrocarbon discoveries in proximity to the permits include the giant gas and condensate fields of the North West Shelf; these being Goodwyn, North Rankin and Perseus, while the significant oil fields in Lambert, Wanaea and Cossack are in the same region. Recently, sizeable new gas discoveries have been made at Julimar, Brunello, Brulimar, Xena, Pluto and Wheatstone, to the immediate west of the permits, while the Lady Nora and Pemberton discoveries have been made to the north.

DIRECTORS' REPORT (Continued)

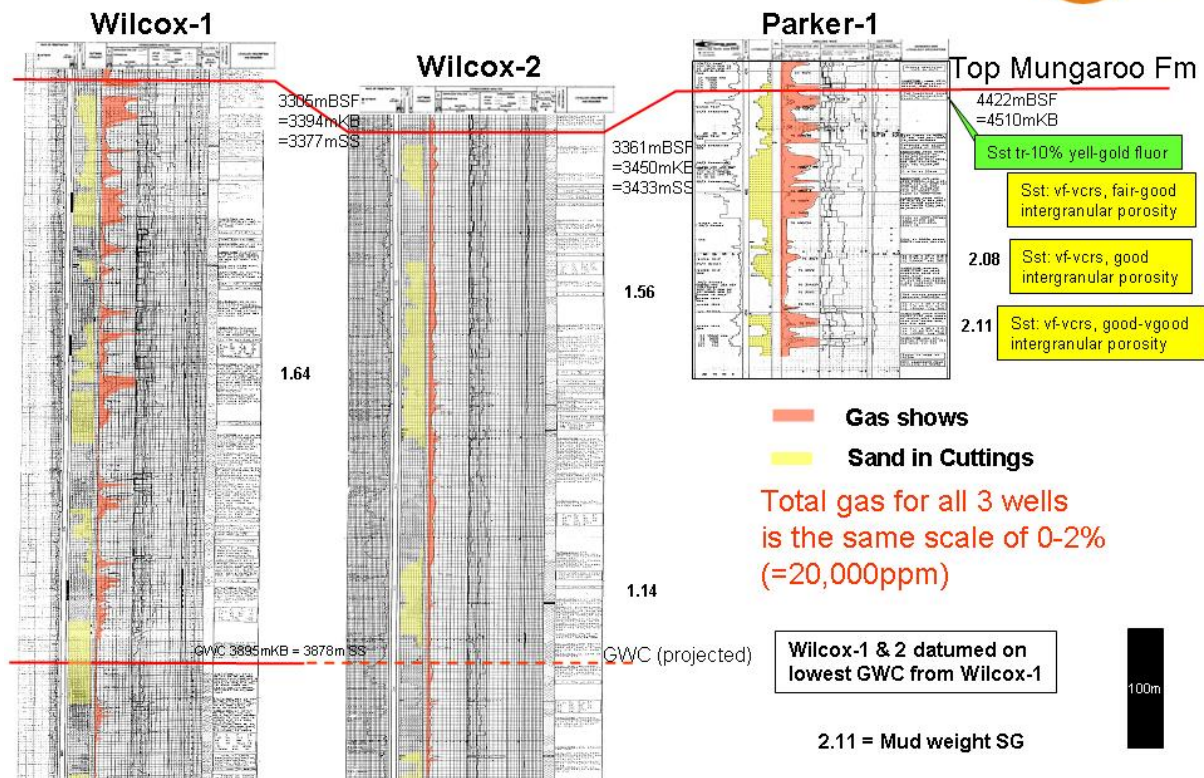


The joint venture's aim is to demonstrate that there is a structure at Winchester, with potential Triassic Mungaroo reservoirs, and with sufficient potential for liquid rich gas that it is worth drilling. In the vicinity there are two wells and five penetrations (Parker-1 + ST1 (1979/80) and Webley-1 + ST1 & 1A 1998/9). The joint venture believes that the Parker penetrations in 1979/80 demonstrated a gas discovery in the Triassic. None of the Webley-1 well penetrations were deeper than the upper part of the Early Cretaceous regional seal. Those Webley penetrations were therefore entirely invalid as regards their Jurassic/Triassic targets. The target previously seen by others in the Webley well remains undrilled.

The Parker-1 well penetrated Middle Jurassic shales on a terrace, but because of drilling problems was not logged before TD. The well ended in stacked sands and shales. The Parker well was then side tracked, but again the sands were not logged due to rig (anchor chain broke) and subsequent drilling problems. The sands in the Parker-1 well and Parker-1 Side Track both contained strong gas shows (see below). 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. The joint venture therefore regards the Parker-1 penetrations as a Triassic gas discovery in the Mungaroo sands.

DIRECTORS' REPORT (Continued)

Parker-1 Gas Discovery compared with Wilcox-1 Gas Discovery



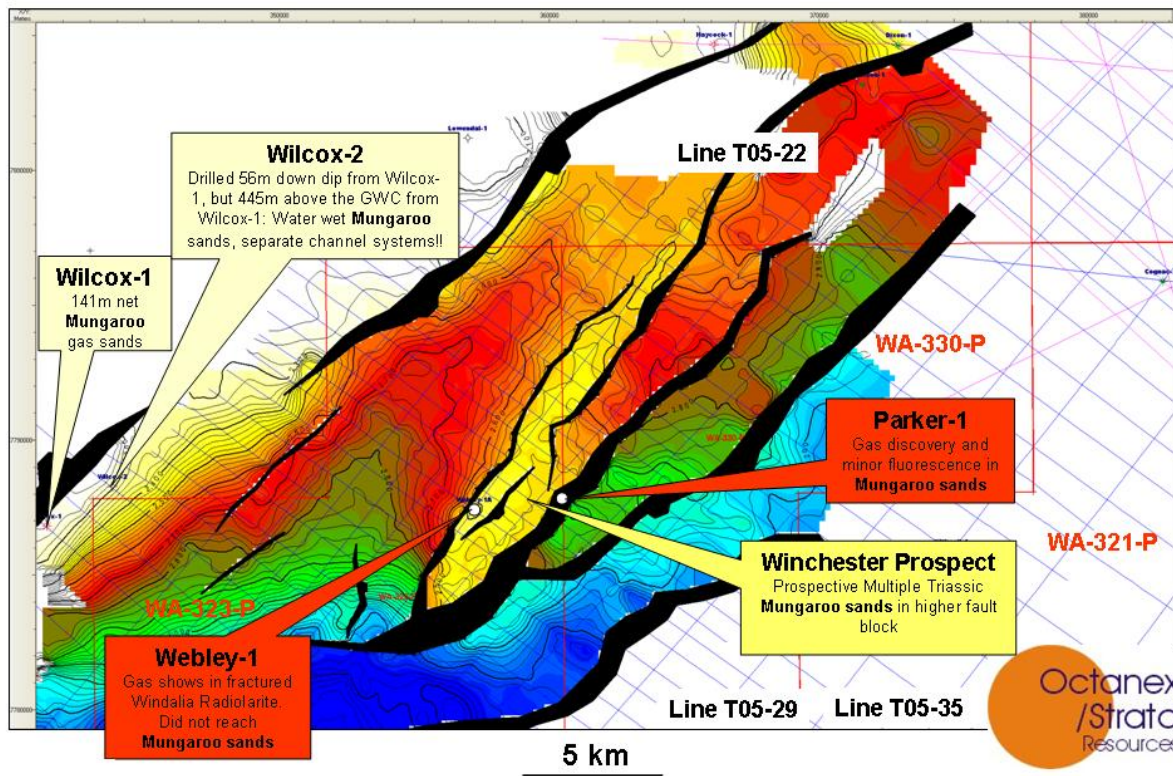
The prime purpose of the acquisition of the Winchester OBC 3D seismic survey is aimed at providing information and insight into the horst and will demonstrate the depth and extent of a closure of the Winchester feature.

The joint venture is confident that the Parker gas shows represent potential for a significant gas accumulation that extends updip into the Winchester horst to the west and possibly within the terrace block as well, in which event the trap would be larger.

The following diagram shows the juxtaposition of the Winchester Prospect to the Parker-1 gas discovery and the Wilcox gas discovery.

DIRECTORS' REPORT (Continued)

Parker/Webley Horst - Top Triassic TWT Map Winchester Prospect



In summary, the joint venture has incurred the substantial cost obligation (US\$9.75 million) for the OBC 3D seismic survey in order to visualise the structure and stratigraphy of the feature, in the anticipation that it may be a sizeable and attractive drilling target.

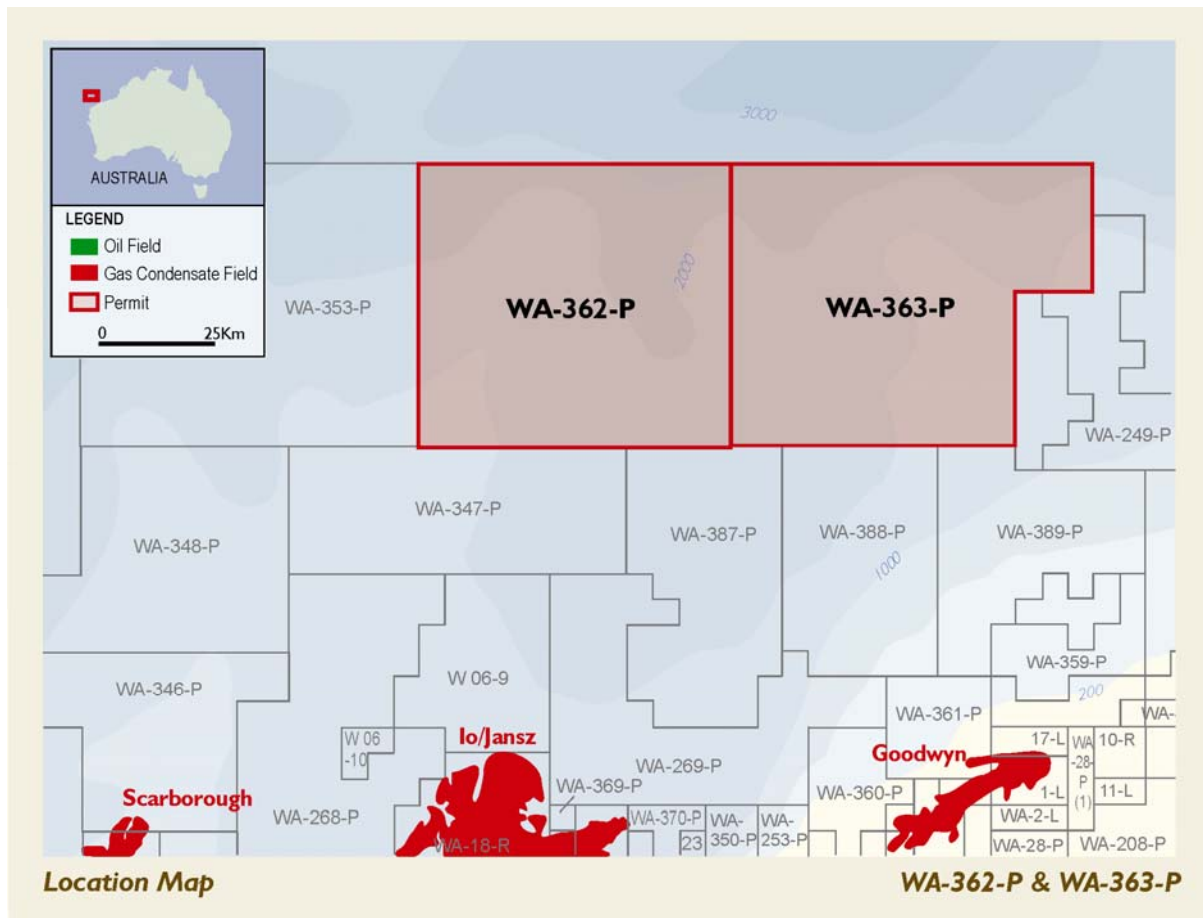
The proximity of existing infrastructure and likely future extensions, as well as new infrastructure, bodes well for any discovery, whether oil or gas in this project area. Significant future demand for gas to supply both domestic demand and the proposed Wheatstone and Pluto LNG developments are anticipated, so that any potential gas discovery made in our permits is seen as being valuable and capable of monetisation, particularly so, if such a gas discovery were to be rich in gas liquids.

WA-362-P & WA-363-P EXMOUTH PLATEAU (Octanex 14%)

OMV	30% and Operator
ENI	30%
Octanex NL	14%
Strata Resources NL	14%
Gascorp Australia Pty Ltd	12%

Octanex now holds a 14% interest in each of the two Outer Exmouth Plateau exploration blocks known as WA-362-P and WA-363-P following the entering into of a joint venture and farmin agreement with OMV Australia Limited ("OMV") and ENI Australia Limited ("ENI"). The permits, which cover an aggregate area of approximately 21,765 kms², 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)



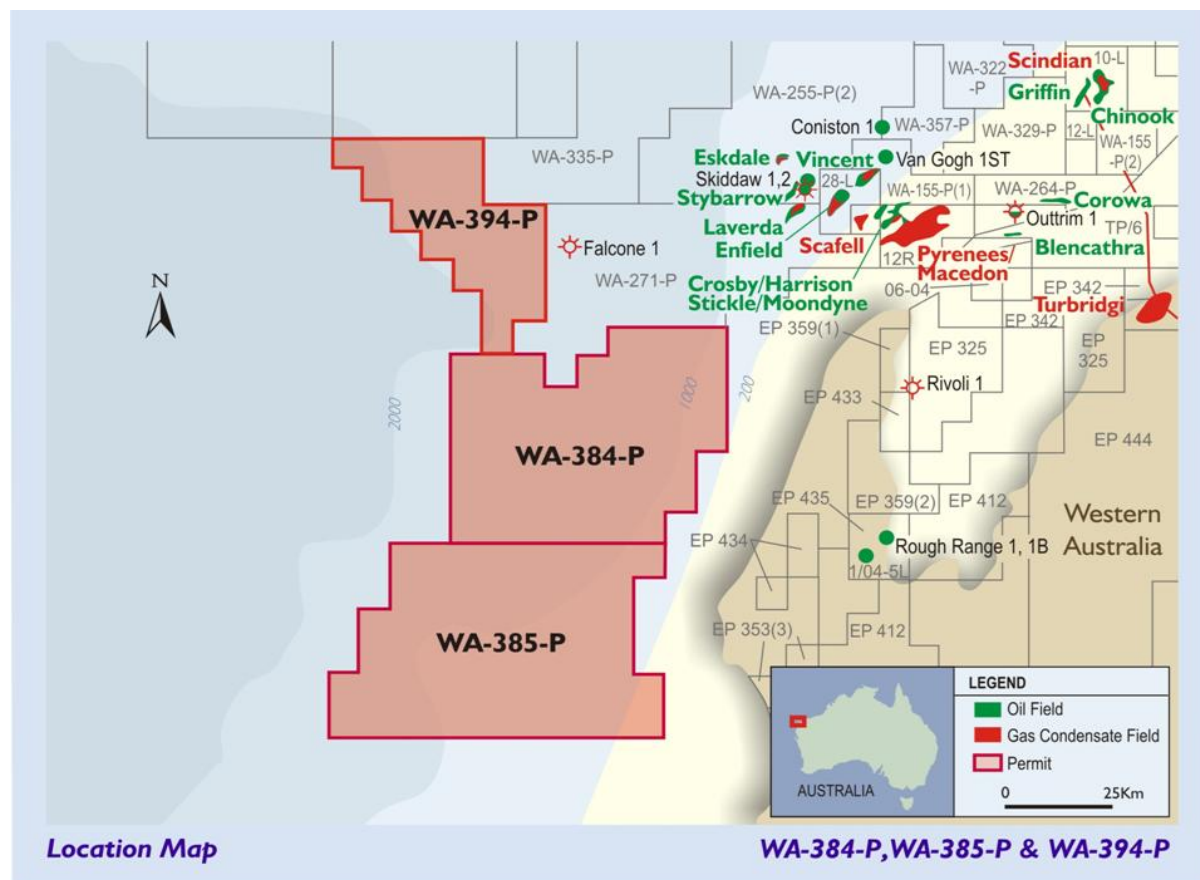
As part of the arrangements establishing the new joint venture, OMV and ENI have in turn agreed to acquire and process 2D seismic data in each permit. This will meet all the current and future seismic work obligations for each permit. OMV and ENI also have the right under the farmin agreement to earn 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.

During the year, the joint venture Operator, OMV, completed the acquisition of the 7,407 Klimt 2D seismic survey.

WA-384-P, WA-385-P AND WA-394-P SOUTHERN EXMOUTH SUB-BASIN

During the year Octanex concluded 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 acquired a 100% working interest in the permits. However, Octanex/Strata hold residual rights in each of the permits in the form of discovery payments and royalty, as well as rights of reconveyance.

DIRECTORS' REPORT (Continued)



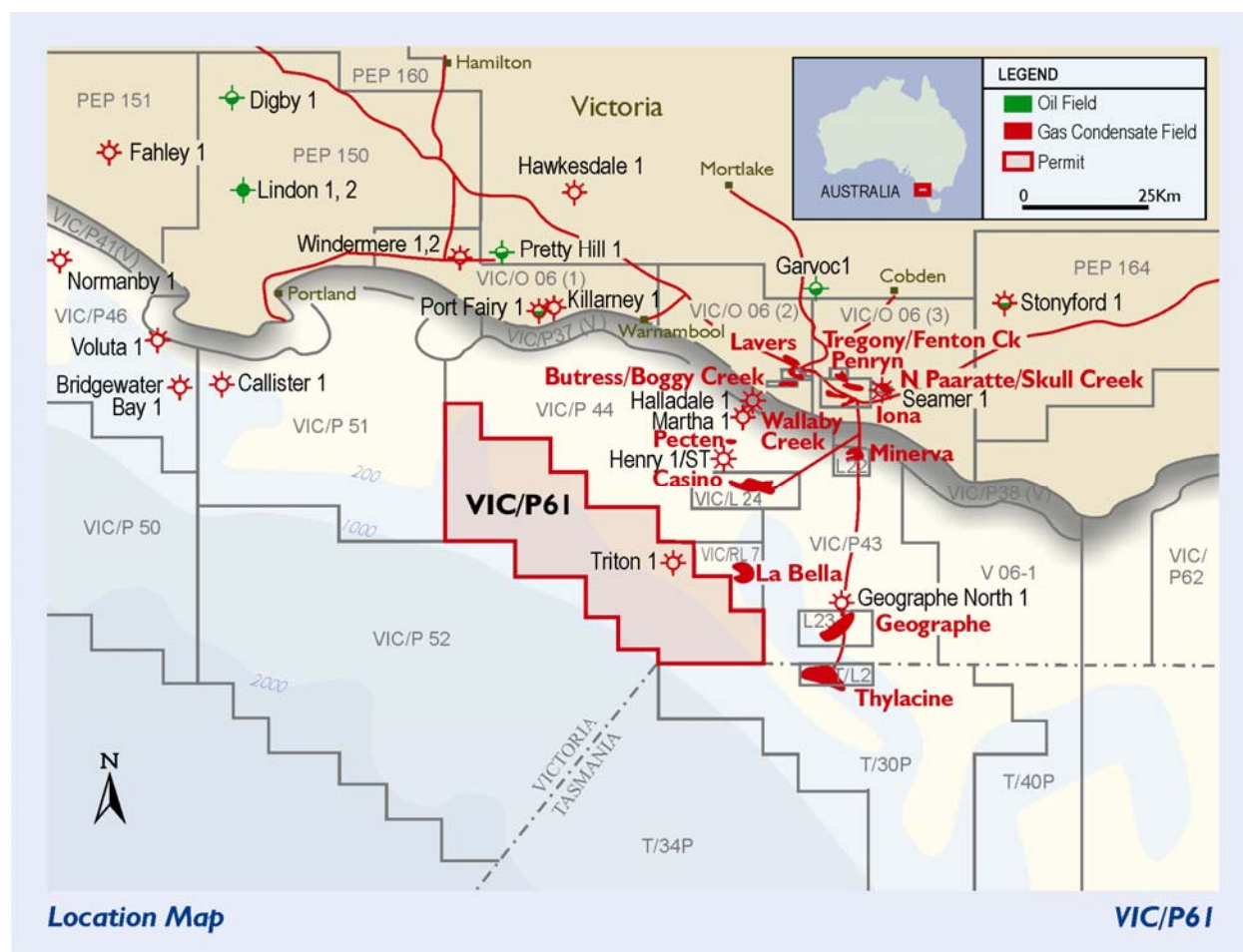
VIC/P61. OTWAY BASIN (Octanex 10% earning pursuant to farmin)

The Vic/P61 Joint Venture consists of:

Exoil Limited	30% and Operator
Gascorp Australia Pty Ltd	30%
Moby Oil & Gas Limited	20% earning pursuant to farmin
Octanex N.L.	10% earning pursuant to farmin
Strata Resources N.L.	10% earning pursuant to farmin

Octanex has agreed to earn a 10% interest in Vic/P61 in return for meeting a 10% share of past costs and future ongoing costs. A 2D seismic program in Vic/P61, was planned to take place in Q2, 2009, has been delayed indefinitely pending resolution of excessive environmental conditions. A review of the most efficient way to explore this Permit is to be undertaken.

DIRECTORS' REPORT (Continued)



EPP 34, OTWAY BASIN (Octanex 15%)

The EPP 34 Joint Venture consists of:

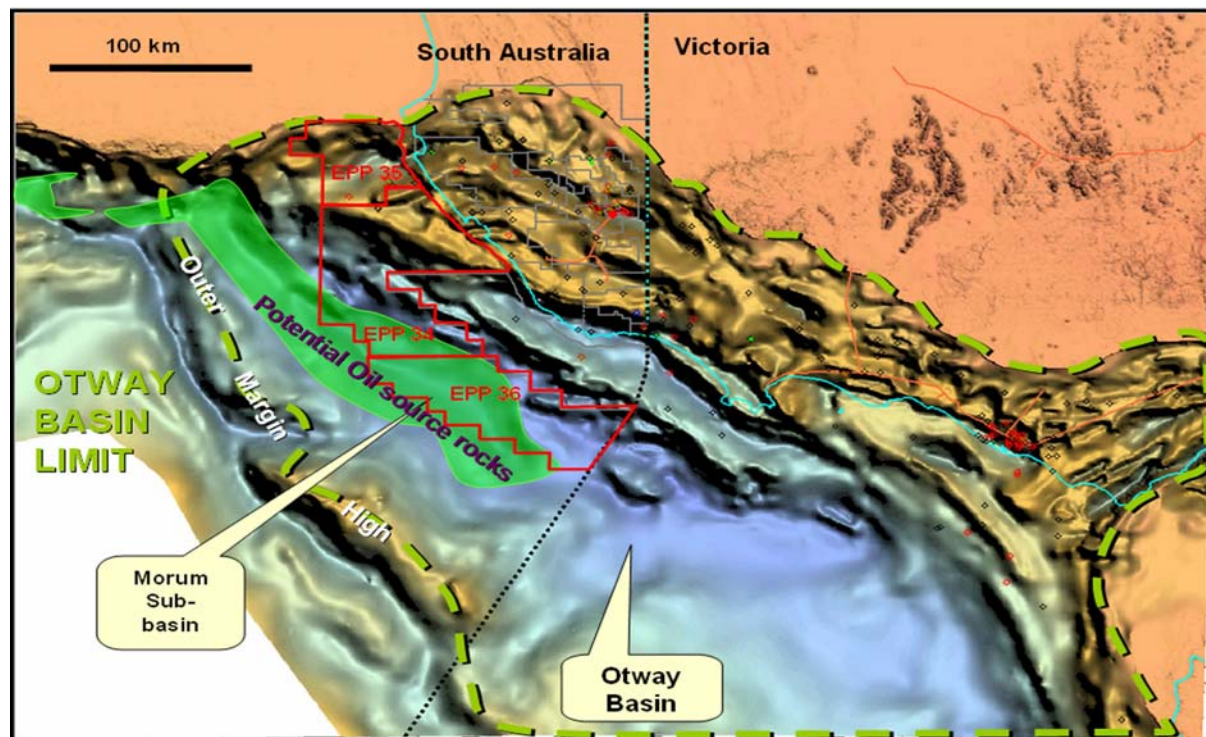
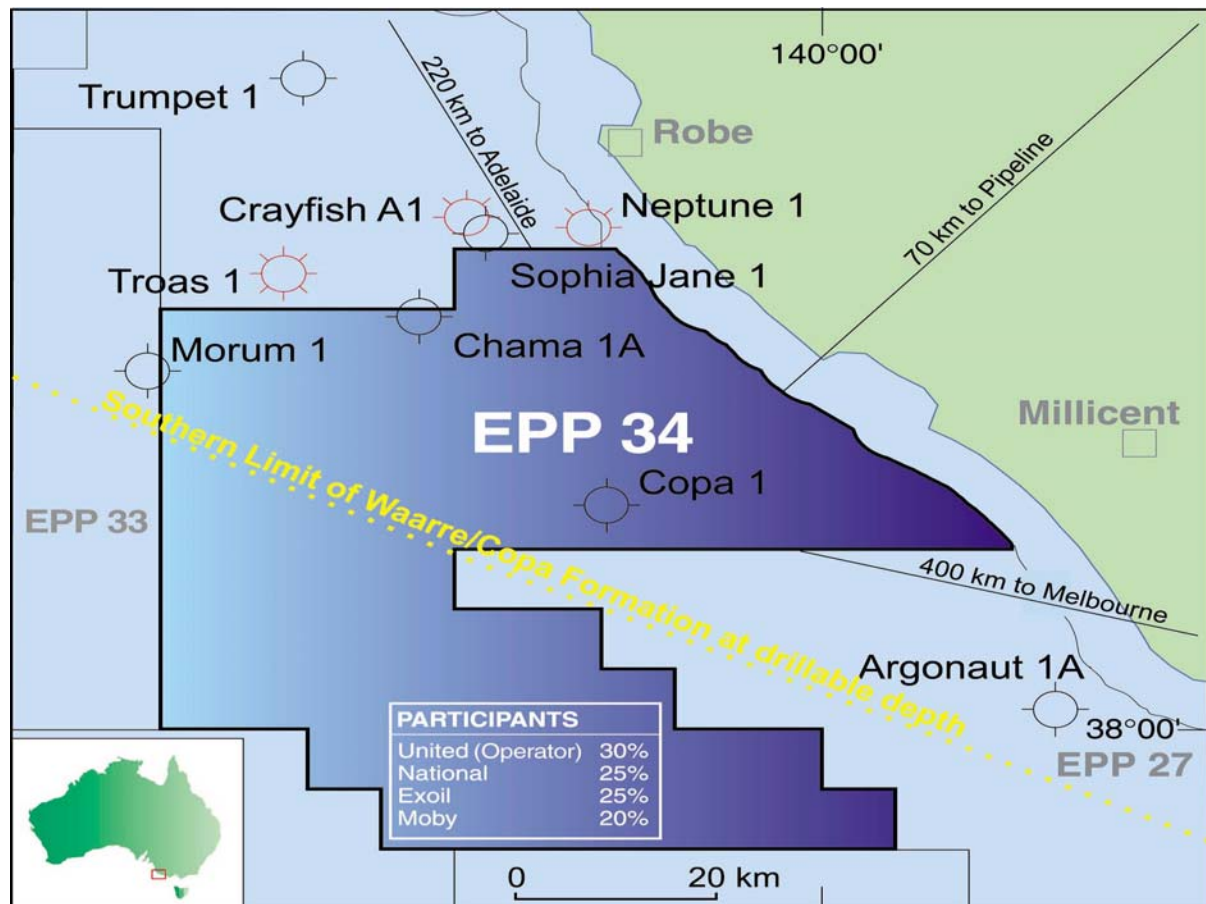
Exoil Limited	25% and Operator
Moby Oil & Gas Limited	20%
National Energy Pty Ltd	25%
United Oil & Gas Pty Ltd	30% (Octanex as to 15%)

The Trocopa seismic survey of 1,100 km of new 2D data was acquired during the year. Processing of this data and concurrent reprocessing of old data is now underway. Interpretation has focused on the northern shelfal section of the block, targeting the Early Cretaceous Pretty Hill Sandstone.

Parts of EPP34 are parallel to the Morum Sub-basin. It is thought to have excellent reservoir potential for stacked plays in thick Upper Cretaceous section. Because of its proximity to the Morum Sub-basin EPP34 is postulated to have scope for marine influenced source rock in deep water.

The new seismic survey and reprocessed older data is expected to provide extensive 2D coverage in the northern part of the Permit and is expected to open up to joint venture to the possibility of a series of gas and oil plays.

DIRECTORS' REPORT (Continued)



Morum Sub-basin: Potential for oil-prone source rocks adjacent to and in EPP34

DIRECTORS' REPORT (Continued)

INVESTMENTS

The Octanex Group presently holds 36,380,140 shares of the issued capital of Cue Energy Resources Ltd (ASX: CUE).

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 has been developed for oil and gas production. In New Zealand, Cue holds a 5% interest in PEP38413 in the offshore Taranaki Basin, the permit that contains the Maari oil field, 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

The Company acquired small shareholdings in Babcock and Brown Power (ASX: BBP) and Gas2Grid Ltd (ASX: GGX) late in the year.

CORPORATE MATTERS

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The likely developments in the company's operations in future years and the expected result from those operations are dependent on exploration success in the permit areas in which the company holds an interest and the success of our investments in Cue Energy Resources Limited and Babcock and Brown Power.

REMUNERATION REPORT

This report is audited.

The board of directors is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the company secretary. The board assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive.

Remuneration levels for directors and executives of the company are competitively set to attract and retain appropriately qualified and experienced directors and executives.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structure takes into account:

- the capability and experience of the directors and senior executives.
- the ability of directors and senior executives to control the entity's performance.
- the requirement that directors apply a portion of their remuneration to the purchase of shares in the company at market price, so as to align the interest of directors with that of shareholders.

In accordance with the company's constitution, directors' non executive remuneration was approved by shareholders at \$60,000 per annum. During the year, directors were remunerated a total of \$87,200 (2007: \$60,837) which included shareholder approved non-executive remuneration of \$59,950 (2007: \$39,037).

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (continued)

There is no performance related remuneration. Remuneration paid to directors covers all board activities including serving on committees. The directors do not receive employee benefits including annual leave and long service leave, but remuneration may include the grant of options over shares of the company to align directors' interests with that of the shareholders.

At the date of this report no rights have been granted to directors pursuant to the Performance Plan adopted with the approval of members on 19 November 2003.

AP Armitage resigned 30 July 2007. CR Hart resigned 21 August 2006.

	Year	Short Term Employment Benefits			Post Employment		Total
		Directors Fees	Other Fees	Salary	Superannuation	Retirement Benefit	
		\$	\$	\$	\$	\$	\$
Directors							
EG Albers	2008	-	-	-	27,250	-	27,250
	2007	-	-	-	21,800	-	21,800
PJ Albers	2008	-	-	-	29,975	-	29,975
	2007	-	-	-	10,900	-	10,900
AP Armitage	2008	-	-	-	-	-	-
	2007	-	12,237	-	-	-	12,237
CR Hart	2008	-	-	-	-	-	-
	2007	-	5,000	-	-	-	5,000
GA Menzies	2008	27,500	-	-	2,475	-	29,975
	2007	10,000	-	-	900	-	10,900
Total Directors	2008	27,500	-	-	59,700	-	87,200
	2007	10,000	17,237	-	33,600	-	60,837
Company Secretary							
DB Hill	2008	-	-	-	5,025¹	-	5,025
	2007	-	-	-	1,012	-	1,012
TOTAL	2008	27,500	-	-	64,725	-	92,225
	2007	10,000	17,237	-	34,612	-	61,849

¹ \$5,025 paid in lieu of salary is included (2007: \$1,012)

DIRECTORS' REPORT (Continued)**REMUNERATION REPORT (continued)****Interests in options (exercisable by 30 June 2009 at 25 cents per share)**

	Held at	Granted as	Exercised	Other	Held at	Vested	Vested and
	30 June	compensation		Changes	30 June	during	exercisable at
						the year	30 June
	1 July 2007				2008		2008
EG Albers	20,527,490	-	-	-	20,527,490	-	20,527,490
PJ Albers	18,850,970	-	-	-	18,850,970	-	18,850,970
GA Menzies(i)	50,000	-	-	-	50,000	-	50,000
	39,428,460	-	-	-	39,428,460	-	39,428,460

(i) Only options held by GA Menzies have been granted as compensation for service. Options held by EG Albers and PJ Albers are held from their participation in the initial public offer in 2003.

(i) On 17 September, 2003 the options were agreed to be granted to GA Menzies and the grant approved by members on 19th November, 2003.

The options were valued using the Black-Scholes-Merton model, with the following inputs:

Exercise price:	25 cents
Share price at grant date:	10 cents
Maximum option life	5.8 years - for the original expiry date of 30 June 2008
Expected volatility	40%
Risk free interest rate	6.0%

Expected volatility was based on the average volatility of a peer group of six companies within the oil and gas exploration industry. The implied volatility of the companies was in the range of 40% to 99%. The fair value of this share based payment at grant date was \$600.

The options were originally to expire on 30 June 2008; on 23 May 2008 the company extended the option exercise date to 30 June 2009

End of Remuneration Report.

ENVIRONMENT, HEALTH AND SAFETY

Octanex has adopted an environmental, health and safety policy and conducts its operations in accordance with the APPEA Code of Practice.

The company's petroleum exploration and development activities are subject to environmental conditions specified in the Offshore Petroleum Act 2003, associated Regulations and Directions, as well as the Environment Protection and Biodiversity Conservation Act 1999. During the year there were no known contraventions by the company or by any operator of permits in which an interest is held of any relevant environmental regulations.

The company believes all injuries are avoidable and has policies and procedures to ensure employees and contractors manage safety accordingly. We monitor and evaluate our procedures. During the year there were no reported health and safety incidents.

INDEMNIFICATION AND INSURANCE OF DIRECTORS

During the year and to the date of this report, the company did not pay premiums in respect of contracts insuring directors of the company against liabilities arising from their position of directors of the company.

DIRECTORS' REPORT (Continued)**CORPORATE GOVERNANCE**

The ASX Corporate Governance Council has issued “Corporate Governance Principles and Recommendations” (the CGC Paper) requiring ASX listed companies to report their corporate governance practices against those principles and recommendations.

The board has elected that the company adopt those principles and recommendations set out in the CGC Paper, appropriate to a company of the size and stage of development of Octanex.

OPTIONS

The company has granted options over unissued shares in the company. 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.

The options were originally exercisable on or before 30 June 2008. On the 18th April 2008 the company offered holders the right to elect to extend the exercise date to 30 June 2009.

30 June 2009 Listed Options – exercisable at 25 cents

	2008 Options	2007 Options
Balance at beginning of year	30,244,296	30,244,296
Options expired 30 June 2008 ⁽ⁱ⁾	(1,236,716)	-
Options exercised 30 June 2008	(152,870)	
	<u>28,854,710</u>	<u>30,244,296</u>
	=====	=====
Balance at end of year ⁽ⁱⁱ⁾		

(i) Options, the holders of which did not elect to extend the expiry date.

(ii) On the 23rd May 2008 the original exercise date of these options was extended by one year from 30 June 2008 to 30 June 2009.

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 over ordinary fully paid shares in Octanex were granted to Upstream.

Tranche/options	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		
			2008 Options	2007 Options
<i>Unlisted Options</i>				
Balance at beginning of year		-	-	-
Options granted 31 July 2007		3,750,000	-	-
Options exercised 30 June 2008		(750,000)		
		<u>3,000,000</u>	<u>-</u>	<u>-</u>
		=====	=====	=====
Balance at end of year				

DIRECTORS' REPORT (Continued)**SIGNIFICANT EVENTS AFTER BALANCE DATE**

The market value of Octanex's stapled units in Babcock & Brown Power (ASX Code: BBP) has decreased significantly since balance date. As at 30th June 2008 the 7,263,289 units held by Octanex had a market value of 64 cents per unit for a total value of \$4,648,505. The units were purchased at an average price of 63.7 cents for a total price of \$4,625,404. As at 11th September 2008 the market price of the units is 13.5 cents at which the total market value of Octanex's investment is \$980,544. This is \$3,667,961 below the market value at balance date and \$3,644,860 below the purchase price, the economic effect of which has not been recognised in the Financial Report.

AUDITOR INDEPENDENCE AND NON – AUDIT SERVICES

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is attached and forms part of the directors' report for the financial year ended 30 June 2008.

No fees were paid to the auditor for non audit services.

Signed in accordance with a resolution of the directors, in Melbourne, 12 September 2008.



EG Albers
Director

Melbourne 12 September 2008

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity, and accompanying notes, are in accordance with the Corporations Act 2001 and:

- (a) comply with Accounting Standards and the Corporations Regulations 2001; and
- (b) give a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2008 and of its performance for the year ended on that date.

2. In the directors' opinion, there are reasonable grounds to believe that the company and the consolidated entity will be able to pay its debts as and when they become due and payable.

3. The remuneration disclosures included in pages 14 to 16 of the directors' report, (as part of audited Remuneration Report), for the year ended 30 June 2008, comply with section 300A of the Corporations Act 2001.

4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



EG Albers
Director

Melbourne, 12 September 2008

INCOME STATEMENT
YEAR ENDED 30 JUNE 2008

	NOTE	Consolidated		The Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
Income	2	26,595,388	1,199,125	26,595,388	1,199,125
Expenses	3	(940,008)	(244,187)	(940,008)	(244,187)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Profit before tax		25,655,380	954,938	25,655,380	954,938
Income tax expense	4	(7,789,634)	(269,670)	(7,789,634)	(269,670)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Profit after tax		17,865,746	685,268	17,865,746	685,268
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Basic earnings per share (cent per share)	22	0.36	0.01		
Diluted earnings per share (cent per share)	22	0.36	0.01		

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

BALANCE SHEET
AT 30 JUNE 2008

	NOTE	Consolidated		The Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	5	23,004,274	2,681,902	23,004,274	2,681,901
Trade and other receivables	6	305,060	46,611	305,060	46,611
Forward exchange contact	7	55,388	-	55,388	-
		<hr/>	<hr/>	<hr/>	<hr/>
TOTAL CURRENT ASSETS		23,364,722	2,728,513	23,364,722	2,728,512
		<hr/>	<hr/>	<hr/>	<hr/>
NON-CURRENT ASSETS					
Other financial assets	8	13,101,351	9,759,189	11,148,327	8,419,973
Exploration and evaluation assets	9	2,322,667	1,089,069	2,322,667	1,089,069
		<hr/>	<hr/>	<hr/>	<hr/>
TOTAL NON-CURRENT ASSETS		15,424,018	10,848,258	13,470,994	9,509,042
		<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS		38,788,740	13,576,771	36,835,716	12,237,554
		<hr/>	<hr/>	<hr/>	<hr/>
CURRENT LIABILITIES					
Trade and other payables	10	759,694	138,626	759,694	138,626
Current tax liabilities	4	6,162,024	33,217	6,162,024	33,217
		<hr/>	<hr/>	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES		6,921,718	171,843	6,921,718	171,843
		<hr/>	<hr/>	<hr/>	<hr/>
NON-CURRENT LIABILITIES					
Provision for share based payment	11	221,295	-	221,295	-
Deferred tax liabilities	12	3,846,052	2,694,758	3,260,144	2,292,994
		<hr/>	<hr/>	<hr/>	<hr/>
TOTAL NON-CURRENT LIABILITIES		4,067,347	2,694,758	3,481,439	2,292,994
		<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES		10,989,065	2,866,601	10,403,157	2,464,837
		<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS		27,799,675	10,710,170	26,432,559	9,772,717
		<hr/>	<hr/>	<hr/>	<hr/>
EQUITY					
Contributed equity	13	4,219,918	3,956,700	4,219,918	3,956,700
Reserves		4,210,774	5,250,233	3,123,107	4,592,229
Retained earnings		19,368,983	1,503,237	19,089,534	1,223,788
		<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EQUITY		27,799,675	10,710,170	26,432,559	9,772,717
		<hr/>	<hr/>	<hr/>	<hr/>

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

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 JUNE 2008

	Issued Capital \$	Asset Revaluation Reserve \$	Option Reserve \$	Retained Earnings \$	Total Equity \$
CONSOLIDATED					
At 1 July 2007	3,956,700	5,250,233	-	1,503,237	10,710,170
Options exercised	263,218	-	-	-	263,218
Investments disposed – revalued amount	-	(2,488,573)	-	-	(2,488,573)
Gain on revaluation of financial assets at fair value	-	1,924,931	-	-	1,924,931
Tax on items taken directly to equity	-	(577,479)	-	-	(577,479)
Fair value of share options granted	-	-	101,662	-	101,662
Net income recognised directly in equity	263,218	(1,141,121)	101,662	-	(766,241)
Profit for the period	-	-	-	17,865,746	17,865,746
Total recognised income and expense for the period	263,218	(1,141,121)	101,662	17,865,746	17,089,505
At 30 June 2008	4,219,918	4,109,112	101,662	19,368,983	27,799,675
At 1 July 2006	3,956,700	3,672,531	-	817,969	8,447,200
Investments disposed – revalued amount	-	(315,627)	-	-	(315,627)
Gain on revaluation of financial assets at fair value	-	2,704,753	-	-	2,704,753
Tax on items taken directly to equity	-	(811,424)	-	-	(811,424)
Net income recognised directly in equity	-	1,577,702	-	-	1,577,702
Profit for the period	-	-	-	685,268	685,268
Total recognised income and expense for the period	-	1,577,702	-	685,268	2,262,970
At 30 June 2007	3,956,700	5,250,233	-	1,503,237	10,710,170

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

STATEMENT OF CHANGES IN EQUITY (Continued)
YEAR ENDED 30 JUNE 2008

COMPANY	Issued Capital \$	Asset Revaluation Reserve \$	Option Reserve \$	Retained Earnings \$	Total Equity \$
At 1 July 2007	3,956,700	4,592,229	-	1,223,788	9,772,717
Options exercised	263,218	-	-	-	263,218
Investments disposed – revalued amount	-	(2,488,573)	-	-	(2,488,573)
Gain on revaluation of financial assets at fair value	-	1,311,126	-	-	1,311,126
Tax on items taken directly to equity	-	(393,337)	-	-	(393,337)
Fair value of share options granted	-	-	101,662	-	101,662
Net income recognised directly in equity	263,218	(1,570,784)	101,662	-	(1,205,904)
Profit for the period	-	-	-	17,865,746	17,865,746
Total recognised income and expense for the period	263,218	(1,570,784)	101,662	17,865,745	16,659,842
At 30 June 2008	4,219,918	3,021,445	101,662	19,089,534	26,432,559
At 1 July 2006	3,956,700	2,897,348	-	538,520	7,392,568
Investments disposed – revalued amount	-	(315,627)	-	-	(315,627)
Gain on revaluation of financial assets at fair value	-	2,872,155	-	-	2,872,155
Tax on items taken directly to equity	-	(861,647)	-	-	(861,647)
Net income recognised directly in equity	-	1,694,881	-	-	1,694,881
Profit for the period	-	-	-	685,268	685,268
Total recognised income and expense for the period	-	1,694,881	-	685,268	2,380,149
At 30 June 2007	3,956,700	4,592,229	-	1,223,788	9,772,717

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

CASH FLOW STATEMENT

YEAR ENDED 30 JUNE 2008

	Consolidated		The Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Proceeds from sale of tenement	22,768,315	-	22,768,315	-
Interest received	816,022	109,728	816,022	109,728
Payments to suppliers - exploration	(878,796)	(79,298)	(878,796)	(79,298)
Payments to suppliers - other	(628,422)	(109,742)	(628,421)	(109,742)
Payments of income tax	(20,482)	-	(20,482)	-
Net cash inflow/(outflow) from operating activities(i)	22,056,637	(79,312)	22,056,638	(79,312)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	2,889,616	1,098,501	2,289,616	1,098,501
Acquisition of investments	(4,874,714)	(5,000)	(4,874,714)	(5,000)
Net cash (outflow)/inflow from investing activities	(1,985,098)	1,093,501	(1,985,098)	1,093,501
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from options exercised	263,218	-	263,218	-
Net cash inflow from financing activities	263,218	-	263,218	-
Net increase in cash and cash equivalents	20,334,757	1,014,189	20,334,758	1,014,189
Exchange losses	(12,385)	(12,472)	(12,385)	(12,472)
Cash and cash equivalents at beginning of the year	2,681,902	1,680,185	2,681,901	1,680,184
CASH AND CASH EQUIVALENTS				
AT 30 JUNE	23,004,274	2,681,902	23,004,274	2,681,901
(i) RECONCILIATION OF NET CASH FROM OPERATING ACTIVITIES WITH PROFIT AFTER INCOME TAX				
Profit after income tax	17,865,746	685,268	17,865,746	685,268
<i>Non cash items:</i>				
Gain on sale of investments	(2,882,154)	(1,089,397)	(2,882,154)	(1,089,397)
Effect of exchange rate changes on the balances held in foreign currency	(43,003)	12,472	(43,003)	12,474
Write-back of provision for retirement benefit	-	(18,166)	-	(18,166)
Share based payments expense	322,957	-	322,957	-
<i>Changes in assets and liabilities:</i>				
(Increase) decrease in receivables	(258,451)	246,416	(258,451)	246,416
Increase (decrease) in payables	515,988	(49,146)	515,989	(49,146)
Increase in tax liabilities	7,769,152	269,670	7,769,152	269,670
Increase in exploration and evaluation assets	(1,233,598)	(136,429)	(1,233,598)	(136,429)
Net Cash inflow/(outflow) from Operating Activities	22,056,637	(79,312)	22,056,638	(79,312)

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

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Octanex NL is a company incorporated and domiciled in Australia with its registered office and principal place of business located at level 21, 500 Collins Street, Melbourne, Victoria 3000. The consolidated financial report of the company for the financial year ended 30 June 2008 comprises the company and its subsidiary (together referred to as the 'consolidated entity') and the consolidated entity's interest in associates and jointly controlled ventures.

The financial report was authorised by the directors for issue on 12 September, 2008.

(a) Statement of compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards including the Accounting Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. The consolidated financial statements and notes comply with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

(b) Basis of preparation

The financial report is presented in Australian dollars, which is the consolidated group's functional currency, rounded to the nearest dollar. It has been prepared under the historical cost convention as modified by the revaluation of investments.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(m).

The accounting policies set out below have been applied consistently to all periods presented in the financial report.

(c) Principles of consolidation

The consolidated financial statements have been prepared in accordance with AASB 127, Consolidated and Separate Financial Statements.

(i) Subsidiaries

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in subsidiaries are carried at their cost of acquisition in the company's financial statements.

(ii) Associates

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the consolidated entity's share of the total recognised gains and losses of associates on an equity accounted basis, when material, from the date that significant influence commences until the date that significant influence ceases.

When the consolidated entity's share of losses exceeds its interest in an associate, the consolidated entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate. In the company's financial statements, investments in associates are carried at fair value, with resulting revaluation gains and losses recognised in equity.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2008****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(c) Principles of consolidation (continued)****(iii) Joint ventures***Jointly controlled operations and assets*

The interest of the company and of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(iv) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the 'Investment in associates' and 'Share of associates' net profit accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

(d) Taxes*Income Tax*

Income taxes are accounted for using the comprehensive balance sheet liability method whereby:

- The tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- Current and deferred tax is recognised as income or expense except to the extent that the tax related to equity items or to a business combination;
- A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- Deferred tax asset and liabilities are measured at the tax rates that are expected to apply to the period where the asset is realised or the liability settled.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Receivables

Trade receivables are recognised at original invoice amounts less an allowance for uncollectible amounts and have repayment terms between 30 and 90 days. Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the company will not be able to collect all amounts due according to the original terms.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and at call bank deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(g) Payables

Trade, accruals and other payables are recorded initially at fair value and subsequently at amortised cost. Trade and other payables are non-interest bearing and are normally settled on 60-day terms.

(h) Investments and other financial assets

All investments and other financial assets are initially stated at cost, being the fair value of consideration given plus acquisition costs. Purchases and sales of investments are recognised on trade date which is the date on which the Group commits to purchase or sell the asset. Accounting policies for each category of investments and other financial assets subsequent to initial recognition are set out below.

Held for Trading

Investments held for trading are measured at fair value with gains or losses recognised in the income statement. A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short term or if it is a derivative that is not designated as a hedge. Investments held for trading are classified as current assets on the balance sheet.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold-to-maturity and are measured at amortised cost subsequent to initial recognition using the effective interest method. If the Group were to sell other than an insignificant amount of held-to-maturity investments, the whole category is then reclassified as available-for-sale.

Available-for-sale financial assets

Available-for-sale financial assets comprise investments in listed and unlisted entities and any non-derivatives that are not classified as any other category of financial assets, and are classified as non-current assets (unless management intends to dispose of the investment within 12 months of reporting date). After initial recognition, these investments are measured at fair value with gains or losses recognised as a separate component of equity (asset revaluation reserve). Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment) the full amount including any amount previously charged to equity, is recognised in the income statement. Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available for sale reserve. On sale the amount held in available for sale reserves associated with that asset is removed from equity and recognised in the income statement.

(i) Share Capital

Ordinary share capital is recognised at the fair value of the consideration received by the company. Transactions costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the consideration received, net of any income tax benefit.

(j) Impairment

The carrying amounts of the consolidated entity's assets, other than deferred tax are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit and loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2008****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(j) Impairment(continued)***(i) Calculation of recoverable amount*

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other groups or assets, in which case, the recoverable amount is determined for the class of assets to which the asset belongs.

(ii) Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Restoration, rehabilitation and environment expenditure

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are provided for as part of the cost of those activities. Costs are estimated on the basis of current legal requirements, anticipated technology and future costs that have been discounted to their present value. Estimates of future costs are reassessed at each reporting date.

(l) Exploration and evaluation costs

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis.

Exploration and evaluation costs are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation costs are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

(m) Accounting estimates and judgements

Management determine the development, selection and disclosure of the company's critical accounting policies and estimates and the application of these policies and estimates. There are no estimates and judgements that are considered to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

There is, however, a risk that actual expenditure to achieve minimum work obligations could differ from estimates disclosed in the notes to the financial statements (see Note 14). The estimated amounts represent the higher end of possible future expenditure. Work requirements achieved by farm-ins materially reduce the level of expenditure incurred by the company to comply with work program commitments.

Per Note 1(j) and 1(l) management exercise judgement as to the recoverability of exploration expenditure. Any judgment may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future sale or exploitation, then the relevant capitalised amount will be written off through the income statement.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Revenue

Revenue is recognised at the fair value of consideration received or receivable. Interest Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

(o) 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 11 and Note 13.

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 Consulting Agreement also provides benefits to Upstream 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

30 JUNE 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Derivative financial instruments

The company entered into a forward currency contract in June 2008 to trade in and profit from a short-term movement in the US dollar exchange rate. The fair value of the contract was calculated by comparing the contracted rate to a market rate for a contract with similar length to maturity. For derivatives that do not qualify for hedge accounting any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year.

(q) Fair value

Fair values for financial instruments traded in active markets are based on quoted market prices at balance sheet date. The quoted market price for financial assets is the current bid price and the quoted market price.

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. Assumptions used are based on observable market prices and rates at balance date. Estimated discounted cash flows are used to determine fair value of the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments

(r) Accounting standards issued not yet effective

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial years ended 30 June 2008. They have not been adopted in preparing the financial report for the year ended 30 June 2008 and are expected to impact the consolidated entity in the period of initial application. In all cases the consolidated entity intends to apply these standards from application date as indicated in the table below.

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 127 (reissued March 2008)	Consolidated and Separate Financial Statements	The revised standard clarifies that changes in ownership interest which result in control being retained are accounted for within equity as transactions with owners. Losses will be attributed to the non-controlling interest even if this results in a debit balance for the non-controlling interest. Investments retained where there has been a loss of control will be recognised at fair value at date of sale.	Periods commencing on or after 1 July 2009	As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted. To the extent Octanex Operations Pty Ltd incurs losses for the financial year ending 30 June 2010 / 31 December 2010, such losses will be attributed to the non-controlling interest. No adjustment will be made to comparatives for losses not previously attributed to the non-controlling interest.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Accounting standards issued not yet effective (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2008-3 (issued March 2008)	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASB 1, AASB 2, AASB 4, AASB 5, AASB 7, AASB 101, AASB 107, AASB 112, AASB 114, AASB 116, AASB 121, AASB 128, AASB 131, AASB 132, AASB 133, AASB 134, AASB 136, AASB 137, AASB 138, AASB 139, Interpretation 9 and Interpretation 107]	Makes consequential amendments to 20 standards and 2 interpretations arising from the reissue of AASB 3 and AASB 127, including to AASB 128: Investments in Associates and to AASB 131: Interests in Joint Ventures.	Periods commencing on or after 1 July 2009	As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted. There will also be a number of additional/amended disclosures.
AASB 2008-1 (issued February 2008)	Amendments to AASB 2 – Share-based Payments – Vesting Conditions and Cancellations	The definition of <i>vesting conditions</i> has changed and the accounting treatment clarified for cancellations to share-based payment arrangements by the counterparty. This is to ensure that conditions other than performance conditions do not result in a ‘true up’ of the share-based payment expense and are treated in a manner similar to market conditions.	Periods commencing on or after 1 January 2009	To date the entity has not issued any options to employees that include non-vesting conditions and as such there will be no impact on the financial statements when this revised standard is adopted for the first time.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Accounting standards issued not yet effective (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2008-5 (issued July 2008) AASB 2008-6	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 7, 101, 102, 107, 108, 110, 116, 118, 119, 120, 123, 127, 128, 129, 131, 132, 134, 136, 138, 139, 140, 141, 1023 and 1038]	Accounting changes for presentation, recognition and measurement, as well as terminology and editorial changes.	Periods commencing on or after 1 January 2009	Only changes to AASB 101, AASB 128 and AASB 136 are likely to impact this entity. AASB 101 Initial adoption of this amendment will have no impact on the entity as the entity does not enter into any long term derivative relationships. AASB 128 There will be no financial impact when these amendments are first adopted because these amendments relate to additional disclosure requirements only. AASB 136 There will be no financial impact when these amendments are first adopted because these amendments relate to additional disclosure requirements only.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Accounting standards issued not yet effective (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2008-7 (issued July 2008)	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 and AASB 136]	Removal of the definition of the “cost method” in AASB 127, meaning that pre and post-acquisition dividends no longer need to be differentiated and all dividends are to be recognised as revenue. However, whenever a dividend is received from a subsidiary, associate or jointly controlled entity, an impairment test will be required under AASB 136 where there is an indicator for impairment, i.e. where: (1) the carrying amount of the investment in the separate financial statements exceeds the carrying amount of the net assets (including goodwill) of the investee in the consolidated financial statements; or (2) the dividend exceeds the total comprehensive income of the subsidiary, associate or jointly controlled entity in the period that the dividend is declared.	Periods commencing on or after 1 January 2009	There will be no impact as these requirements are only required to be applied prospectively for periods commencing on or after 1 January 2009. However, any pre-acquisition dividends received after this date may result in additional impairment charges on investments in subsidiaries, associates and jointly controlled entities. This is because such amounts would previously have been written off directly against the cost of the investment, whereas in future they will be recognised as revenue which may result in the investment being stated at an amount exceeding recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Accounting standards issued not yet effective (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 101 (Revised Sept 2007) AASB 2007-8 AASB 2007-10	Presentation of Financial Statements	Amendments to presentation and naming of the financial statements.	Periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, there will be various changes to the way financial statements are presented and various changes to names of individual financial statements.

	NOTE	Consolidated 2008 \$	2007 \$	The Company 2008 \$	2007 \$
NOTE 2 INCOME					
Interest received on cash balances		867,117	109,728	867,117	109,728
Profit on sale of available for sale investments		2,882,154	1,089,397	2,882,154	1,089,397
Profit on sale of exploration tenement		22,846,117	-	22,846,117	-
Total income		26,595,388	1,199,125	26,595,388	1,199,125
		=====	=====	=====	=====

NOTE 3 EXPENSES

Administration		197,222	38,275	197,222	38,275
Audit fees		28,750	32,750	28,750	32,750
Brokerage		52,819	-	52,819	-
Consulting		36,735	-	36,735	-
Directors' remuneration		27,500	27,237	27,500	27,237
Directors' superannuation		59,700	33,600	59,700	33,600
Exploration		4,038	19,895	4,038	19,895
Reporting, registry and stock exchange		27,769	30,114	27,769	30,114
Office expenses		51,366	53,642	51,366	53,642
Other expenses		27,970	14,368	27,970	14,368
Foreign exchange losses		158,570	12,472	158,570	12,472
Share based payments: fair value of					
- phantom shares	11	221,295	-	221,295	-
- options at grant date	13	101,662	-	101,662	-
Write-back of provision for retirement benefit		-	(18,166)	-	(18,166)
Gain on forward exchange contract	7	(55,388)	-	(55,388)	-
Total expenses		940,008	244,187	940,008	244,187
		=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

NOTE	Consolidated		The Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
NOTE 4 INCOME TAX				
Components of income tax expense				
<i>Current tax expense</i>				
Current period	(6,162,024)	(33,217)	(6,162,024)	(33,217)
Adjustment for prior period	12,735	-	12,735	-
<i>Deferred tax expense</i>				
Origination and reversal of temporary differences	(1,640,345)	(236,453)	(1,640,345)	(236,453)
Total income tax expense	<u>(7,789,634)</u>	<u>(269,670)</u>	<u>(7,789,634)</u>	<u>(269,670)</u>
	=====	=====	=====	=====

Reconciliation between tax expense and pre-tax profit

Profit before tax	<u>25,655,380</u>	<u>954,938</u>	<u>25,655,380</u>	<u>954,938</u>
Income tax using statutory income tax rate of 30% (2007: 30%)	(7,696,614)	(286,481)	(7,696,614)	(286,481)

Tax effect of adjustment recognised in the period for:

Prospectus costs	14,758	14,758	14,758	14,758
Current tax of prior periods	12,735	2,053	12,735	2,053
Non deductible foreign exchange loss	(90,276)	-	(90,276)	-
Other non-deductible expenses	(30,237)	-	(30,237)	-
Income tax expense	<u>(7,789,634)</u>	<u>(269,670)</u>	<u>(7,789,634)</u>	<u>(269,670)</u>
	=====	=====	=====	=====

NOTE 5 CASH AND CASH EQUIVALENTS

Cash at bank and on hand	15,454,042	1,242,428	15,454,042	1,242,427
Bank deposits at call	7,550,232	1,439,474	7,550,232	1,439,474
	<u>23,004,274</u>	<u>2,681,902</u>	<u>23,004,274</u>	<u>2,681,901</u>
	=====	=====	=====	=====

Cash and cash equivalents are subject to interest rate risk as they earn floating rates. In 2008 the average floating rate for the company was 3.43% (2007 1.84%). Details of interest rate risk and sensitivity can be found in Note 18. Bank deposits at call have an average maturity of 48 days (2007: 47 days)

NOTE 6 TRADE AND OTHER RECEIVABLES

Director-related entities	17	20,000	23,930	20,000	23,930
Other		285,060	22,681	285,060	22,681
		<u>305,060</u>	<u>46,611</u>	<u>305,060</u>	<u>46,611</u>
		=====	=====	=====	=====

The carrying amount of all receivables is equal to their fair value as they are short term. None of the receivables are impaired or past due. The maximum credit risk for the company is the gross value of all receivables. All receivables are non-interest bearing.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

	NOTE	Consolidated		The Company	
		2008	2007	2008	2007
		\$	\$	\$	\$

NOTE 7 FORWARD EXCHANGE CONTRACT (CURRENT)

Derivative Financial Instrument

Forward currency contract – held for trading (net)	55,388	-	55,388	-
	=====	=====	=====	=====

The company entered into a forward currency contract in June 2008 to trade in and profit from a short-term movement in the US dollar exchange rate. The fair value of the contract was calculated by comparing the contracted rate to a market rate for a contract with similar length to maturity. For derivatives that do not qualify for hedge accounting any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year.

Details of the contract are:

Sell US\$/Buy Australian\$: US\$13,750,000 on 27th June 2008 for maturity at 1st July 2008 at a forward exchange rate of 0.9597. The contract has been measured at fair value by comparing the contracted market rate to the market rate for a contract with the same length to maturity. The movement in fair value was recognised in the profit or loss in the period it occurred. The unrealised gain at 30 June 2008 on the contract was \$55,388.

Details of foreign exchange risk and sensitivities can be found in Note 18.

NOTE 8 OTHER FINANCIAL ASSETS (NON-CURRENT)

Available for sale investments at market value

Investment in director-related listed equities	8(a)	8,329,532	9,747,188	5,818,500	7,849,964
Investment in other listed equities		4,771,818	12,000	4,771,818	12,000

8(b)	13,101,350	9,759,188	10,590,318	7,861,964
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At cost:

Investment in controlled entity	8(c)	-	-	558,007	558,007
Shares in controlled entity	8(d)	-	-	1	1
Shares in associate	8(e)	1	1	1	1

13,101,351	9,759,189	11,148,327	8,419,973
=====	=====	=====	=====

(a) Director-related Entities:

Cue Energy Resources Ltd

Principal activity is oil and gas exploration and production.

8,185,532	6,184,624	5,674,500	4,287,400
-----------	-----------	-----------	-----------

MEO Australia Limited

Principal activity is development of the Tassie Shoal Methanol Project

-	3,562,564	-	3,562,564
---	-----------	---	-----------

Bass Strait Oil Co Ltd

Principal activity is oil and gas exploration

144,000	-	144,000	-
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8,329,532	9,747,188	5,818,500	7,849,964
-----------	-----------	-----------	-----------

(b) Reconciliation of the carrying amount of

Available for sale investments

Balance at beginning of year	9,759,188	7,509,435	7,861,964	5,444,810
------------------------------	-----------	-----------	-----------	-----------

Net revaluation increment (decrement)	(1,630,169)	2,704,753	(2,243,977)	2,872,154
---------------------------------------	-------------	-----------	-------------	-----------

Disposal during the year	(7,462)	(460,000)	(7,462)	(460,000)
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Acquisitions during the year	4,979,793	5,000	4,979,793	5,000
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13,101,350	9,759,188	10,590,318	7,861,964
=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2008****NOTE 8 OTHER FINANCIAL ASSETS (NON-CURRENT) (Continued)**

Details of market price risk and sensitivity can be found in Note 18.

(c) Investment in Controlled Entity

Octanex NL loaned an amount of \$558,007 in 2001 to its wholly owned subsidiary, Octanex Operations Pty Ltd, to purchase shares in Cue Energy Resources Ltd (Cue). This loan was not made for a predetermined period. While management's intention is that Octanex Operations will settle its debt to Octanex NL as and when its shares in Cue are sold, there exists no set date as to when this transaction will occur. The investment is valued at original cost. The market value of the Cue shares held by Octanex Operations Pty Ltd at balance date was \$2,511,032 (2007: \$1,897,224).

(d) Shares in Controlled Entity

Octanex Operations Pty Ltd, 100% owned, incorporated in Australia and balancing at 30 June, invests in the petroleum exploration sector. The controlled entity did not contribute to the consolidated net profit for the year.

(e) Shares in associate

United Oil & Gas Pty Ltd, a company incorporated in Australia and 50% owned with Strata Resources NL ("Strata"), has a thirty percent legal interest in the Western Otway Joint Venture (Note 15) and did not contribute to the consolidated profit for the year. On the 27th June 2008 beneficial ownership in the Western Otway Joint Venture was transferred by United to Octanex and Strata: each taking a 15% direct interest. This interest was the associate's only activity. Commitments for the associate will be met by Octanex and Strata and are included in Note 14.

The consolidated entity did not equity account this investee on the grounds that balances were not considered material. Summary financial information is listed below:

	Current assets \$	Non- Current assets \$	Total assets \$	Current Liabilities \$	Non- Current Liabilities \$	Total Liabilities \$	Revenue \$	Expenses \$	Profit (Loss) \$
2008	128	-	128	384	-	384	11,157	6,308	4,849
2007	344	37,542	37,886	360	42,632	42,992	-	2,639	(2,639)

	NOTE	Consolidated 2008 \$	Consolidated 2007 \$	The Company 2008 \$	The Company 2007 \$
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NOTE 9 EXPLORATION AND EVALUATION ASSETS

Carrying amount at beginning of year	1,089,069	952,639	1,089,069	952,639
Cost attributable to interest sold	(77,802)	-	(77,802)	-
Cost incurred during the year	1,311,400	136,430	1,311,400	136,430
Carrying amount at end of year	<u>2,322,667</u>	<u>1,089,069</u>	<u>2,322,667</u>	<u>1,089,069</u>
	=====	=====	=====	=====

Exploration and evaluation assets relate to the areas of interest in the exploration phase for petroleum exploration permits WA-323-P, WA-330-P, WA-362-P, WA-363-P, WA-322-P, WA-329-P and EPP34.(2007 : WA-323-P, WA-330-P, WA-362-P,WA-363-P, WA-384-P, WA385-P, WA-394-P and EPP34). The permits are held through joint ventures and details of interests held in the permits can be found in Note 15.

Ultimate recovery of exploration and evaluation assets is dependent upon exploration success and/or the company maintaining appropriate funding to support continued exploration activities.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

		Consolidated		The Company	
	NOTE	2008	2007	2008	2007
		\$	\$	\$	\$

NOTE 10 TRADE AND OTHER PAYABLES

Financial liabilities at amortised cost

Trade creditors and accruals		526,655	64,302	526,655	64,302
Director-related entity other payables	17	233,039	74,324	233,039	74,324
		<u>759,694</u>	<u>138,626</u>	<u>759,694</u>	<u>138,626</u>
		=====	=====	=====	=====

Trade and other payables are current liabilities of which the fair value is equal to the current carrying amount. Information about the company's exposure to foreign exchange risk in relation to trade payables, including sensitivities to changes in foreign exchange rates, is provided in Note 18.

NOTE 11 PROVISION FOR SHARE BASED PAYMENTS

Phantom Shares	221,295	-	221,295	-
	=====	=====	=====	=====

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 phantom shares were granted whereby the net difference between the value of Octanex shares at exercise date and the initial price shall be paid to Upstream in cash.

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

	2008 Phantom Shares	2007 Phantom Shares
<i>Phantom Shares</i>		
Balance at beginning of year	-	-
Shares granted 31 July 2007	3,750,000	-
	<u>3,750,000</u>	<u>-</u>
	=====	=====
Balance at end of year		

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

NOTE 11 PROVISION FOR SHARE BASED PAYMENTS (Continued)

Phantom shares (continued)

(i) The phantom shares were valued using the Black-Scholes-Merton model with the following inputs:

Effective Share price:	43 cents
Share price at grant date:	22 cents
Maximum share life	5 years
Expected volatility	70%
Risk free interest rate	6.7% - average across five tranches

Expected volatility was based on the standard deviation for a group of 35 similar companies of 20.52, which represents a volatility factor of 71.07% - say 70%. The fair value of this share based payment at balance date was \$857,895. Based on the expired portion of the vesting period at balance date from this fair value a share based payment expense and liability of \$221,295 has been recognised in the year ended 30 June 2008.

NOTE 12 DEFERRED TAX LIABILITIES

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Consolidated						
Investment revaluations	-	-	1,880,812	2,369,863	1,880,812	2,369,863
Exploration costs	-	-	2,021,337	326,721	2,021,337	326,721
Interest receivable	-	-	13,888	3,274	13,888	3,274
Accrued expenses	(3,596)	(5,100)	-	-	(3,596)	(5,100)
Provisions	(66,389)	-	-	-	(66,389)	-
	(69,985)	(5,100)	3,916,037	2,699,858	3,846,052	2,694,758
	=====	=====	=====	=====	=====	=====
Recognised in retained earnings	(69,985)	(5,100)	2,035,225	329,995	1,965,240	324,895
Recognised directly in equity	-	-	1,880,812	2,369,863	1,880,812	2,369,863
	(69,985)	(5,100)	3,916,037	2,699,858	3,846,052	2,694,758
	=====	=====	=====	=====	=====	=====
Company						
Investment revaluations	-	-	1,294,904	1,968,099	1,294,904	1,968,099
Exploration costs	-	-	2,021,337	326,721	2,021,337	326,721
Interest receivable	-	-	13,888	3,274	13,888	3,274
Accrued expenses	(3,596)	(5,100)	-	-	(3,596)	(5,100)
Provisions	(66,389)	-	-	-	(66,389)	-
	(69,985)	(5,100)	3,330,129	2,298,094	3,260,144	2,292,994
	=====	=====	=====	=====	=====	=====
Recognised in retained earnings	(69,985)	(5,100)	2,035,225	329,995	1,965,240	324,895
Recognised directly in equity	-	-	1,294,904	1,968,099	1,294,904	1,968,099
	(69,985)	(5,100)	3,330,129	2,298,094	3,260,144	2,292,994
	=====	=====	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

NOTE 13 CONTRIBUTED EQUITY

	2008 Shares	2007 Shares	Consolidated 2008 \$	2007 \$	The Company 2008 \$	2007 \$
Issued Capital						
Ordinary shares fully paid	50,556,837	49,653,967	4,219,918	3,956,700	4,219,918	3,956,700
	=====	=====	=====	=====	=====	=====
Ordinary Shares						
Movements during the year						
Balance at beginning of year	49,653,967	49,653,967	3,956,700	3,956,700	3,956,700	3,956,700
Shares issued						
- Options dated 30 June 2008 exercised	902,870	-	263,218	-	263,218	-
	-----	-----	-----	-----	-----	-----
Balance at end of year	50,556,837	49,653,967	4,219,918	3,956,700	4,219,918	3,956,700
	=====	=====	=====	=====	=====	=====

The company has unlimited authorised capital with no par value.

(i) Terms and Conditions of Contributed Equity

Ordinary shares confer on the holder the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of (irrespective of the amounts paid up on) shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

(ii) Options over Unissued Shares

The company has granted options over unissued shares in the company. 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.

The options were originally exercisable on or before 30 June 2008. On the 18th April 2008 the company offered holders the right to elect to extend the exercise date to 30 June 2009.

30 June 2009 Listed Options – exercisable at 25 cents

	2008 Options	2007 Options
Balance at beginning of year	30,244,296	30,244,296
Options expired 30 June 2008(i)	(1,236,716)	-
Options exercised 30 June 2008	(152,870)	
	-----	-----
Balance at end of year(ii)	28,854,710	30,244,296
	=====	=====

(i) Options, the holders of which did not elect to extend the expiry date.

(ii) On the 23rd May 2008 the original exercise date of these options was extended by one year from 30 June 2008 to 30 June 2009.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2008****NOTE 13 CONTRIBUTED EQUITY (Continued)****Unlisted Options - (Share Based Payment)**

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 over ordinary fully paid shares in Octanex were granted to Upstream.

Tranche/options	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

	2008 Options	2007 Options
<i>Unlisted Options</i>		
Balance at beginning of year	-	-
Options granted 31 July 2007	3,750,000	-
Options exercised 30 June 2008	(750,000)	
Balance at end of year	<u>3,000,000</u>	<u>-</u>
	=====	=====

The options granted during the year to Upstream were valued using the Black-Scholes-Merton model with the following inputs:

Exercise price:	50 cents – average across five tranches
Share price at grant date:	22 cents
Maximum option life	5.7years
Expected volatility	70%
Risk free interest rate	6.3% - average across five tranches

Expected volatility was based on the standard deviation for a group of 35 similar companies of 20.52, which represents a volatility factor of 71.07% - say 70%. The fair value of this share based payment at grant date was \$187,192. Based on the expired portion of the vesting period at balance date from this fair value a share based payment expense with a corresponding increase in equity of \$101,662 has been recognised in the year ended 30 June 2008 (2007: Nil).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

	Consolidated		The Company	
	2008	2007	2008	2007
	\$	\$	\$	\$

NOTE 14 EXPLORATION EXPENDITURE COMMITMENTS

The company's share of minimum work requirements contracted for under exploration permit interests held in joint venture is estimated at balance date:

Payable not later than one year (i)	1,558,280	2,122,500	1,558,280	2,122,500
Payable later than one year but not later than three years(i)	2,856,720	1,925,000	2,856,720	1,925,000
	<u>4,652,000</u>	<u>4,047,500</u>	<u>4,652,000</u>	<u>4,047,500</u>
	=====	=====	=====	=====

(i) Included in these amounts are an aggregate commitment of \$4,415,000 due to Geokinetics (Australasia) Pty Ltd following completion of the acquisition of an off-bottom cable 3D seismic survey within exploration permits WA-323-P and WA-330-P, held 50/50 by Octanex and Strata Resources NL. This survey commenced 30 June 2008 and was completed on 17 August 2008. At the date of completion the commitment has been recorded an exploration and evaluation assets and corresponding liability in the financial records of the company and consolidated entity.

NOTE 15 INTEREST IN JOINT VENTURES

The company has an interest in the assets, liabilities and output of joint venture operations for the exploration and development of petroleum in Australia. The company has taken up its share of joint venture transactions based on the company's contributions to the joint ventures. Expenditure commitments in respect of the joint ventures are disclosed in Note 14. The company's interests in the joint ventures:

Joint Venture	2008 Interest	2007 Interest	Permits Held
Dampier Project	50%	50%	WA-323-P & WA-330-P
Northern Deeps Joint Venture	14%	35%	WA-362-P & WA-363-P
Exmouth Joint Venture	50%	-	WA-322-P, WA-329-P
Southern Exmouth Joint Venture	-	50%	WA-384-P, WA-385-P and WA-394-P
Western Otway Joint Venture	15%	15%	EPP34

Assets and liabilities of the joint venture operations are included in the financial statements as follows:

	NOTE	Consolidated		The Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents		156,499	23,611	156,499	23,611
Receivables	6	44,494	3,657	44,494	3,657
Receivable – director-related entity	6, 17	20,000	-	20,000	-
NON-CURRENT ASSETS					
Exploration and evaluation assets	9	2,322,667	1,089,069	2,322,667	1,089,069
CURRENT LIABILITIES					
Payables	10	285,729	17,415	285,729	17,415
Payables – director-related entity	10, 17	213,736	42,484	213,736	42,484

There are no contingent liabilities in any of the joint ventures.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

NOTE 16 KEY MANAGEMENT PERSONNEL

Non-executive Directors

PJ Albers
GA Menzies
AP Armitage (resigned 30 July 2007)
CR Hart (resigned 21 August 2006)

Executive Directors

EG Albers

Individual compensation disclosures

Information regarding individual directors compensation is provided in the remuneration report section of the directors' report. There are no employees that meet the definition of key management personnel other than the executive director of the company. A summary of the remuneration report is shown below.

	Year	Short Term Employment Benefits			Post Employment		Total
		Directors Fees	Other Fees	Salary	Superannuation	Retirement Benefit	
		\$	\$	\$	\$	\$	\$
TOTAL	2008	27,500	-	-	64,725	-	92,225
	2007	10,000	17,237	-	34,612	-	61,849

Interests in Equity Instruments of Octanex N.L.

The disclosures relating to equity instruments of directors includes equity instruments of personally related entities, being relatives and the spouses of relatives of the director and any entity under the joint or several control or significant influence of the director.

All equity transactions with directors, other than options granted as remuneration, have been entered into under terms and conditions, applicable to all shareholders.

Interests in shares

	Balance	Received as Remuneration	Options Exercised	Net Change Other	Balance
	1/7/2007				30/6/2008
EG Albers *	29,644,865	-	-	158,035	29,802,900
PJ Albers*	23,310,426	-	-	4,166,515	27,476,941
GA Menzies	-	-	-	-	-
	1/7/2006				30/6/2007
EG Albers *	28,052,905	-	-	1,591,960	29,644,865
PJ Albers*	23,310,426	-	-	-	23,310,426
AP Armitage	50,000	-	-	(50,000)	-
CR Hart	1,730,235	-	-	(1,730,235)	-
GA Menzies	-	-	-	-	-

* Ordinary shares in which each director holds an interest:

For the year ended 30 June 2008	22,797,926	-	-	2,996,515	25,764,441
For the year ended 30 June 2007	22,797,926	-	-	-	22,797,926

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2008****NOTE 16 KEY MANAGEMENT PERSONNEL (Continued)****Interests in options (exercisable by 30 June 2009 at 25 cents per share) (i)**

	Balance	Received as Remuneration	Options Exercised	Net Change Other	Balance
	1/7/2007				30/6/2008
EG Albers*	20,527,490	-	-	-	20,527,490
PJ Albers*	18,850,970	-	-	-	18,850,970
GA Menzies	50,000	-	-	-	50,000
	1/7/2006				30/6/2007
EG Albers*	20,527,490	-	-	-	20,527,490
PJ Albers*	18,850,970	-	-	-	18,850,970
CR Hart	150,000	-	-	(150,000)	-
GA Menzies	50,000	-	-	-	50,000

(i) On the 18th April 2008 the original exercise date of these options was extended one year from 30 June 2008 to 30 June 2009

*Options in which each director holds an interest jointly:

For the year ended 30 June 2008	18,850,970	-	-	-	18,850,970
For the year ended 30 June 2007	18,850,970	-	-	-	18,850,970

NOTE 17 RELATED PARTY DISCLOSURES*Controlled Entity*

The wholly owned subsidiary, Octanex Operations Pty Ltd, is provided with management and administration services and an interest free loan to fund its investment activities (Note 8(c)).

Associated Entity

United Oil & Gas Pty Ltd, of which EG Albers is a director, is owned 50% (2007: 50%) by the company and 50% by Strata Resources NL was until 27th June 2008 the legal and beneficial owner of 30% of the Western Otway Joint Venture. On the 27th June 2008 beneficial ownership in this permit was transferred to Octanex and Strata; each taking a 15% direct interest (Note 8(e)).

Director-related Entities

Companies in which an Octanex director holds office, that provide services to the company or to a joint venture in which the company has an interest, or that also hold an interest in those joint ventures or in which the company holds an investment.

(i) Providers of Services

During the year services were provided under normal commercial terms and conditions by:

Capricorn Mining Pty Ltd, (Capricorn), a director-related entity of EG Albers and PJ Albers
Exoil Limited, (Exoil), a director-related entity of EG Albers, PJ Albers and GA Menzies
Great Missenden Holdings Pty Ltd (GMH), a director-related entity of EG Albers and PJ Albers,
National Gas Australia Pty Ltd (NGA), a director-related entity of EG Albers
Setright Oil & Gas Pty Ltd, (Setright), a director-related entity of EG Albers and PJ Albers

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2008

NOTE 17 RELATED PARTY DISCLOSURES (Continued)

(i) Providers of Services (continued)

Company	Service Provided	2008 \$	2007 \$
Capricorn	Management, secretarial and administration services to the company	115,000	40,000
Capricorn	Management of exploration tenements	97,931	22,300
Exoil	Office services and amenities in Melbourne	38,781	53,642
GMH	Provision of geological equipment for joint ventures in WA	-	22,300
NGA	Provision of office services and amenities in WA	39,366	18,758
Setright	Accounting, project management and company secretarial services	33,185	3,700
Setright	Accounting, project management of joint ventures	6,524	5,752

(ii) Joint Venture Participants

The company holds interests in petroleum exploration joint ventures with certain director-related entities:

- As operator of the Dampier project and with Strata Resources NL (50%), a director-related entity of EG Albers.
- As a participant of the Northern Deeps Joint Venture with Strata Resources NL (14%) and Gascorp Australia Ltd (12%) each director-related entities of EG Albers.
- The participants with United Oil & Gas Pty Ltd in the Western Otway Joint Venture; National Energy Pty Ltd (25%), a director-related entity of EG Albers, and Exoil Ltd (25%) and Moby Oil & Gas Ltd (20%), both director-related entities of EG Albers and GA Menzies.

(iii) Investments in Director-related Companies

At balance date the economic entity carried investments in ASX listed companies in the petroleum industry (Note 8(a)), Cue Energy Resources Ltd and Bass Strait Oil Co Ltd, director-related entities of EG Albers.

Amounts payable by and payable to related parties including those under joint venture arrangements:

	Consolidated		The Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Receivables:				
Gascorp Australia Ltd	-	2,613	-	2,613
Exoil Limited	20,000	-	20,000	-
United Oil & Gas Pty Ltd	-	21,317	-	21,317
	<u>20,000</u>	<u>23,930</u>	<u>20,000</u>	<u>23,930</u>
	=====	=====	=====	=====
Payables				
Capricorn Mining Pty Ltd	29,143	30,125	29,143	30,125
Exoil Limited	166,366	-	166,965	-
Great Missenden Holdings Pty Ltd	-	11,380	-	11,380
National Gas Australia Pty Ltd	31,062	20,435	31,062	20,435
Setright Oil & Gas Pty Ltd	6,468	4,244	6,468	4,244
Strata Resources NL	-	8,140	-	8,140
	<u>233,039</u>	<u>74,324</u>	<u>233,039</u>	<u>74,324</u>
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2008****NOTE 18 FINANCIAL INSTRUMENTS****Categories of Financial Instruments**

	Consolidated		The Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Financial Assets				
Fair value through profit or loss:				
Held for trading	55,388	-	55,388	-
Loans and receivables (including cash & cash equivalents)	23,024,274	2,705,832	23,024,274	2,705,831
Available-for-sale	13,101,350	9,759,188	10,590,318	7,861,964
	<u>36,181,012</u>	<u>12,465,020</u>	<u>33,669,980</u>	<u>10,567,795</u>
Financial Liabilities				
Amortised cost	<u>759,694</u>	<u>138,626</u>	<u>759,694</u>	<u>138,626</u>

Recognition and derecognition

The regular way purchases and sales of financial assets and financial liabilities are recognised on trade date is the date on which the consolidated entity commits to purchase or sell the financial assets or financial liabilities. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Exposure to credit, interest rate, liquidity, foreign currency, market price and currency risks arises in the normal course of the consolidated entity's business. The consolidated entity's overall risk management approach is to identify the risks and implement safeguards which seek to minimise potential adverse effects on the financial performance of the consolidated entity's business. The board of directors are responsible for monitoring and managing the financial risks of the consolidated entity.

During the year the consolidated entity used one forward foreign exchange contract to hedge against a US dollar exposure.

Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. At the balance sheet date there were no significant concentrations of credit risk as the consolidated entity has no trade sales or trade receivables. The maximum exposure to credit risk of financial assets is represented by the carrying amounts of each financial asset in the balance sheet.

Interest rate risk

All financial liabilities and financial assets at floating rates expose the company to cash flow interest rate risk. The consolidated entity has no exposure to interest rate risk at balance date, other than in relation to cash and cash equivalents which attract an interest rate.

Sensitivity Analysis

At balance date a 1% (100 basis point) increase/decrease in the interest rate would increase/decrease the company and consolidated entity post tax profit by \$108,192 (2007: \$9,985).

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. Liquidity risk is monitored to ensure sufficient monies are available to meet contractual obligations as and when they fall due.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2008****NOTE 18 FINANCIAL INSTRUMENTS (Continued)****Liquidity risk (continued)**

The following are the contractual maturities of the financial liabilities, including interest payments. Contractual amounts have not been discounted.

	Carrying Amount	Contractual cash flows	0-12 months	1-2 years	2-4 years
	\$	\$	\$	\$	\$
30 June 2008:					
Consolidated and Parent Entity					
<i>Non-derivative Financial Liabilities</i>					
Trade and other payables	759,694	759,694	759,694	-	-
<i>Derivatives</i>					
Gross settled (Forward foreign exchange contracts)					
- (inflow)	(14,327,393)	(14,327,393)	(14,327,393)	-	-
- outflow	14,272,005	14,284,230	14,284,230	-	-
	(55,388)	(43,163)	(43,163)	-	-

30 June 2007:**Consolidated and Parent Entity***Non-derivative Financial Liabilities*

Trade and other payables	138,626	138,626	138,626	-	-
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Foreign currency risk

The consolidated entity is exposed to foreign currency risk arising from purchases of goods and services that are denominated in a currency other than the Australian dollar functional currency. The consolidated entity incurs seismic, exploration and well drillings costs in US dollars. To this extent, the consolidated entity is exposed to exchange rate fluctuations between the Australian and US dollar. Through its interest in the Western Otway Joint Venture the consolidated entity has an exposure to a US dollar payable of US\$263,143.

Per Note 7; at balance date the consolidated entity has a forward cover contract to sell US\$13,750,000 and buy Australian dollars at a contract exchange rate of 0.9579. The contract matured on 1st July 2008 when the exchange rate was 0.9553.

There was no material exposure to foreign currency in 2007.

Sensitivity Analysis

If the Australian dollar strengthened /weakened by 10% against the US dollar with all other variables held constant, the payable for the company and consolidated entity would have been A\$24,852 lower / A\$27,337 higher. The company's exposure was settled since balance date for A\$280,985.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2008****NOTE 18 FINANCIAL INSTRUMENTS (Continued)****Equity price risks**

Equity price risk arises from available for sale investments held by the parent and consolidated entity in the form of investments in listed equities. The portfolio of investments is managed internally by Octanex management who buy and sell equities based on their own analyses of returns.

Available for sale investments in listed equities of \$13,101,350 (2007: \$9,759,188) for the consolidated entity and \$10,590,318 (2007: \$7,861,964) for the parent entity are subject to movements in prices of the investment markets.

The consolidated entity and company investments in listed equities are listed on the Australian Stock Exchange. A 10% (2007: 10%) increase / decrease at the reporting date in closing share price of each share held would have increased/decreased consolidated equity by \$1,310,134 (2007: \$975,919). For the company, the same change would have increased/decreased equity by \$1,059,032 (2007: \$786,196). There would have been no effect on profit.

Capital Management

When managing capital, the directors' objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

It is the company's plan that capital, as and when required, further, will be raised by any one or a combination of the following manners: placement of shares to excluded offerees, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares. Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the consolidated entity's intention to meet its exploration obligations by either partial sale of its interests or farmout, the latter course of action being part of its overall strategy.

The company is not subject to any externally imposed capital requirements.

Consolidated		The Company	
2008	2007	2008	2007
\$	\$	\$	\$

NOTE 19 AUDITOR'S REMUNERATION

Amounts received or due and receivable by the auditor of the company for:

Audit and review of the financial reports	28,750	32,750	28,750	32,750
	<u>28,750</u>	<u>21,500</u>	<u>28,750</u>	<u>21,500</u>
	=====	=====	=====	=====

NOTE 20 SEGMENT INFORMATION

The economic entity operates in Australia in the petroleum exploration industry.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2008****NOTE 21 EVENTS SUBSEQUENT TO BALANCE DATE**

The market value of Octanex's stapled units in Babcock & Brown Power (ASX Code: BBP) has decreased significantly since balance date. As at 30th June 2008 the 7,263,289 units held by Octanex had a market value of 64 cents per unit for a total value of \$4,648,505. The units were purchased at an average price of 63.7 cents for a total price of \$4,625,404. As at 11th September 2008 the market price of the units is 13.5 cents at which the total market value of Octanex's investment is \$980,544. This is \$3,667,961 below the market value at balance date and \$3,644,860 below the purchase price, the economic effect of which has not been recognised in the Financial Report.

	Consolidated
	2008 2007
	\$ \$

NOTE 22 EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

Net profit	17,865,746	685,268
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The weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:

	Number of Shares	Number of Shares
Basic earnings per share	49,653,967	49,653,967
Options expiring 30 June 2009	-	-
	<hr/>	<hr/>
Diluted earnings per share	49,653,967	49,653,967
	<hr/>	<hr/>

(i) Options not dilutive

Listed and unlisted options outstanding during the year (Refer Note 13) are not dilutive as at the 30th June 2008 as the exercise price is higher than the average share price for the year then ended.

NOTE 23 CONTINGENT ASSET

On the 19th June 2008 Octanex announced that the commercial arrangements for the sale of permits WA-384-P, WA-385-P and WA-394-P to Shell Development (Aust) Pty Ltd ("Shell") were complete. 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 an initial Discovery Payment, if Shell:

- (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 also granted in favour of Octanex a 0.5% Overriding Royalty payable on the basis of the gross assessable petroleum receipts recovered from a permit strategy.

INDEPENDENT AUDITOR'S REPORT

To the members of Octanex N.L.

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of Octanex N.L. for the year ended 30 June 2008 included on Octanex N.L.'s web site. The company's directors are responsible for the integrity of Octanex N.L.'s web site. We have not been engaged to report on the integrity of Octanex N.L.'s web site. The auditor's report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Report on the Financial Report

We have audited the accompanying financial report of Octanex N.L., which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

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

Auditor's Opinion

In our opinion:

- (a) the financial report of Octanex N.L. is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 16 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Octanex N.L. for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



BDO Kendalls Audit and Assurance (NSW-VIC) (Pty) Ltd
Chartered Accountants



Nicholas E. Burne
Director

Dated the 12th day of September 2008, Melbourne



BDO Kendalls

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

As lead auditor of the Octanex N.L. for the year ended 30 June 2008, 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 audit; and
- any applicable code of professional conduct in relation to the audit.

Nicholas E. Burne
Director

BDO Kendalls Audit and Assurance (NSW-VIC) (Pty) Ltd
Chartered Accountants

Dated the 12th day of September 2008, Melbourne