

# **OCTANEX NL**

ABN 61 005 632 315

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

**31 DECEMBER 2003**

## **HALF-YEAR REPORT TO 31 DECEMBER 2003**

### **DIRECTORS REPORT**

The directors present their report on the results of Octanex NL (the “Company” or “Octanex”) for the half-year ended 31 December, 2003.

### **REVIEW OF OPERATIONS**

The economic entity, being the Company and its controlled entity recorded a loss from ordinary activities for the half-year after income tax of \$41,584.

The highlights of operations for the half-year were:

- \* Issue of Prospectus
- \* Raising of \$1.5 million.
- \* Subsequent Listing on NSX (Newcastle Stock Exchange).
- \* Increased Value of Investments.

### **EXPLORATION**

#### **Exmouth Joint Venture (Octanex 37.5% – Operator)**

Octanex N.L. (“Octanex” or “the Company”) presently holds a 37.5% interest in two petroleum exploration permits, (WA-322-P and WA-329-P), located in the prospective Exmouth Sub-basin, an emerging oil province at the southern end of the Carnarvon Basin, offshore Western Australia. The permits, which are contiguous and comprise a total project area of 1,440 kms<sup>2</sup> (356,000 acres) (see Figure 1), are governed by a single Operating Agreement and are contained in one project area, the Exmouth Joint Venture.

The permits, 100kms NW of Barrow Island, are significant and long-standing oil producing areas off the coast of Western Australia. They are considered prospective for the discovery of both oil and natural gas. They have been only lightly explored and no wells have been drilled in the project area. To the south, east and west, within 5 – 25kms of the Exmouth project boundaries, there are oil and gas fields and discovery wells.

To the southwest are the gas and oil fields of the Pyrenees/Macedon complex, while further to the west there are the significant new oil discoveries at Vincent, Enfield, Stybarrow, Ravensworth and Novarra, with decisions for development having been announced for Vincent and Enfield.

Recent and significant discoveries within the Exmouth Sub-basin indicate that the commercially productive hydrocarbon trends, established over the last 30 to 40 years of exploration, in the immediately adjacent northern Barrow Sub-basin, extend south-westwards from the Griffin, Ramillies, Chinook and Scindian Fields, into the Macedon and Pyrenees Field areas and thence oceanwards to the Novara, Vincent, Laverda, Coniston, Stybarrow and Ravensworth discoveries.

There is an extensive body of existing geological data available in relation to the Permits, including a large amount of 2-D seismic and more than 800 kms<sup>2</sup> of reprocessed 3-D seismic data, which the Exmouth joint venture has acquired, together with a large range of pertinent existing reports and basic data collected by previous operators in the area.

## **WA-322-P**

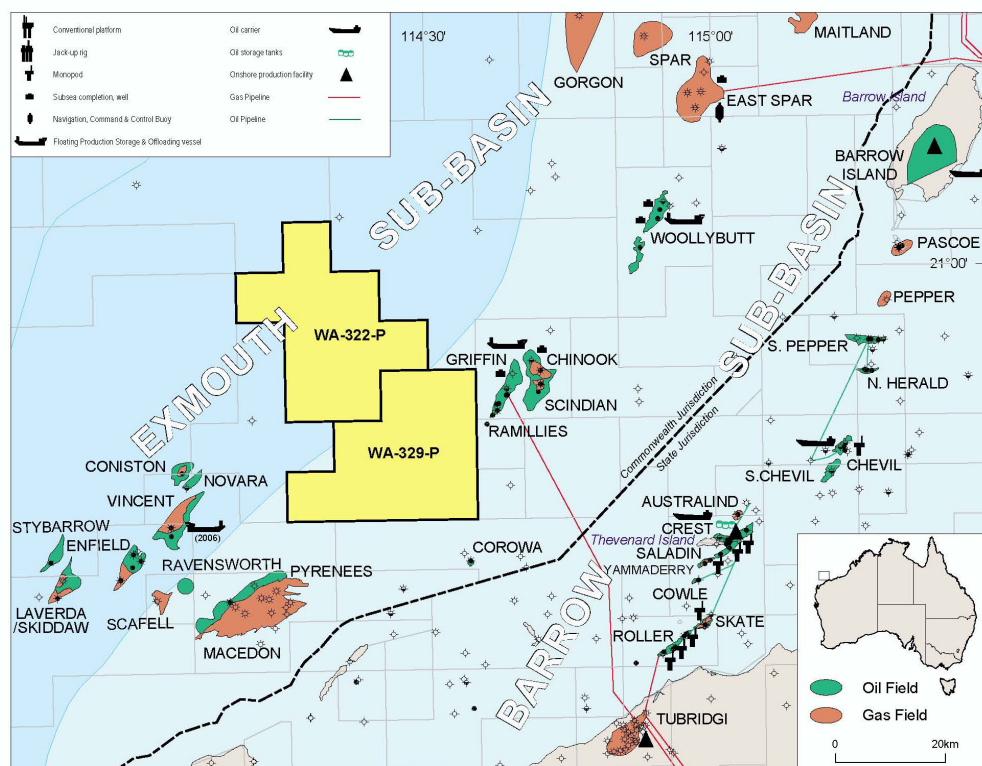
Octanex N.L. and its joint venturers (Strata Resources N.L. and Rocky Mountain Minerals, Inc.), have, since the end of the half year, reached preliminary agreement with BHP Billiton Petroleum Pty Ltd (“BHP Billiton”) for the sale of a 100% working interest in WA-322-P.

The terms of the preliminary agreement (which contains conditions precedent including the execution of formal documentation, confirmation by the Designated Authority of a revised minimum guaranteed work program, all necessary approvals, registrations and filings), provide for a full 100% working interest in the Permit WA-322-P to be assigned to BHP Billiton.

The consideration for the transfer includes the acquisition and processing of a small amount of 3D seismic in WA-329-P, a cash reimbursement to the vendors, a deferred contingent cash payment, and the grant of an overriding royalty interest with respect to any production from WA-322-P.

## **WA-329-P**

In relation to the WA-329-P permit, the Company has collected data comprising existing 2-D seismic surveys and the recently reprocessed, combined Swell and Baylis 3-D data set.



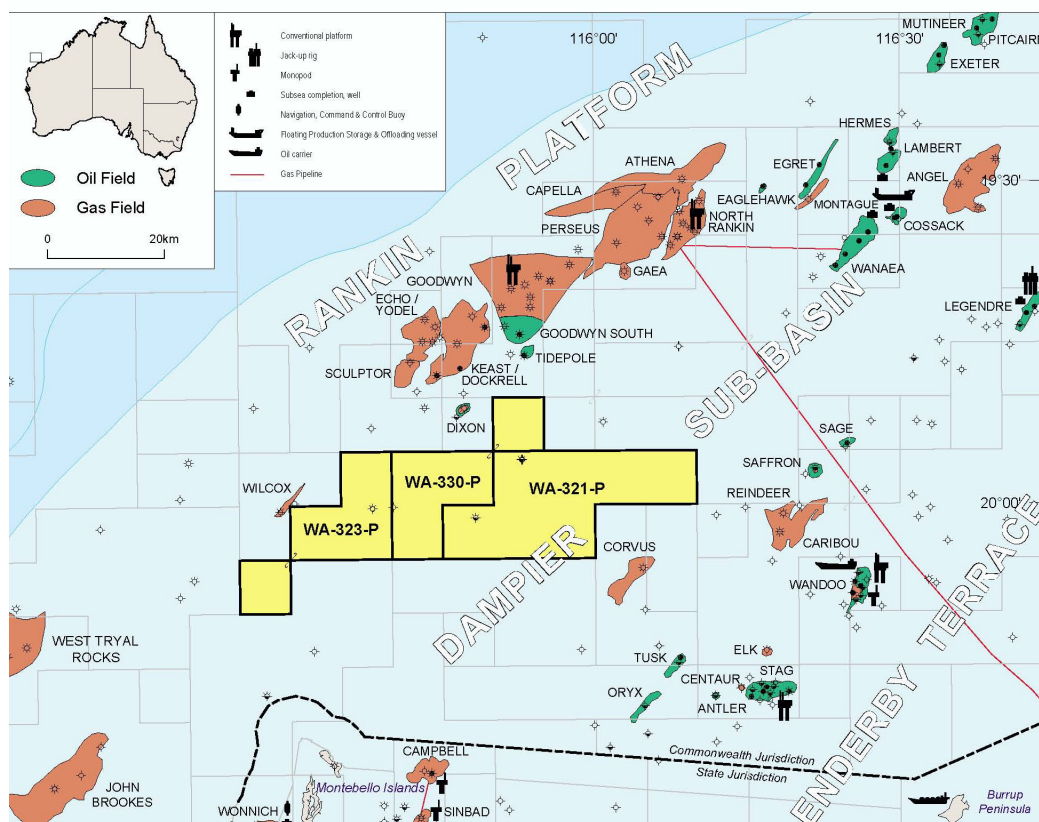
**Figure 1: Location Map of Exmouth Project tenements showing significant oil and gas discoveries and facilities**

## Dampier Joint Venture (Octanex 50% - Operator)

Octanex holds a 50% interest in another significant project area, in the Dampier Sub-basin, where three contiguous permits (WA-321-P, WA-323-P and WA-330-P) are held, immediately south of the traditional North West Shelf gas and oil producing region (see Figure 2). There are also a number of other producing oil and gas fields in the region and a number of significant wells in and adjacent to our project area. These wells have variously established the presence of oil, gas and condensate.

The Company's share of the 2004/2005 budget for exploration for the Dampier Joint Venture includes the shooting of an approximate 900kms of 2-D seismic.

Figure 2 below shows the location of these permits.



**Figure 2: Location map of Dampier Project tenements showing significant oil and gas discoveries and facilities**

The first offshore exploration well in Western Australia was drilled in the Dampier Sub-basin at the Legendre-1 location in 1968. Discoveries have included the Rankin Trend gas, condensate and oil fields that are managed in large part by the North West Shelf Venture (NWSV) lead by Woodside. The partners in this project have undertaken a total capital investment of more than A\$9 billion in the development of these fields. The present trunkline, which brings gas from the Rankin platform ashore at the Burrup Peninsula, passes 15kms to the northeast of WA-321-P. Shortly a second trunkline will parallel it, and this will involve further expenditure of A\$800 million; the line is scheduled for start-up before mid-2004.

Permits WA-330-P, WA-321-P and WA-323-P (Figure 2), occupy an area of the sub-basin immediately to the south of the Echo, Goodwyn, Wilcox, Perseus and the North Rankin Gas Fields.

The Madeleine structural trend, which hosts the Wanaea Oil Field 60 kilometres to the northeast, traverses the WA-330-P and WA-321-P permit areas.

The Parker Terrace structural trend runs through the northwest corner of WA-330-P and bisects WA-323-P, hosting the Dixon and Tidepole gas and condensate accumulations, which are located approximately 8 kilometres to the north of WA-330-P.

## **INVESTMENTS**

### **Cue Energy Resources Limited (“Cue”)**

The Company holds a total of 36,380,140 shares in Cue equivalent to 10.89% of its issued capital and having a market value of \$2 million as at 31 December 2003 and \$2.7 million as at the date of this report.

Additional information about Cue is available from Cue’s website: [www.cuenrg.com.au](http://www.cuenrg.com.au).

### **Methanol Australia Limited (“MEO”)**

The Company holds a total of 4,077,944 shares in MEO representing 4.4% of its issued capital having a market value of \$1 million as at 31 December 2003.

Additional information about MEO is available from the MEO website [www.methanol.com.au](http://www.methanol.com.au).

## **CAPITAL RAISING**

During the half year period the Company issued a prospectus for an entitlement offer to shareholders and a public offer (“IPO”) of ordinary shares, each with two (2) free attaching options, exercisable, respectively at 10 cents by 31 March 2005 and at 25 cents by 30 June 2008. The issue price of the shares pursuant to the offer was 10 cents and the two associated options (see Item 4.2) were granted free of cost.

A total of 15,075,058 shares were subscribed, raising \$1.5 million for exploration activities, increasing issued capital to 34,484,729 ordinary fully paid shares.

## **SHAREHOLDER MATTERS**

### **Listing on Newcastle Stock Exchange**

Following the capital raising the Company’s share and option securities became quoted on the Newcastle Stock Exchange (“NSX”). The Company’s Code on the NSX is “OCT”.

## **Capital Structure**

The Company's capital structure, following the capital raising is as follows:

34,484,729 Ordinary Fully Paid Shares  
15,075,058 31 March 2005 Options (exercisable at 10¢)  
15,075,058 30 June 2008 Options (exercisable at 25¢)

## **Amendments to Constitution**

At a meeting of shareholders of Octanex held on 5<sup>th</sup> March 2004 resolutions were passed which approved various amendments to the Constitution of the Company, the principle effect was to enable the Company to sell shares on behalf of shareholders, particularly small shareholdings representing non-marketable parcels.

## **Implementation of Small Holdings Sale**

Octanex proposes to implement a procedure to sell on-market holdings of 1,000 fully paid ordinary shares or less ('small holdings') on behalf of shareholders who do not wish to retain their shares in the Company.

Shareholders within this category are eligible to have their shares sold under the above procedure. The advantage in authorising Octanex to sell shares in this way is that shareholders will not bear all transaction costs, including brokerage, associated with the sale of such shares.

Shareholders have seven weeks from the 11<sup>th</sup> March 2004 to elect whether to allow Octanex to sell small holdings on their behalf. Shareholders are not obliged to sell their shares under the 'small holdings' procedure. The choice is entirely theirs.

## **Website**

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

## **DIRECTORS**

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

### **Mr EG Albers (Director since 20/10/1984) Chairman and chief executive officer**

Mr Albers specialises in the petroleum industry and has a Bachelor of Law degree from Melbourne University. He has had many years experience in commercial activities and corporate law. Mr Albers is the Chairman and Public Officer of the Company and is Director of Cue Energy Resources Ltd, Methanol Australia Limited and Bass Strait Oil Company Ltd.

### **Mr CR Hart (Director since 25/11/1991) Independent non-executive director**

Mr Hart has commercial and technical experience including appointments as a board member of both corporate and civic bodies. Mr Hart is the Managing director of Methanol Australia Limited and a fellow of AICD.

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

Mr Armitage is a Fellow of the Institute of Chartered Accountants in Australia with over 30 years 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 GA Menzies (appointed Director 26/8/2003) Independent non-executive director**

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

**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.

## **CORPORATE GOVERNANCE**

The Directors are responsible for the strategic direction of the Company, the identification and implementation of corporate policies and goals, monitoring of the business and affairs of the Company on behalf of its members.

One of the key objectives of the Board is to ensure timely, transparent and accurate communication with all members and compliance with all regulatory requirements.

The Board has established an Audit and Compliance Committee.

However, given that the Company is small, with limited activities and limited resources, it has not established a series of committees to address specific areas of corporate governance such as risk management, strategic review, operations and remuneration. These issues will be dealt with by the board as whole, with any interested directors abstaining or being absent as required either by the Act or, as necessary, to avoid conflict or possible breach of their fiduciary duties.

The members of the Audit Committee are all of the directors of the Company, the Company Secretary and a representative of the auditor of the Company.

The Audit and Compliance Committee is established by the board to give additional assurance regarding the quality and reliability of financial information used by the Board and financial information provided by the Company pursuant to its statutory reporting requirements.

On behalf of the Board



E.G. Albers  
Director

Melbourne, 15<sup>th</sup> March 2003

## **DIRECTORS' DECLARATION**

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

In the opinion of the Directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2003 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board.



E.G. Albers  
Director

Melbourne 15<sup>th</sup> March 2003

**CONDENSED STATEMENT OF FINANCIAL PERFORMANCE**  
**HALF-YEAR ENDED 31 DECEMBER 2003**

	NOTE	31/12/2003 \$	CONSOLIDATED 31/12/2002 \$
Revenues from ordinary activities	2	159,592	324,767
Expenses from ordinary activities	3	230,526	(355,974)
		<hr/>	<hr/>
Loss from ordinary activities before income tax expense		(70,934)	(31,207)
Income tax expense relating to ordinary activities		29,350	(50,207)
		<hr/>	<hr/>
Loss from ordinary activities after income tax expense		(41,584)	(81,414)
Net increase (decrease) in asset revaluation reserve		985,156	(101,022)
Expenses recognised directly in equity			
Share issue costs		(264,811)	-
		<hr/>	<hr/>
Loss and total changes in equity other than those resulting from transactions with owners as owners		678,761	(182,436)
		<hr/> <hr/>	<hr/> <hr/>
Basic (loss) earnings per share (cents per share)		(0.2¢)	(0.4¢)
Diluted (loss) earnings per share (cents per share)		(0.2¢)	(0.4¢)

**CONDENSED STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2003**

	NOTE	31/12/2003 \$	CONSOLIDATED 30/6/2002 \$
CURRENT ASSETS			
Cash assets		773,895	96,569
Receivables		83,622	10,433
Other financial assets		-	159,672
		<hr/>	<hr/>
TOTAL CURRENT ASSETS		857,517	266,674
		<hr/>	<hr/>
NON-CURRENT ASSETS			
Other financial assets		3,099,644	2,080,972
Deferred exploration costs carried forward		257,437	282,934
Deferred tax assets		13,180	13,450
		<hr/>	<hr/>
TOTAL NON-CURRENT ASSETS		3,370,261	2,377,356
		<hr/>	<hr/>
TOTAL ASSETS		4,227,778	2,644,030
		<hr/>	<hr/>
CURRENT LIABILITIES			
Payables		146,427	713,051
Current taxation liability		21,380	21,380
		<hr/>	<hr/>
TOTAL CURRENT LIABILITIES		167,807	734,431
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Deferred tax liability		55,261	84,880
		<hr/>	<hr/>
TOTAL NON-CURRENT LIABILITIES		55,261	84,880
		<hr/>	<hr/>
TOTAL LIABILITIES		223,068	819,311
		<hr/>	<hr/>
NET ASSETS		4,004,710	1,824,719
		<hr/>	<hr/>
EQUITY			
Contributed equity	4	2,443,850	1,207,467
Reserves		2,885,279	1,900,087
Accumulated losses		(1,324,419)	(1,282,835)
		<hr/>	<hr/>
TOTAL EQUITY		4,004,710	1,824,719
		<hr/>	<hr/>

**CONDENSED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED  
31 DECEMBER 2003**

	<b>CONSOLIDATED</b>	
	<b>31/12/2003</b>	<b>31/12/2002</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees	(348,657)	(21,025)
Dividends received	-	6,309
Interest received	339	-
Net cash used in operating activities	<u>(348,318)</u>	<u>(14,716)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	159,253	318,458
Expenditure on investments	-	(280,085)
Expenditure on exploration tenements	(3,857)	(13,886)
Net cash provided by investing activities	<u>155,396</u>	<u>24,487</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of ordinary shares	1,493,696	-
Costs of issue	(56,000)	-
Repayment of loan from related-entities	(567,448)	(33,200)
Net cash provided by (used in) financing activities	<u>870,248</u>	<u>(33,200)</u>
Net (decrease) increase in cash assets	677,326	(23,429)
Cash assets at the beginning of the half-year	96,569	96,293
Cash assets at the end of the half-year	<u><u>773,895</u></u>	<u><u>72,864</u></u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2003

### NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose half-year financial report has been prepared in accordance with the Corporations Act 2001, applicable AASB Standards including AASB 1029: Interim Financial Reporting and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) in Australia.

The financial report has been prepared in accordance with the historical cost convention. The accounting policies adopted are consistent with those applied in the 30 June 2003 Annual Financial Report.

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

The half-year financial report does not include notes of the type normally found in an annual financial report. It is recommended that the half-year report is read in conjunction with the 30 June 2003 Annual Financial Report.

	<b>31/12/2003</b>	<b>CONSOLIDATED 31/12/2002</b>
	\$	\$

### NOTE 2 REVENUE FROM ORDINARY ACTIVITIES

Non-operating activities:

Proceeds from sale of investments	159,253	318,458
Dividends received	-	6,309
Interest received	339	-

Total Revenues from Ordinary Activities	<u>159,592</u>	<u>324,767</u>
---	----------------	----------------

### NOTE 3 EXPENSES AND LOSSES (GAINS) FROM ORDINARY ACTIVITIES

Carrying value of disposed investments	159,672	323,000
Interest director related	14,875	14,748
Administration director related	45,074	11,100
Administration other	7,040	1,860
Registry listing and reporting costs	15,171	-
Audit costs	4,000	-
Other expenses from ordinary activities	18,174	5,266
Write back investments	(33,480)	-

Total Expenses from Ordinary Activities	<u>230,526</u>	<u>355,974</u>
---	----------------	----------------

### NOTE 4 CONTRIBUTED EQUITY

During the half-year the Company issued 15,075,058 ordinary fully paid shares at 10 cents per share pursuant to an underwritten prospectus offer. For each share issued two free options were granted: the first exercisable at 10 cents by 31 March 2005 and the second of 25 cents by 30 June 2008.

### NOTE 5 SEGMENT INFORMATION

The economic entity operates predominantly in the petroleum exploration sector within Australia.

## **INDEPENDENT REVIEW REPORT TO THE MEMBERS OF OCTANEX NL**

### **Scope**

We have reviewed the financial report of Octanex NL for the half-year ended 31 December 2003. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### **Independence**

In conducting our review, we followed the applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

### **Statement**

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

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2003 and its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



**PKF**

Chartered Accountants



M L Port  
Partner

15 March 2004  
Melbourne