



Methanol Australia Limited

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REPORT ON ACTIVITIES FOR THE QUARTER ENDED 31 DECEMBER 2005

COMPANY'S ACTIVITIES DURING THE QUARTER

TASSIE SHOAL METHANOL PROJECT (MEO 50%)

Background Information:

The Company and Air Products and Chemicals, Inc. continue to develop the Tassie Shoal Methanol Project (TSMP) under the terms of the joint development agreement (JDA) entered into in April 2004. The project aims to construct and then locate two large natural gas reforming and methanol production plants in the Australian waters of the Timor Sea, at an estimated total cost of A\$2 billion.

The project is jointly owned and developed (50/50) by Methanol Australia and Air Products. The development effort draws on the respective skills of each organization, working together as an integrated team on the technical, commercial and financial components of the project.

Each proposed plant would have a production capacity of 5,000 tonnes of methanol per day. It is projected that both plants would produce a total of 3.5 million tonnes of methanol a year, to be exported throughout Asia and North America. The current methanol price delivered into northeast Asia is between US\$300 - \$330/t and on this basis, the project could generate export revenues in excess of A\$1.5 billion a year.

Success in securing key commercial arrangements, including gas supply undertakings will allow the parties to proceed to front-end engineering and design (FEED) studies and EPC selection.

The Company continues to work with Santos Limited to seek acceptable commercial solutions for gas supply to achieve the required economic thresholds for the Tassie Shoal

Methanol Project and the associated upstream gas production project. The Company is also advancing other gas supply options, including its own exploration activities in the NT/P68 permit, located immediately to the west of Tassie Shoal. Significant scope for recoverable gas reserves has been identified in three prospects within this permit.

TIMOR SEA LNG PROJECT (MEO 100%)

Background Information:

The Timor Sea LNG Project has been designed to utilize concrete gravity substructures (CGS), which would be located in the shallow waters of Tassie Shoal, adjacent to the TSMP. The concrete structure contains the LNG storage tanks for product prior to shipment.

The methanol and LNG projects will be able to share infrastructure, logistic support systems and benefit from significant production process advantages.

In targeting the rapidly expanding markets in northeast Asia, the LNG project will provide a highly competitive supply option with shipping and sovereign risk advantages. Clearly, the world LNG market is strong with the increasing demands for the product from Asia, Europe and the USA.

Environmental Approval Granted:

The Timor Sea LNG Project received its environmental approval to construct and operate adjacent to the TSMP on May 5, 2004. This approval (EPBC 2003/1067) has effect until May 6, 2052

Technical Studies Progress:

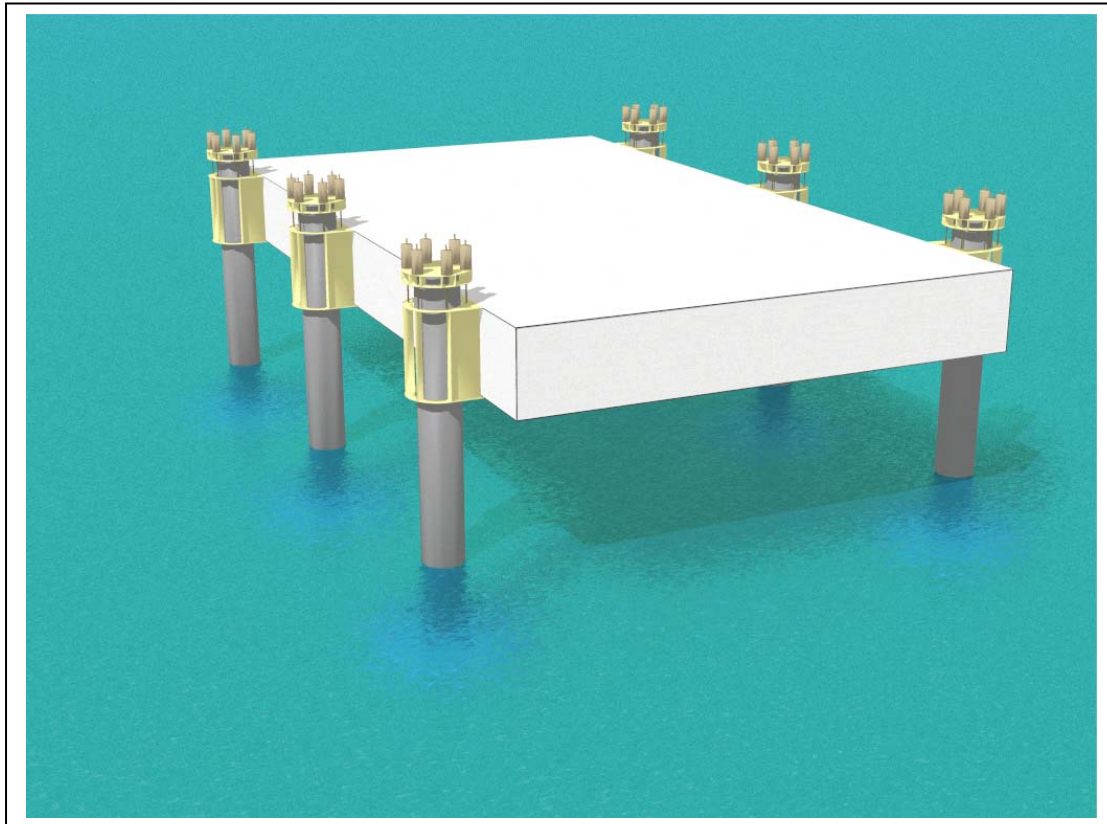
The LNG production module was originally designed to produce 2.52 million tonnes of LNG each year (MTPA). The production module has been re-designed by Worley Limited utilising Air Products DMR (dual mixed refrigerant) technology. This new design has increased production to over 3 MTPA and has resulted in a substantial improvement in plant efficiency. The reduced emissions are expected to lead to an amended environmental approval for the re-configured LNG project.

The production module, incorporating the DMR technology, is designed to be free-standing, being supported by its own substructure on the shoal, no longer utilised the gravity base structures of the LNG tanks. The substructure is a specific application of the ACE Platform system, designed by Arup Energy (see image below).

The Company also engaged Arup Energy to redesign the LNG tank. Recent developments have demonstrated significant capital and schedule savings when the tank size is increased. The original design allowed for the installation of two 85,000 m³ LNG storage tanks. Arup have now designed a single 170,000 m³ CGS based LNG tank for the TSLNGP.

These studies have provided highly feasible technical solutions that optimise the original concepts. They also provide updated cost estimates and further support the economic viability.

The Company continues to develop strategic relationships with companies experienced in the LNG production and marketing industry.



ACE Platform design to support LNG production module on Tassie Shoal

PETROLEUM EXPLORATION PERMIT NT/P68 (MEO 100%)

This 12,070 square km permit is located immediately to the west of Tassie Shoal (approximately 25 km). The Company believes that the permit offers considerable scope for the discovery of further gas accumulations that would support the future gas demands of the TSMP and the TSLNGP.

Studies have confirmed the viability of the Epenarra, Heron North and South leads and also identified Seahawk, up-dip from the Epenarra and Heron features. Epenarra is a large anticlinal structure mapped within the Darwin formation with an aerial closure exceeding 1100 square kilometres. In place gas resource (P50) has been estimated at 5.6 Tcf.

The Company has completed a number of studies in the permit, including petrology examinations of the Darwin Formation, the reservoir for the Epenarra prospect, and reprocessing of our 2D seismic for key strike and dip lines over the Epenarra and Seahawk prospects. The Company had secured the Stena Clyde semi-submersible drilling rig to drill the prospects in 2006.

The Company is currently negotiating with a number of parties interested in the farmin opportunity. However, it was clear that these parties required acquisition of 3D seismic over the prospects to accurately determine the best location and orientation for a well prior to

funding drilling activities. Farm-out terms are expected to include funding of any new seismic acquisition.

The Company has subsequently assigned its 2006 rig slot with the Stena Clyde to Santos Limited. The assignment of the Stena Clyde rig slot has provided additional time to finalise farm-out arrangements and acquire/interpret new seismic, and may result in other commercial benefits to the Company.

Subject to joint venture approval, Santos intends to utilize the rig to drill a well in the adjoining NT/P48 permit that contains the Evans Shoal gasfield and the Tassie Shoal feature.

Santos has agreed to fully reimburse all third party costs incurred to date by the Company in relation to the Stena Clyde rig slot and well planning, including rig inspection and all pre-mobilization costs. Santos will endeavour to provide a replacement rig slot to MEO to assist with the Company's exploration program and has agreed to support and seek NT/P48 joint venture approval to provide the Company with the information pertaining to gas quality, particularly background levels of hydrogen sulphide, confirmed from the well.

As all sulphur must be totally removed from the gas to protect the reformer catalyst within the methanol manufacturing process, high sulphur levels would have an impact on the extent of gas processing and the eventual operating costs.

The Company remains optimistic about the potential for a significant hydrocarbon discovery in the NT/P68 permit.

A handwritten signature in black ink, appearing to read 'Christopher Hart', with a stylized flourish extending to the right.

Christopher Hart
Managing Director
Melbourne, Australia
31 January 2006

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

METHANOL AUSTRALIA LIMITED

ABN

43 066 447 952

Quarter ended ("current quarter")

31 DECEMBER 2005

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration and evaluation	12	(15)
(b) development	(90)	(192)
(c) production		
(d) administration	(217)	(496)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	22	23
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Project fee and recovered costs	-	15
Net Operating Cash Flows	(273)	(665)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects		
(b)equity investments		
(c) other fixed assets	(50)	(81)
1.9 Proceeds from sale of: (a)prospects		
(b)equity investments		
(c)other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
Net investing cash flows	(50)	(81)
1.13 Total operating and investing cash flows (carried forward)	(323)	(746)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(323)	(746)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	994	994
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Share issue costs	(45)	(45)
	Net financing cash flows	949	949
	Net increase (decrease) in cash held	626	203
1.20	Cash at beginning of quarter/year to date	588	1,011
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	1,214	1,214

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	73
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	50
4.2 Development	100
Total	150

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	614	(12)
5.2 Deposits at call	600	600
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	1,214	588

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	140,450,105	140,450,105		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	5,150,000		<i>Exercise price</i> 20 cents	<i>Expiry date</i> 30/9/2006
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter	4,193,839	4,193,839	20 cents	30/9/2005
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: Date: 31/1/2006
(Company secretary)

Print name: D.B. HILL

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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