

**Methanol Australia Limited**

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REPORT ON ACTIVITIES
FOR THE QUARTER ENDED
30 SEPTEMBER 2006

COMPANY'S ACTIVITIES DURING THE QUARTER

During the quarter, the Company managed the planning and execution of 2D and 3D seismic acquisition programs along with other study activity associated with its permit, NT/P68. The Company has also continued to progress various optimisation studies and capital cost reviews in relation to its proposed LNG and methanol projects.

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). The project proposes to construct two large natural gas reforming and methanol production plants on concrete gravity structures in southeast Asia, tow these plants to Tassie Shoal in the Australian waters of the Timor Sea and ground the structures in the shallow waters of the shoal for operation. The estimated total capital cost for both plants is A\$2.3 billion.

The regional methanol market continues to show strong demand and suffers an ongoing shortage of regional supply. The current Asia posted methanol price is US\$550 per tonne.

Success in securing key commercial arrangements, including gas supply arrangements will allow the parties to proceed to front-end engineering and design (FEED) studies and EPC selection. While discussions continue for third party gas supply, at this time, the Company is focusing on the establishment of commercial gas reserves in NT/P68.

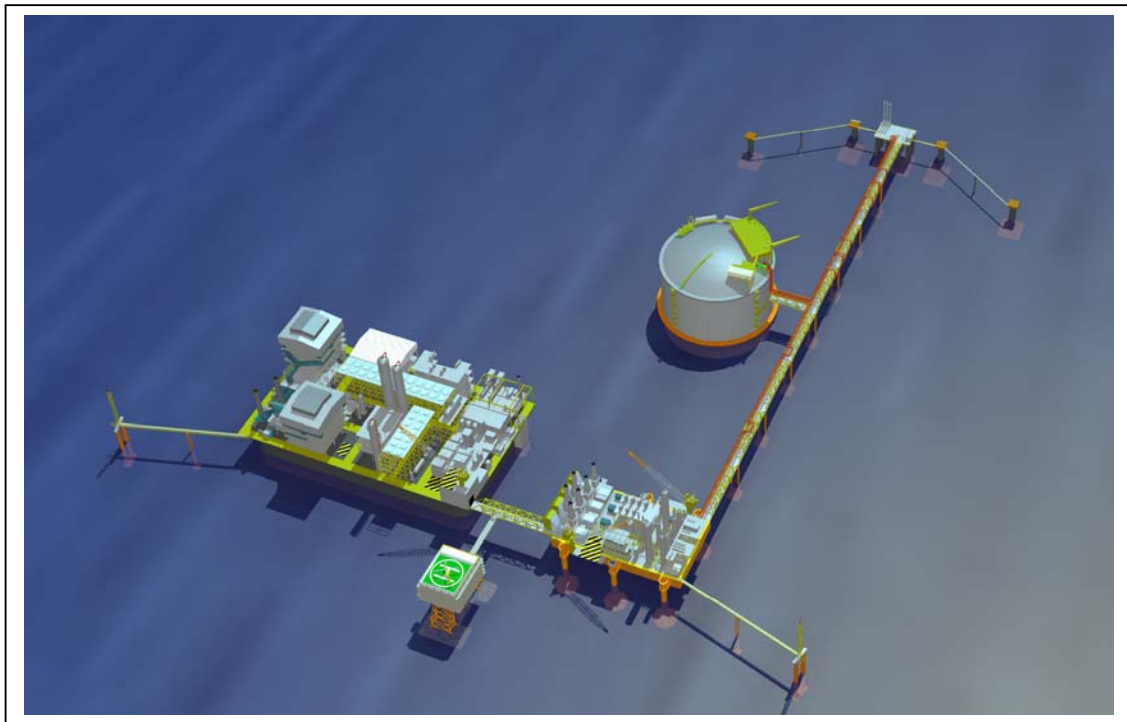
TIMOR SEA LNG PROJECT (MEO 100%)

Background Information:

The proposed Timor Sea LNG Project (TSLNGP) has been designed to be located in the shallow waters of Tassie Shoal. The TSLNGP received its Commonwealth environmental approval to construct, install and operate adjacent to the TSMP on May 5, 2004. The methanol and LNG projects will be able to share infrastructure, logistic support systems and benefit from significant production process advantages.

During the quarter, Arup Energy commenced studies to review the capital cost assumptions for the concrete gravity base substructure (GBS) and LNG storage tank. Additionally, the study was extended to include a cost review of the Production ACE platform, which is the proposed substructure element for the LNG production module. These studies will provide current cost estimates for the LNG project substructures.

In targeting the rapidly expanding markets in northeast Asia, the LNG project could provide a highly competitive supply option to the buyers with clear shipping time and sovereign risk advantages. The world LNG market continues to demonstrate strong demand, particularly from Northeast Asia, Europe and the USA.



3D Cad aerial image of the proposed LNG and methanol production modules

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 commercial gas accumulations that may support the future gas demands of the TSMP and the TSLNGP.

Studies have confirmed the prospectivity of the Epenarra, Heron North/South and Seahawk prospects. Additionally, new mapping identified the Blackwood prospect, which is a large conventional Plover Formation play (the traditional reservoir in the Bonaparte Basin) that is relatively shallow (3300m subsea). New 2D infill seismic data is required to improve the structural mapping of Blackwood.

Epenarra is a large anticlinal structure mapped within the lower section of the Darwin Formation with an aerial closure exceeding 1200 square kilometres. This structure was intersected by the Heron-1 well drilled by Arco in 1972. The well confirmed a 50 metre gas bearing zone in the formation, which is a fractured carbonate. The in place Contingent Resource for gas (P50) for Epenarra has been estimated at 5.6 Tcf.

Over the past year, NT/P68 had been reviewed by a number of large international companies. These reviews led to discussions of farm-in terms and it became clear that terms would involve the assignment of a significant interest in the permit and did not provide certainty of gas supply to the Commonwealth approved methanol and LNG projects. The Cambrian Mining Group approached the Company with a funding strategy that allowed the Company to advance the exploration and appraisal of NT/P68 while retaining 100% of the permit.

In line with the previously announced strategy developed in conjunction the Cambrian Group, the Company continued to maintain 100% control of its upstream and LNG projects and has initiated an aggressive exploration and appraisal program of NT/P68.

PGS Australia Pty Ltd was contracted to acquire and process approximately 500 square kilometres of 3D seismic over the crest of the Epenarra structure in NT/P68 during September and October this year utilizing the M/V Orient Explorer. This survey commenced on September 27, 2006.

The new 3D seismic data is being acquired to identify the density, distribution and orientation of faults and fracturing within the 50m gas bearing zone intersected by the Heron-1 well to determine the optimum location for an appraisal well.

The Company also awarded a 2D acquisition contract to the Compagnie Generale de Geophysique Group (CGG) to acquire approximately 600 line kilometres of infill 2D seismic over the Blackwood lead in NT/P68. This survey is scheduled to commence during November 2006. The new 2D seismic data will improve the structural mapping of Blackwood and is expected to confirm the final well location to test the Blackwood structure.

Additionally, the Company has secured a new jack-up rig to drill up to three wells next year. Seadrill's West Atlas is currently in construction at the Keppel FELS yard in Singapore and is due for delivery to NT/P68 in August 2007. Drilling of the Heron-2 appraisal well on the Epenarra structure is expected to commence shortly thereafter and has been designed for an extended production test.

Epenarra, along with the other identified prospects in the permit, Heron North, Heron South, Blackwood and Seahawk, collectively, are estimated to have a potential mean gas in place value that could exceed 14 Tcf. The 3 Mtpa LNG plant requires approximately 3 Tcf of gas to operate for 20 years. The first methanol plant would target poorer quality (high CO₂) gas that is often found in the Bonaparte Basin, and requires approximately 1.3 Tcf to operate for 20 years.

IMPORTANT SUBSEQUENT EVENTS

The Company is pleased to advise that the PGS Australia vessel, M/V Orient Explorer, successfully completed full acquisition of the new 3D seismic data over Epenarra at 2312 hours on October 30, 2006.

The survey acquisition was completed well within budget and no health, safety or environmental incidents were recorded. Processing of the new data was commenced on the vessel to multiple reduction and Tau-p Deconvolution. The data is currently being prepared for transfer by helicopter to the PGS Australia processing facility in Perth.

The Company has just been advised that the CGG Duke is about to depart from Darwin to NT/P68 and is expected to commence acquisition of the 600 line km of 2D infill seismic in the next couple of days.

The Company has successfully raised approximately \$16 million over the past year, which will be primarily utilized to fund the acquisition, processing and interpretation of the 2D and 3D seismic surveys and meet the cost of designing and engineering the proposed wells, thereby advancing exploration and appraisal activities in NT/P68.

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

Christopher Hart
Managing Director
Melbourne, Australia
October 31, 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")

30 SEPTEMBER 2006

Consolidated statement of cash flows

Cash flows related to operating activities

- 1.1 Receipts from product sales and related debtors
- 1.2 Payments for (a)exploration and evaluation
(b) development
(c) production
(d) administration
- 1.3 Dividends received
- 1.4 Interest and other items of a similar nature received
- 1.5 Interest and other costs of finance paid
- 1.6 Income taxes paid
- 1.7 Other expense recoveries

Net Operating Cash Flows

Cash flows related to investing activities

- 1.8 Payment for purchases of: (a)prospects
(b)equity investments
(c)other fixed assets
- 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

	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a)exploration and evaluation (b) development (c) production (d) administration	(3,952) (56) (419)	(478) (56) (419)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	42	42
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other expense recoveries		
Net Operating Cash Flows	(4,385)	(4,385)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects (b)equity investments (c)other fixed assets	(20)	(20)
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	(20)	(20)
1.13 Total operating and investing cash flows (carried forward)	(4,405)	(4,405)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	13,763	13,763
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other – share issue costs	(631)	(631)
Net financing cash flows		13,132	13,132
Net increase (decrease) in cash held		8,727	8,727
1.20	Cash at beginning of quarter/year to date	2,454	2,454
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	11,181	11,181

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	178
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	3,500
4.2 Development	50
Total	3,550

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	2,110	83
5.2 Deposits at call	9,071	2,371
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	11,181	2,454

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	197,306,393	197,306,393		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	52,706,288 4,050,000	52,706,288 4,050,000	22.5 20	22.5 20
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>	52,706,288	52,706,288	<i>Exercise price</i> 22.5	<i>Expiry date</i> 30/04/2007
7.8 Issued during quarter	52,706,288	52,706,288	22.5	30/04/2007
7.9 Exercised during quarter	4,050,000		20	30/09/2007
7.10 Expired during quarter				
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: October 30, 2006
Company secretary

Print name: David 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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Cash Flow Statement* 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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