

METHANOL AUSTRALIA LIMITED

A.C.N. 066 447 952



FINANCIAL REPORT

2006

Methanol Australia Limited

ACN 066 447 952

Corporate Directory

Directors

Warwick Bisley (Chairman)
Christopher R Hart (Managing Director)
Walter J Dewé
Andrew J Rigg
James M D Willis

Company Secretary

David B Hill
Level 25, 500 Collins Street
Melbourne, Victoria 3000 Australia

Registered Office and Principal Operations Office

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Share Registrar

Link Market Services Limited
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Auditor

Ernst & Young
8 Exhibition Street
Melbourne, Victoria 3000 Australia

Stock Exchange Listing

Australian Stock Exchange Ltd
Level 45, South Tower, Rialto
525 Collins Street
Melbourne, Victoria 3000 Australia

ASX Code: MEO

Website www.methanol.com.au

Incorporated 14 September 1994
Victoria, Australia

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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.

Methanol Australia Limited

ACN 066 447 952

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2006

The directors of Methanol Australia Limited (the "Company" "Methanol Australia") submit their report for the financial year ended 30 June 2006. Methanol Australia Limited is a company limited by shares, incorporated and domiciled in Australia.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. The directors were in office during the entire period unless otherwise stated.

Warwick Bisley B.Eng (Mech) (Hons), FTSE, FRACI, FIE Aust Chairman

(Appointed 18 October 2001)

Mr Bisley is a mechanical engineer with extensive international and senior management experience in the petrochemical industry. Mr Bisley who has served as a non-executive director since appointment to the Board was appointed Chairman on 1 July 2005. Mr Bisley serves on the Remuneration and Nomination Committee.

Christopher R Hart FAICD Managing Director

(Appointed 21 June 1995)

Mr Hart has wide corporate and commercial experience in the oil and gas industry with a primary focus towards gas marketing and utilisation. Mr Hart is the Company's Managing Director and is responsible for the approval and ongoing development of the methanol and LNG Projects. Mr Hart has, over the past 3 years and to the date of this report, also served as a director of Octanex NL, listed on NSX.

Walter J Dewé MA FAICD Executive Director, Commercial-Gas

(Appointed 28 November 1997)

Mr Dewé is a petroleum engineer and has an extensive international commercial and technical background in petroleum production and processing industries. Mr Dewé serves on the Audit Committee.

Andrew J Rigg B. Sc MAICD Non-Executive Director

(Appointed 28 November 1997)

Mr Rigg is a petroleum geologist with wide experience in significant Australian and international petroleum exploration and production projects, including CO₂ sequestration. Mr Rigg serves on the Audit Committee.

James M D Willis LL.M (Hons) Dip Acc Non-Executive Director

(Appointed 28 November 1997)

Mr Willis is a resource lawyer specialising in the upstream oil and gas sector with extensive experience in gas offtake and like contractual matters. Mr Willis serves on the Remuneration and Nomination Committee.

E. Geoffrey Albers

(Retired 30 August 2005)

Mr E Geoffrey Albers retired as a director of the Company on 30 August 2005, having retired as Chairman on 1 July 2005, and having served as a director from the Company's incorporation. Mr Albers during the past 3 years served as a director of other listed companies – Cue Energy Resources Ltd, Bass Strait Oil Company Ltd, Moby Oil & Gas Ltd and Octanex NL.

Company Secretary

David B Hill has been company secretary for 9 years, and presently holds the position of company secretary in other listed companies in the resources sector. Mr Hill has served as company secretary of listed companies in the mining exploration sector for 26 years.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were the development of the Tassie Shoal Methanol Project, the Timor Sea LNG Project and oil and gas exploration, unchanged from the previous year.

The Company had 8 employees at 30 June 2006 including directors (2005: 9).

RESULTS FOR THE YEAR

The net loss of the Group for the financial year, after provision for income tax, was \$1,108,168.

Success in the development of the Company's projects could ultimately lead to the establishment of profitable

**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2006**

businesses. While in the project development phase the Company will continue to be funded from equity capital raised by the issue of new shares, but with the ability to fund project expenditure from farm out or joint development arrangements with other companies..

Dividends

No dividend has been paid, provided or recommended during the financial year and to the date of this report.

Review of Financial Condition

At balance date the Company held cash and cash equivalents of \$2,454,356, following capital raisings during the year of \$2,645,526 and project expenditures of \$1,042,546. Since balance date further funds were raised as set out below primarily to fund seismic programs across NT/P68.

SHARE ISSUES

During the year 100,000 ordinary shares were issued at 20 cents each on exercise of 30 September 2006 options.

Since balance date 14,055,010 shares were issued at 22.5 cents each to raise \$3,130,749 after costs of issue, pursuant to a placement, and a further 38,651,278 shares were issued pursuant to an underwritten rights issue to shareholders to raise approximately \$8,053,698 after costs of issue.

TRUSTEE SHARE SALES

During the year the trustee of the trustee share plan, Doravale Enterprises Pty Ltd, sold 17,333,334 shares held subject to the plan, which raised \$2,625,527 net of costs of sale.

Since balance date the trustee has sold a further 5,500,000 trustee shares to raise \$1,093,950 net of costs of sale, leaving a balance of 122,918 shares subject to the plan at the date of this report.

SHARE OPTIONS

Senior Executives and Officers Plan

At balance date 4,050,000 unissued shares of the Company were under option, pursuant to the terms and conditions of the Plan, exercisable on or before 30 September 2006, at a price of 20 cents per share.

During the year 100,000 options were exercised and 1,000,000 options were forfeited on termination of service of a director. Since balance date 500,000 options were exercised and at the date of this report 3,550,000 unissued shares in the capital of the Company were subject to 30 September 2006 options under the Plan.

30 September 2005 Options

No 30 September 2005 options were exercised and 4,193,839 options expired unexercised.

30 April 2007 Options

Since balance date 38,651,278 30 April 2007 options exercisable at 25 cents each were granted pursuant to the rights issue to shareholders, and 14,055,010 30 April 2007 options were granted under the terms of issue of 14,055,010 shares, following approval of members in general meeting on 20 September 2006.

At the date of this report 52,706,288 unissued shares in the capital of the Company were subject to 30 April 2007 options.

REVIEW OF OPERATIONS

Overview the Company's projects

The Company is in the process of developing significant projects that focus on the conversion of natural gas into transportable and marketable commodities; chemical grade methanol and liquefied natural gas (LNG). The world is clearly facing shortages in energy related commodities and the demand for the products the Company proposes to manufacture has rapidly expanded over the past four years reflected in increased product pricing. The delivered price to northeast Asia markets has ranged during this period between US\$250 and US\$400 per tonne for methanol and US\$400 to US\$750 per tonne for LNG. Although our proposed projects have experienced some capital cost escalation, their fundamental global competitive advantages remain intact and continue to demonstrate the potential for strong economic performances and returns.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2006

The current focus for the Company is to establish commercial gas resources for each project from its own exploration tenement, NT/P68, which could possibly be complemented by the development of third party gas supply arrangements from other regional gas accumulations in the Bonaparte Basin.

Tassie Shoal Methanol Project (50%)

This project involves the construction, installation and operation of two 5000 tonnes per day gas reforming and methanol production plants to be located in stages on an area of shallow water known as Tassie Shoal in Australian waters of the Timor Sea, approximately 275 km northwest of Darwin, Northern Territory. Significantly, the Company has received Australian Government Major Project Facilitation status and Commonwealth environmental approvals for both stages of the project until 2052. The Company has also applied for an Infrastructure Licence over the submerged lands of the shoal. In 2004 the Company entered into an arrangement to jointly develop the Tassie Shoal Methanol Project (TSMP) with a US based industrial gas and energy company, Air Products & Chemicals Inc.

The gas processing plant and its concrete gravity substructure is proposed to be constructed in southeast Asia. The completed substructure and plant would be towed to and grounded on Tassie Shoal, adjacent to the Evans Shoal accumulation and the Company's exploration tenement NT/P68. The plant would utilize conventional and proven gas reforming and synthesis technologies licensed by Davy Process Technology UK (Davy).

During the year, the TSMP project team further optimized the design of the plant and concrete substructure and has continued to progress the resolution of various commercial matters, including gas quality and supply options, so that Front End Engineering and Design (FEED) studies can commence. The FEED studies would fully define and cost the methanol production facilities in preparation for the selection of a suitable Engineering Procurement and Construction (EPC) contractor to construct the facilities.

At this stage no contracts for the supply of gas have been entered into. While no assurances can be given, the Company is confident that it will be able to source a gas supply from one or more sources in the vicinity of Tassie Shoal, including the prospects in NT/P68.

Timor Sea LNG Project (100%)

The Commonwealth environmental approval for the Timor Sea LNG Project (TSLNGP) was granted on May 5, 2004. The approval allows for a LNG production facility to be located adjacent to the methanol plants on Tassie Shoal. The approval has effect until May 6, 2052.

During the year the Company progressed optimisation studies for the LNG project, including the incorporation of Air Products dual mixed refrigerant (DMR) technology as the project's LNG conversion methodology and the redesign of the plant substructure and LNG storage tank. These improvements in design and likely plant performance continue to ensure that the project would maintain a competitive position in global LNG production.

Gas supply for this plant could come from a number of regional gas fields. However, the Company believes the Epenarra Prospect in NT/P68 may offer suitable gas quantity and quality for the TSLNGP.

Exploration Permit NT/P68 – Bonaparte Basin, Timor Sea (100%)

On February 23, 2004, the Northern Territory Department of Business, Industry and Resource Development, as the Designated Authority and on behalf of the Commonwealth of Australia, granted petroleum exploration permit NT/P68 to the Company's wholly owned subsidiaries, TSP Arafura Petroleum Pty Ltd and Oz-Exoil NL. The permit area covers an area of 12,070 kms² (2,981,290 acres).

The eastern boundary of NT/P68 is located approximately 25 km west of Tassie Shoal, the site of the proposed Tassie Shoal Methanol and Timor Sea LNG Projects. The Heron 1 well, drilled in 1972 by ARCO, significantly, had several interpreted hydrocarbon bearing zones, including a 50m fractured carbonate interval in the lower section of the Darwin Formation. Studies conducted during the year indicate that the gas quality at this level may be low in carbon dioxide with the possibility for attractive levels of associated condensate (light oil).

A number of significant prospects and leads have been identified in NT/P68, including the Epenarra structure, a broad, low relief anticline at the Darwin Formation level with a mapped closure of approximately 1,200 sq km.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2006

During the year the Company offered NT/P68 for farm-out to meet the cost of seismic acquisition and the drilling of wells. While a number of large international companies expressed interest to farm-in, it became clear that terms would involve the assignment of a very significant interest in the permit without providing certainty of future gas supply to the TSMP and TSLNGP. The Cambrian Mining Group (UK) 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.

The change in strategy has resulted in the raising of sufficient funds to allow the Company to acquire process and interpret new 3D and 2D seismic over its prospects in NT/P68. Acquisition of this new data is expected to commence during September 2006 and should bring the target prospects to drill ready status. The Company is in the process of securing a rig to drill Heron-2 in 2007 to test gas quality and production capacity of Epenarra.

ENVIRONMENT, HEALTH AND SAFETY

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

The Company's development activities on Tassie Shoal are subject to environment conditions specified in the Petroleum (Submerged Lands) Act, 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 of any relevant environmental regulations.

The upstream activity by the Company of 3D and 2D seismic surveys require Commonwealth environmental approvals and the preparation of Environment Plans to manage the conduct of the surveys and the contractors engaged by the Company to acquire the data. The surveys received their Commonwealth approvals during August 2006. The Environment Plans and contractor Safety Cases required the approval of the Northern Territory Department of Primary Industry, Fisheries and Mines.

The Company believes all injuries are avoidable and has policies and procedures to ensure employees and contractors manage safety accordingly. During the year there were no reported environmental, health and safety incidents.

Directors specifically addressed Health, Safety and Environment issues at Board meetings during the year.

INDEMNIFICATION AND INSURANCE OF DIRECTORS

During the year, the Company paid a premium in respect of a contract insuring all directors of the Company against legal costs incurred in defending proceedings as permitted by section 199B of the Corporations Act 2001. Disclosure of premium details is prohibited under the policy. No other indemnities were given by the Company during the year.

BOARD AND COMMITTEE MEETINGS

The following table sets out the members of the Board of directors and the members of the Committees of the Board, the number of meetings of the Board and of the Committees held during the year and the number of meetings attended during each director's period of office.

	Board of Directors		Audit Committee		Remuneration & Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended
W Bisley	12	12	-	-	4	4
WJ Dewé	12	12	4	4	-	-
CR Hart	12	12	-	-	-	-
AJ Rigg	12	12	4	4	-	-
JMD Willis	12	12	-	-	4	4
EG Albers	2	2	-	-	-	-

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2006

DIRECTORS' INTERESTS

At the date of this report the relevant beneficial and non-beneficial interests of each of the directors in the shares and share options in the Company were:

	Ordinary Shares	30 April 2007 Options	30 September 2006 Options	Performance Plan Rights
W Bisley	1,321,742	180,048	500,000	-
WJ Dewé	1,484,177	296,835		600,000
CR Hart	7,970,466	698,481		2,400,000
AJ Rigg	681,220	46,250	1,000,000	-
JMD Willis	2,336,119	260,000	1,000,000	-

The terms of the options are set out in Note 14 to the financial statements. Details, including fair value at date of grant of the options and performance rights granted to directors, are set out in the Remuneration Report.

REMUNERATION REPORT

This Remuneration Report has been audited.

The Remuneration Report outlines the remuneration arrangements in place for non-executive directors and executive directors, the Group's key management personnel. There are no employees other than directors that meet the definition of key management personnel contained in AASB124 *Related Party Disclosures*.

Components of compensation of key management personnel for the year showing the percentage of compensation that is performance related.

	Year	Short Term		Post Employment		Equity Settled Share-based Payment			Total
		Directors Fees \$	Executive and Other Fees \$	Superann- uation \$	Termin- ation Benefits \$	Perfor- mance Plan \$	Option Plan \$	Perform- ance Related % \$	\$
W Bisley	2006	50,000	1,500	4,500	-	-	252	.04	56,252
	2005	25,000	4,500	2,250	-	-	303	0.9	32,053
WJ Dewé	2006	6,284	35,178	20,965	-	7,286	-	10.5	69,713
	2005	6,250	29,409	21,000	-	14,894	-	20.8	71,553
CR Hart	2006	-	222,852	-	-	24,126	-	9.8	246,978
	2005	-	174,796	27,250	-	78,371	-	27.9	280,417
AJ Rigg	2006	25,000	-	2,250	-	-	252	0.9	27,502
	2005	25,000	-	2,250	-	-	303	1.1	27,553
JMD Willis	2006	27,250	-	-	-	-	252	0.9	27,502
	2005	27,250	-	-	-	-	303	1.1	27,553
EG Albers	2006	-	-	-	-	-	252	100.0	252
	2005	770	24,000	53,730	20,139	-	303	0.3	98,942
TOTAL	2006	108,534	259,530	27,715	-	31,412	1,008		428,199
	2005	84,270	232,705	106,480	20,139	93,265	1,212		538,071

Mr Albers retired as director on 30 August 2005. Termination payments of \$108,546 paid to Mr Albers were accrued and recognised as an expense in prior years.

Remuneration philosophy

The performance of the company depends upon the quality of its directors and executives. To prosper, the company must attract, motivate and retain highly skilled directors and executives.

To this end, the company embodies the following principles in its remuneration framework:

- Competitive rewards is set to attract high calibre executives;
- Executive rewards are linked to shareholder value;
- A significant portion of executive remuneration is dependent upon meeting pre-determined performance benchmarks;
- Appropriate performance hurdles are established in relation to variable executive remuneration; and
- Directors are required to apply at least 50% of their fees to acquire shares in the company at market price.

**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2006**

REMUNERATION REPORT (cont)

The Company during the year, and during the previous 4 financial years, has been engaged in projects in the start-up phase, and has incurred operating losses. Creation of shareholder wealth is dependent upon successful development of one or more of the projects.

Accordingly, the Board's remuneration policy for executives includes the grant of rights with performance criteria linked to project development milestones.

Remuneration Committee

The Remuneration Committee of the Board of Directors of the company is responsible for determining and reviewing compensation arrangements for the directors and executives.

The Remuneration Committee 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 team.

The structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of high calibre, whilst incurring a cost which is acceptable to shareholders.

The Constitution and ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by members in general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. At the Annual General Meeting held on 15 July 1997 shareholders approved an aggregate remuneration of \$200,000 of which \$136,250 was paid to directors during the year ended 30 June 2006 (2005: \$190,750).

Each director has entered into an agreement as to the terms of their appointment as director of the Company, and (other than the managing director) receives remuneration as a director, by way of fee or superannuation. Under such agreements current at the date of this report, there are no annual, long service leave or other termination entitlements. No remuneration is paid to directors for service on board committees or on the boards of wholly owned subsidiaries.

Non-executive directors have been granted options to further align their interests as directors with those of shareholders.

Senior Executives and Officers Option Plan

1,000,000 options exercisable at a price of 20 cents on or before 30 September 2006 were granted to each non-executive director, Messrs W Bisley, AJ Rigg, JMD Willis and EG Albers on 7 December 2001. Service criteria include continuation in office during the life of the options. On retirement from office the holder has 6 months in which to exercise all options held. The Company did not receive any consideration on granting the options. There has been no alteration of the terms and conditions of the options since grant.

No options were exercised during the year, but 1,000,000 options expired on cessation of service. At balance date all of the outstanding options are vested.

Shares allotted on exercise of the options rank *pari passu* in all respects with other fully paid ordinary shares. Each option entitles the holder to participate in new issues in which shares or other securities are offered to shareholders of the Company on the prior exercise of the option.

The compensation of non-executive directors reflects the allocation of the fair value of the option at grant over the period from grant to vesting. The fair value is measured employing an option pricing model, using the share price of 8.1 cents at date of grant, an expected volatility of the Company's share price of 66% and a risk free interest rate of 5.3%.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2006

REMUNERATION REPORT (cont)

Movements in the year of holdings of plan options exercisable by 30 September 2006

30 June 2006	Opening Balance	Received as Remuneration	Options Exercised	Expired /Lapsed	Closing Balance
W Bisley	1,000,000	-	-	-	1,000,000
AJ Rigg	1,000,000	-	-	-	1,000,000
JMD Willis	1,000,000	-	-	-	1,000,000
				-	
Total	3,000,000	-	-	-	3,000,000

At 30 June 2006 all options are vested and exercisable.

30 June 2005

W Bisley	1,000,000	-	-	-	1,000,000
AJ Rigg	1,000,000	-	-	-	1,000,000
JMD Willis	1,000,000	-	-	-	1,000,000
Total	3,000,000	-	-	-	3,000,000

At 30 June 2005 of options held by each person, 800,000 options were vested and exercisable and 200,000 were unvested.

Executive director remuneration

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward executives for individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

In determining the level and make-up of executive remuneration, the Remuneration Committee reviews market levels of remuneration for comparable executive roles.

It is the policy of Remuneration Committee that employment contracts are entered into with the Chief Executive Officer and other executives and consultants covering the following key elements:

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed regularly by the Remuneration Committee. The Committee has access to external advice if required.

Employment contracts

The Company has entered into a contract with PetroEx Pty Ltd to secure the executive services of Mr C R Hart, the Company's Managing Director and CEO. The current service contract commenced on 1 July 2005 and terminates on 30 June 2007, at which time the company may choose to commence negotiation to enter into a new employment contract for the services of Mr Hart. Under the terms of the present contract:

- Fees are determined monthly on a time basis at rates commensurable with industry standards.
- PetroEx may after 12 months terminate the contract by giving 3 months written notice.
- The company may terminate the employment contract after 12 months by giving 3 months written notice, or at any time without notice if serious misconduct has occurred.

The Company entered into a 12 month contract on 1 October 2005, with Fourties Pty Ltd for the services of executive director, commercial-gas, Mr WJ Dewé on an as required basis, at rate commensurable with industry standards. The contract for Mr Dewé's services is under review at the date of this report.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2006

REMUNERATION REPORT (cont)

Variable Remuneration – Long Term Incentives

Methanol Australia Performance Plan

Performance rights entitle recipients to one fully paid ordinary share in the Company for each right held, upon attainment of performance conditions and expiration of the vesting period in relation to the relevant shares. No other consideration is received or will be received by the Company in relation to the provision of the right or the vesting of shares.

Executive directors are granted performance rights in accordance with their employment contract, the terms of which provide for treatment of performance rights held on cessation of employment. The performance rights lapse on expiration of the performance period determined at grant, and on cessation of employment subject to arrangements for death, disability or retirement.

The Company purchases shares on market on behalf of the plan trustee to satisfy obligations under the rights upon satisfaction of performance conditions.

Performance conditions include non market criteria being achievement of operational milestones in the development of the TSMP and the TSLNGP and market criteria, being an increase in the Company's share price.

During the year no performance rights were granted. At balance date an estimate was made of the likelihood of non market criteria relating to certain performance rights being met, the effect of which was a reduction in the fair value expensed for the year.

The amount recognized as remuneration in relation to performance rights in accordance with AASB 2 *Share-based Payment* is shown in the above compensation table. The amount recognized during the year for performance rights with market criteria which expired unvested (performance criteria not met) amounted to \$21,890 (2005:\$91,952).

Movements for the year in holdings of performance rights:

30 June 2006	Opening Balance	Rights Granted	Rights Vested	Expired /Lapsed	Closing Balance
WJ Dewé	650,000	-	-	(50,000)	600,000
CR Hart	2,710,000	-	-	(310,000)	2,400,000
Total	<u>3,360,000</u>	<u>-</u>	<u>-</u>	<u>(360,000)</u>	<u>3,000,000</u>

For rights outstanding at 30 June 2006, shares acquired on satisfaction of performance criteria would be vested.

30 June 2005

WJ Dewé	662,500	550,000	(37,500)	(525,000)	650,000
CR Hart	2,035,000	2,075,000	(300,000)	(1,100,000)	2,710,000
Total	<u>2,697,500</u>	<u>2,625,000</u>	<u>(337,500)</u>	<u>(1,625,000)</u>	<u>3,360,000</u>

At 30 June 2005 shares acquired on satisfaction of performance criteria of rights outstanding, for WJ Dewé; 256,000, and for C R Hart; 1,200,000, would be vested, the balance vested on 31 August 2005. Of the rights granted during the year ended 30 June 2005, 0% vested and 0% lapsed during that year.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2006

REMUNERATION REPORT (cont)

Performance Rights on Issue to Key Management Personnel

	WJ Dewé Rights	CR Hart Rights	Total Rights
1. Performance rights granted on 30 June 2005 and expiring on 31 December 2007 with performance criteria: (a) Obtaining a commitment to construct the methanol plant, retaining at least a 20% interest in the project, and (b) Executing a commercial agreement to develop the LNG project, retaining at least a 25% interest in the project.	100,000	1,000,000 400,000	1,000,000 500,000
2. Performance rights granted on 30 June 2005 and expiring on 31 December 2006 with performance criteria: (a) Obtaining a conditional letter of intent for gas supply, and (b) Obtaining a conditional heads of agreement for methanol off take of 650,000 tonnes per annum	250,000 200,000	300,000 375,000	550,000 575,000
3. Performance rights granted on 1 January 2004, expiring on 31 December 2010, with performance criteria: Acceptance by the Designated Authority of the information leading to the grant of Infrastructure Licence NT/ISL1 recognising that the grant may not occur until the grant of a Production Licence to the holders of NT/P48	50,000	325,000	375,000
Total number of performance rights on issue at balance date	600,000	2,400,000	3,000,000
Performance rights that expired during the year unvested, granted with market based criteria, on the premise that an increased share price would follow success in project development: The Company's share price maintaining a price of 45 cents or more for 5 consecutive days or achieving an average of not less than 40 cents over a period of 20 trading days by 30 June 2006	50,000	310,000	360,000

During the year ended 30 June 2006 no rights were issued or forfeited and no rights have vested or been paid (2005: 0). Grants are payable on the date that the performance criteria are met. In respect of rights issued in the year ended 30 June 2005, the minimum possible value of rights granted is nil. The maximum possible value of rights granted is \$220,500.

EVENTS AFTER BALANCE DATE

Sale of Trustee Shares

The trustee of the Company's Trustee Share Plan sold 5,500,000 shares at market prices to raise \$1,093,950 net of costs of sale.

Issue of Shares

The company issued 14,055,010 fully paid ordinary shares at an issue price of 22.5 cents to raise \$3,130,749 net of costs of issue. As part of the terms of issue the company granted 14,055,010 options exercisable at 25 cents each by 30 April 2007.

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EVENTS AFTER BALANCE DATE (cont)

Shareholder Entitlement Issue

Shareholders were offered the opportunity to participate in a capital raising on the same terms as the above issue, via an underwritten non-renounceable pro-rata rights issue of one ordinary share at an issue price of 22.5 cents for every four shares held on August 11, 2006, which raised \$8,696,537 before costs of the issue. For each share allotted, the Company granted one free option exercisable at 25 cents each by 30 April 2007.

Exercise of Options

A total of 500,000 30 June 2006 options were exercised raising \$100,000.

Following the above issues, the Company's total issued capital is 193,756,393 ordinary shares and there are 52,706,288 unissued shares in the capital of the Company subject to outstanding 30 April 2007 options.

Commitment to 2D and 3D Seismic Programs

Since balance date the Company has contracted seismic surveys across areas of the exploration tenement NT/P68, at an estimated cost of \$12,130,000, satisfying the NT/P68 work program.

AUDITOR INDEPENDENCE

The directors have received the independence declaration from the auditor, Ernst & Young, set out on page 43.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

The cost of advice on application of IFRS was \$10,000



C.R. HART

Managing Director

Melbourne, 27 September 2006

**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2006**

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Methanol Australia Limited, I state that:

In the opinion of the directors:

- (a) the financial report and the additional disclosures included in the directors' report designated as audited, of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and 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.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.

On behalf of the Board



C.R. HART
Managing Director

Melbourne, 27 September 2006

Methanol Australia Limited

ACN 066 447 952

**INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	Consolidated		Parent	
		2006	2005	2006	2005
		\$	\$	\$	\$
Recovery of expenses		489,909	39,410	489,909	39,410
Research and development grant		-	9,545	-	9,545
Project joint development agreement fee		-	476,969	-	476,969
Interest receivable from banks		82,082	14,250	82,082	14,250
Revenue		<u>571,991</u>	<u>540,174</u>	<u>571,991</u>	<u>540,174</u>
Depreciation and amortisation expense		(12,776)	(1,291)	(12,776)	(1,291)
Employees and consultants	4	(759,899)	(799,844)	(759,899)	(799,844)
Exploration expenditure		-	(4,580)	-	(4,580)
Project expenditure		(577,233)	(302,071)	(577,233)	(302,071)
Other expenses	4	(312,251)	(367,843)	(312,251)	(367,843)
Loss before income tax		<u>(1,090,168)</u>	<u>(935,455)</u>	<u>(1,090,168)</u>	<u>(935,455)</u>
Income tax expense	5	(18,000)	-	-	-
Net Loss for the period		<u><u>(1,108,168)</u></u>	<u><u>(935,455)</u></u>	<u><u>(1,090,168)</u></u>	<u><u>(935,455)</u></u>
Basic loss per share (cents per share)	6	0.79	0.67		
Diluted loss per share (cents per share)	6	0.79	0.67		

Methanol Australia Limited

ACN 066 447 952

**BALANCE SHEET
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	Consolidated		Parent	
		2006	2005	2006	2005
CURRENT ASSETS		\$	\$	\$	\$
Cash and cash equivalents	7	2,454,356	1,010,768	2,454,351	1,010,763
Trade and other receivables	8	13,025	24,840	13,025	24,840
Prepayments	9	-	10,207	-	10,207
TOTAL CURRENT ASSETS		2,467,381	1,045,815	2,467,376	1,045,810
NON-CURRENT ASSETS					
Other financial assets	10	-	-	7	7
Plant and equipment	11	36,197	7,495	36,197	7,495
Intangible assets	12	41,072	-	41,072	-
Exploration and evaluation costs	13	176,144	120,065	176,144	120,065
TOTAL NON-CURRENT ASSETS		253,413	127,560	253,420	127,567
TOTAL ASSETS		2,720,794	1,173,375	2,720,796	1,173,377
CURRENT LIABILITIES					
Trade and other payables	15	179,994	137,589	179,994	137,589
Income tax payable	5	18,000	-	-	-
Payable to subsidiary	20	-	-	88,485	88,485
Provisions	16	17,754	110,639	17,754	110,639
TOTAL CURRENT LIABILITIES		215,748	248,228	286,233	336,713
NON-CURRENT LIABILITIES					
Provisions	16	8,000	-	8,000	-
TOTAL NON-CURRENT LIABILITIES		8,000	-	8,000	-
TOTAL LIABILITIES		223,748	248,228	294,233	336,713
NET ASSETS		2,497,046	925,147	2,426,563	836,664
EQUITY					
Contributed equity	17	12,147,239	9,501,712	12,147,239	9,501,712
Other reserves	17	20,006	40,191	20,006	40,191
Accumulated losses	17	(9,670,199)	(8,616,756)	(9,740,682)	(8,705,239)
TOTAL EQUITY		2,497,046	925,147	2,426,563	836,664

Methanol Australia Limited

ACN 066 447 952

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006**

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments to suppliers and employees	(1,042,546)	(996,624)	(1,042,546)	(1,155,759)
Expenditure on exploration tenements	(67,119)	(113,605)	(67,119)	(113,605)
Expenditure on methanol & LNG projects	(576,715)	(473,668)	(576,715)	(314,533)
Expense re-imbursements & agreement fee	489,910	516,379	489,910	516,379
Interest received	82,082	14,250	82,082	14,250
Research and development grant	-	24,243	-	24,243
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash used in operating activities (note 7)	(1,114,388)	(1,029,025)	(1,114,388)	(1,029,025)
	<hr/>	<hr/>	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES				
Expenditure on plant and equipment	(38,264)	(3,416)	(38,264)	(3,416)
Expenditure on intangibles	(49,286)	-	(49,286)	-
Expenditure on investments	-	-	-	(2)
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash used in investing activities	(87,550)	(3,416)	(87,550)	(3,418)
	<hr/>	<hr/>	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from share issues	2,772,628	1,668,794	2,772,628	1,668,794
Costs of share issues	(127,102)	(89,191)	(127,102)	(89,191)
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash from financing activities	2,645,526	1,579,603	2,645,526	1,579,603
	<hr/>	<hr/>	<hr/>	<hr/>
Net increase in cash and cash equivalents	1,443,588	547,162	1,443,588	547,160
Cash and cash equivalents at beginning of period	1,010,768	463,606	1,010,763	463,603
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of period (note 7)	<u>2,454,356</u>	<u>1,010,768</u>	<u>2,454,351</u>	<u>1,010,763</u>

Methanol Australia Limited

ACN 066 447 952

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006**

	Issued Capital	Other Reserves	Accumulated Losses	Consolidated Total Equity
	\$	\$	\$	\$
At 1 July 2005	9,501,712	40,191	(8,616,756)	925,147
Loss for the period	-	-	(1,108,168)	(1,108,168)
Cost of share based payment	-	34,540	-	34,540
Transfer cost of unvested expired equity instruments	-	(54,725)	54,725	-
Share issues	20,000	-	-	20,000
Sales of trustee shares	2,752,629	-	-	2,752,629
Costs of sale	(127,102)	-	-	(127,102)
At 30 June 2006	<u>12,147,239</u>	<u>20,006</u>	<u>(9,670,199)</u>	<u>2,497,046</u>
At 1 July 2004	7,922,109	46,632	(7,786,394)	182,347
Loss for the period	-	-	(935,455)	(935,455)
Cost of share based payment	-	98,652	-	98,652
Transfer cost of unvested expired equity instruments	-	(105,093)	105,093	-
Share issues	186,045	-	-	186,045
Costs of issue	(28,024)	-	-	(28,024)
Sale of trustee shares	1,482,750	-	-	1,482,750
Costs of sale	(61,168)	-	-	(61,168)
At 30 June 2005	<u>9,501,712</u>	<u>40,191</u>	<u>(8,616,756)</u>	<u>925,147</u>
At 1 July 2005	9,501,712	40,191	(8,705,239)	836,664
Loss for the period	-	-	(1,090,168)	(1,090,168)
Cost of share based payment	-	34,540	-	34,540
Transfer cost of unvested expired equity instruments	-	(54,725)	54,725	-
Share issues	20,000	-	-	20,000
Sale of trustee shares	2,752,629	-	-	2,752,629
Costs of sale	(127,102)	-	-	(127,102)
At 30 June 2006	<u>12,147,239</u>	<u>20,006</u>	<u>(9,740,682)</u>	<u>2,426,563</u>
At 1 July 2004	7,922,109	46,632	(7,874,877)	93,864
Loss for the period	-	-	(935,455)	(935,455)
Cost of share based payment	-	98,652	-	98,652
Transfer cost of unvested expired equity instruments	-	(105,093)	105,093	-
Share issues	186,045	-	-	186,045
Costs of issue	(28,024)	-	-	(28,024)
Sale of trustee shares	1,482,750	-	-	1,482,750
Costs of sale	(61,168)	-	-	(61,168)
At 30 June 2005	<u>9,501,712</u>	<u>40,191</u>	<u>(8,705,239)</u>	<u>836,664</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 1 CORPORATE INFORMATION

The financial report of Methanol Australia Limited (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 27 September 2006.

Methanol Australia Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on Australian Stock Exchange.

The nature of operations and principal activities of the Group are described in note 3.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirement of the Corporations Act 2001 and Australian Accounting Standards, presented in Australian dollars. The financial report has also been prepared on a historical cost basis.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with the International Financial Reporting Standards (IFRS).

This is the first annual financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliation of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS is detailed in note 24.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Methanol Australia Limited and its subsidiaries as at 30 June each year (the Group).

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, income, expenses and profits and losses from intra group transactions, have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(d) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share options is determined by an external valuer using a binomial option pricing model, and using the assumptions detailed in note 14.

(e) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Specific recognition criteria must also be met:

Interest income

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest income applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Revenue is recognised as the interest accrues using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

Accounting policies applicable for the year ended 30 June 2005

Revenue is recognised upon control of right to receive interest payment.

(f) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income amount and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(g) Leases

Leases under which the lessor retains substantially all of the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised in the income statement in a straight-line basis over the lease term.

(h) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(i) Trade and other receivables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Trade receivables which generally have 30-90 day terms, are recognised and carried at invoice amount less an allowance for any uncollectible amount. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Accounting policies applicable for the year ended 30 June 2005

Trade receivables were recognised and carried at invoice amount less provision for any uncollectible debts. An estimate for doubtful debts was made when collection of the full amount was no longer probable.

(j) Reserved shares

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for reserved shares applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Own equity instruments reacquired for later payment as employee share-based payment awards (reserved shares) are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Accounting policies applicable for the year ending 30 June 2005

Shares in the Group reacquired on the market are held in trust and recognised on balance sheet as a current prepayment.

k) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by balance date.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary differences is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be used, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when the deductible temporary differences is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be applied.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only where a legally enforceable right of set off exists and the deferred tax assets and liabilities relate to the same taxable entity.

(I) Goods and services tax

Revenues, expenses and assets are recognised net of GST, except receivables and payables which are stated with GST included.

Where GST incurred on a purchase of goods or services is not recoverable from the taxation authority, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(m) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets – 5 to 15 years.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the assets value in use can be estimated to be close to its fair value. An impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is written down to its recoverable amount.

The recoverable amount of a plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of plant and equipment is derecognised upon disposal or when no future economics benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(n) Methanol and LNG Project Costs

Research and feasibility costs are expensed as incurred. Development expenditure incurred on a project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future revenue from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

(o) Exploration and Evaluation Costs

Exploration and evaluation costs are accumulated separately for each area of interest and carried forward provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development or sale; or
- exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Restoration, Rehabilitation and Environment Costs

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 discounted costs, current legal requirements and current technology.

Estimates of future costs are reassessed at least annually. Changes in estimates relating to areas of interest in the exploration and evaluation phase are dealt with retrospectively, with any amounts that would have been written off or provided against under the accounting policy for exploration and evaluation immediately written off. Changes in estimates of costs relating to producing areas are dealt with prospectively over the remaining resource life.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(p) Intangible Assets

Intangible assets acquired are measured at cost less any accumulated amortisation and any accumulated impairment losses. For internally generated intangible assets, expenditure is charged against profits in the year incurred.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and method for an intangible asset with a finite useful life is reviewed at least annually. Changes in the expected useful life are accounted for by changing the amortisation period or method, which is a change in an accounting estimate. Amortisation expense is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(r) Trade and other payables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Trade and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of the goods and services.

Accounting policies applicable for the year ended 30 June 2005

Trade and other payables were carried at costs which the fair value of the consideration to be paid in the future for goods and services received, whether or not invoiced to the consolidated entity.

(s) Share-based payment transactions

The Group provides benefits to employees (including directors) of, and consultants to, the Group in the form of share-based payment transactions, whereby services are rendered in exchange for shares or rights over shares ('equity-settled transactions'). There are currently two plans in place to provide these benefits:

- (i) Senior Executives and Officers Option Plan, which provides benefits to directors and senior executives, and
- (ii) Methanol Australia Performance Plan which provides benefits to senior executives and consultants.

The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value of options and performance rights with market based performance criteria is determined by an external valuer using a binomial option pricing model. The fair value of performance plan rights with non-market performance criteria is determined by reference to the Company's share price at date of grant.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the recipient become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors, based on the best available information at balance date, will ultimately vest. No adjustment is made for the likelihood of market conditions being met as the effect of these conditions is included in determination of fair value at grant date. The charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(t) Employee leave benefits

Wages, salaries, annual leave and sick leave

Liabilities for wage and salaries, including non-monetary benefits and annual leave entitlements expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' service up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date in national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(u) Contributed equity

Ordinary share are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(v) Earnings per share

Basic earnings per share is calculated as net profit (loss) attributable to members divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit (loss) attributable to members divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(w) AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* as follows:

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively. The Group has applied the following exemptions:

Financial instruments

The Company has adopted the exemption under AASB 1 from the application of AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* to the comparative period.

Comparative information for financial instruments is prepared in accordance with previous Australian generally accepted accounting principals (AGAAP) and the company and group have adopted AASB 132: *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

Share-based payment transactions

AASB 2 *Share-based Payment* is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005. The Group has elected not to apply AASB 2 retrospectively to options granted on 7 December 2001.

(x) Statement of compliance

Except for the revised AASB 119 Employee Benefits (issued December 2005), Australian Accounting Standards that have recently been issued or amended but are not yet effective, have not been adopted for the annual reporting period ended 30 June 2006.

AASB Amendment	Affected Standards	Nature of change to accounting policy	Application date of standard	Application date for Group
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy required - no impact.	1 January 2006	1 July 2006
2005-5	AASB1: First-time adoption of IFRS, AASB 139	No change to accounting policy required - no impact.	1 January 2006	1 July 2006
2005-6	AASB 3: Business Combinations	No change to accounting policy required - no impact.	1 January 2006	1 July 2006
2005-10	AASB 132: Financial Instruments: Disclosure and Presentation, AASB 101: Presentation of Financial Statements, AASB 114: Segment Reporting, AASB 117: Leases, AASB 133: Earnings per Share, AASB 139 and AASB 101	No change to accounting policy required - no impact.	1 January 2007	1 July 2007
New standard	AASB 7 Financial Instruments: Disclosures	No change to accounting policy required - no impact.	1 January 2007	1 July 2007

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006****NOTE 3 SEGMENT INFORMATION**

The Group's operations are confined to development of methanol and LNG development projects and petroleum exploration. The primary segment reporting format is by project segment affected predominantly by differences in risk. The Group operates wholly within the single secondary, geographical, segment of Australia.

The following tables represent revenue, profit information and certain asset and liability information regarding business segments for the years ended 30 June 2006 and 30 June 2005.

BUSINESS SEGMENTS	METHANOL & LNG DEVELOPMENT		PETROLEUM EXPLORATION		CONSOLIDATED	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Revenue:						
Segment revenue	13,706	525,924	410,964	-	424,670	525,924
Non-segment revenue					147,321	14,250
Total consolidated revenue					571,991	540,174
Result:						
Segment profit (loss)	(518,719)	(308,573)	(108,888)	(24,580)	(627,607)	(333,153)
Non-segment expenses					(462,560)	(582,960)
Profit (loss) before income tax					(1,090,167)	(916,113)
Income tax expense					(18,000)	-
Net profit (loss) for the year					(1,108,167)	(916,113)
Assets:						
Segment assets	-	-	217,216	120,065	217,216	120,065
Non-segment assets					2,503,578	1,053,310
Total Assets					2,720,794	1,173,375
Liabilities:						
Segment liabilities	3,738	55,256	52,407	11,040	56,145	66,296
Non-segment liabilities					167,603	181,932
Total Liabilities					223,748	248,228
Other Segment Information:						
Acquisition of plant and equipment, and other non-current assets	-	-	105,365	120,065	105,365	120,065
Depreciation and Amortisation						
Segment depreciation	-	-	8,214	-	8,214	-
Non-segment depreciation					4,562	1,291
Cash Flow Information:						
<u>Operating Activities</u>						
Segment net cash flow (used)	(518,711)	226,090	(124,996)	(113,605)	(643,707)	112,485
Non-segment net cash flow (used)					(470,681)	(1,141,509)
<u>Investing Activities</u>						
Segment net cash flow (used)	-	-	(49,286)	-	(49,286)	-
Non-segment net cash flow (used)					(33,264)	(3,416)
<u>Financing Activities</u>						
Non-segment net cash flow					2,645,526	1,579,603

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	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 4 EXPENSES				
Employees and Consultants				
Consultants fees and expenses	290,754	234,310	290,754	234,310
Directors remuneration	108,534	84,270	108,534	84,270
Directors superannuation	27,715	106,480	27,715	106,480
Directors insurance	41,991	-	41,991	-
Fringe benefits tax	5,438	2,690	5,438	2,690
Payroll tax and insurance	8,311	17,412	8,311	17,412
Performance plan cost	-	40,164	-	40,164
Provision for annual and long service leave	23,661	1,663	23,661	1,663
Retirement benefit	-	20,139	-	20,139
Salaries	185,565	170,550	185,565	170,550
Share based payments	34,540	98,652	34,540	98,652
Superannuation	33,390	23,514	33,390	23,514
	<u>759,899</u>	<u>799,844</u>	<u>759,899</u>	<u>799,844</u>
Other Expenses				
Administration and other expenses	59,616	46,654	59,616	46,654
Audit costs	50,000	50,500	50,000	50,500
Foreign exchange loss	513	1,329	513	1,329
Premises costs	36,448	36,572	36,448	36,572
Stock exchange registry and reporting costs	53,317	54,638	53,317	54,638
Travel and corporate promotion costs	72,357	128,489	72,357	128,489
Trustee stock scheme costs	40,000	49,661	40,000	49,661
	<u>312,251</u>	<u>367,843</u>	<u>312,251</u>	<u>367,843</u>
NOTE 5 INCOME TAX				
Income Statement				
<i>Current income tax</i>				
Current income tax credit	386,075	175,119	368,075	175,119
Tax losses not recognised as not probable	(368,075)	(175,119)	(368,075)	(175,119)
	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	(9,280)	-	(9,280)	-
Tax losses brought to account to offset net deferred tax liability	9,280	-	9,280	-
	<u>0</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income tax expense reported in the Income Statement	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Statement of Changes in Equity				
<i>Deferred income tax related to items charged or credited directly to equity</i>				
Share issue costs	(10,234)	(10,234)	(10,234)	(10,234)
Tax losses not recognised as not probable	10,234	10,234	10,234	10,234
Income tax expense reported in Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$

NOTE 5 INCOME TAX (cont)

Tax Reconciliation

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting loss before tax	(1,090,167)	(935,455)	(1,090,167)	(935,455)
At the Group's statutory 30% tax rate (2005: 30%)	(327,050)	(280,637)	(327,050)	(280,637)
Non-deductible expenditure	-	39,296	-	39,296
Share Based Payment Expense	10,362	29,596	10,362	29,596
Tax losses not brought to account	334,688	211,745	316,388	211,745
Income tax expense reported in the Income Statement	18,000	-	-	-

	Balance Sheet		Income Statement	
	2006	2005	2006	2005
	\$	\$	\$	\$

Deferred Income Tax

Deferred income tax at 30 June relates to the following:

CONSOLIDATED

Deferred tax liabilities

Exploration and evaluation costs	(52,843)	(36,020)	16,824	36,020
Gross deferred income tax liabilities	(52,843)	(36,020)		

Deferred tax assets

Accruals	13,636	10,100	(3,536)	(3,087)
Provisions	5,326	628	(4,698)	(499)
Directors Retirement Benefits	-	32,564	32,564	(6,042)
Share Issue Costs	24,601	34,835	-	-
Tax losses brought to account to offset net deferred tax liability	9,280	-	(9,280)	-
Deferred tax assets not brought to account	-	(42,107)	(31,873)	(26,392)
Gross deferred income tax assets	52,843	36,020		
Net Deferred Tax Asset	-	-		
Deferred tax income (expense)			-	-

PARENT

Deferred tax liabilities

Exploration and evaluation costs	(52,843)	(36,020)	16,824	36,020
Gross deferred income tax liabilities	(52,843)	(36,020)		

Deferred tax assets

Accruals	13,636	10,100	(3,536)	(3,087)
Provisions	5,326	628	(4,698)	(499)
Directors Retirement Benefits	-	32,564	32,564	(6,042)
Share Issue Costs	24,601	34,835	-	-
Tax Losses brought to account	9,280	-	(9,280)	-
Deferred tax assets not brought to account	-	(42,107)	(31,873)	(26,392)
Gross deferred income tax assets	52,843	36,020		
Net Deferred Tax Asset / (Liability)	-	-		
Deferred tax income/ (expense)			-	-

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**NOTES TO THE FINANCIAL STATEMENTS
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	Balance Sheet		Income Statement	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 5 INCOME TAX (cont)				
PARENT				
<i>Deferred tax liabilities</i>				
Exploration and evaluation costs	(52,843)	(36,020)	16,824	36,020
Gross deferred income tax liabilities	(52,843)	(36,020)		
<i>Deferred tax assets</i>				
Accruals	13,636	10,100	(3,536)	(3,087)
Provisions	5,326	628	(4,698)	(499)
Directors Retirement Benefits	-	32,564	32,564	(6,042)
Share Issue Costs	24,601	34,835	-	-
Tax Losses brought to account	9,280	-	(9,280)	-
Deferred tax assets not brought to account	-	(42,107)	(31,873)	(26,392)
Gross deferred income tax assets	52,843	36,020		
Net Deferred Tax Asset / (Liability)	-	-		
Deferred tax income/ (expense)			-	-

Tax consolidation

At the date of this report, the company has not decided whether it will be consolidating for tax purposes in the current income year and is unable to quantify the impact on entering into tax consolidation, including the availability of carry forward losses.

NOTE 6 EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Potential ordinary shares arising from the 4,050,000 30 September 2006 options are not dilutive potential ordinary shares. The following data was used in the calculations of basic loss per share:

	Consolidated	
	2006	2005
	\$	\$
Net loss	(1,108,168)	(935,455)
Weighted average number of ordinary shares used in calculation of basic loss per share	Shares 140,481,886	Shares 140,402,532

Transactions involving ordinary shares or potential ordinary shares that have occurred between the reporting date and the date of completion of these financial statements are set out in note 23. No dividends were paid during the year and no dividends are proposed. No franking credits are held by the Group.

NOTE 7 CASH AND CASH EQUIVALANTS

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash at bank	2,454,356	1,010,768	2,454,351	1,010,763

Cash at bank earns interest at floating rates based on daily bank rates.

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**NOTES TO THE FINANCIAL STATEMENTS
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	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
CASH AND CASH EQUIVALENTS (cont)				
Cash Flow Statement				
Reconciliation of net loss after tax to net cash flows used in operating activities				
Net loss	(1,108,168)	(935,455)	(1,090,168)	(935,455)
<i>Adjustments for:</i>				
Depreciation and amortisation	12,776	1,291	12,776	1,291
Exploration expenditure	(67,118)	(109,025)	(67,118)	(109,025)
Share based payments	34,540	98,652	34,540	98,652
<i>Changes in assets and liabilities</i>				
(Increase)/decrease in trade and other receivables	11,815	7,768	11,815	7,768
(Increase)/decrease in prepayments	10,207	(10,207)	10,207	(10,207)
(Decrease)/increase in trade and other payables	58,445	(103,851)	58,445	(103,851)
(Decrease)/increase in provisions	(84,885)	21,802	(84,885)	21,802
(Decrease)/increase in current tax payable	18,000	-	-	-
Net cash flows used in operating activities	<u>(1,114,388)</u>	<u>(1,029,025)</u>	<u>(1,114,388)</u>	<u>(1,029,025)</u>

NOTE 8 TRADE AND OTHER RECEIVABLES

Goods and services tax refund	13,025	22,173	13,025	22,173
Other	-	2,667	-	2,667
	<u>13,025</u>	<u>24,840</u>	<u>13,025</u>	<u>24,840</u>

Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. Details regarding the credit risk of current receivables is disclosed in note 18.

NOTE 9 PREPAID EXPENSES

Prepaid directors remuneration	-	10,207	-	10,207
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NOTE 10 OTHER FINANCIAL ASSETS

Investment in controlled entities at cost (note 20)	-	-	7	7
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NOTE 11 PLANT AND EQUIPMENT

At cost	43,580	10,316	43,580	10,316
Accumulated depreciation	(7,383)	(2,821)	(7,383)	(2,821)
	<u>36,197</u>	<u>7,495</u>	<u>36,197</u>	<u>7,495</u>
Movement in Plant and Equipment				
Net carrying amount at beginning of year	7,495	370	7,495	370
Additions	33,263	8,416	33,263	8,416
Depreciation	(4,561)	(1,291)	(4,561)	(1,291)
Net carrying amount at end of year	<u>36,197</u>	<u>7,495</u>	<u>36,197</u>	<u>7,495</u>

The useful life of the plant and equipment is estimated for 2006 and 2005 as 4 to 15 years.

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**NOTES TO THE FINANCIAL STATEMENTS
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	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 12 INTANGIBLE ASSETS				
Software licences at cost	49,286	-	49,286	-
Accumulated amortisation	(8,214)	-	(8,214)	-
	<u>41,072</u>	<u>-</u>	<u>41,072</u>	<u>-</u>
Movement in Intangibles				
Net carrying amounts at beginning of year	-	-	-	-
Additions	49,286	-	49,286	-
Amortisation	(8,214)	-	(8,214)	-
Net carrying amount at end of year	<u>41,072</u>	<u>-</u>	<u>41,072</u>	<u>-</u>

The useful life of the intangibles is estimated as 4 years.

NOTE 13 EXPLORATION AND EVALUATION COSTS

Balance at beginning of year	120,065	-	120,065	-
Expenditure for the year	56,079	124,645	56,079	124,645
Expenditure written off	-	(4,580)	-	(4,580)
	<u>176,144</u>	<u>120,065</u>	<u>176,144</u>	<u>120,065</u>

Exploration and evaluation expenditure is carried at cost. If indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

NOTE 14 SHARE BASED PAYMENT PLANS*Senior Executives and Officers Option Plan*

Share options granted to senior executives and non-executive directors vest cumulatively: 20% at grant and 20% on each anniversary of grant. The exercise price of the options is 20 cents and the options expire on 30 September 2006, or on cessation of service by the holder. The contractual life of each option granted is five years. There are no cash settlement alternatives.

Movements in share options on issue during the year:

	2006	2005
	Options	Options
Outstanding at the beginning of the year	5,150,000	5,150,000
Forfeited during the year	(1,000,000)	-
Exercised during the year	(100,000)	-
Outstanding at the end of the year	<u>4,050,000</u>	<u>5,150,000</u>

Of the options outstanding at the end of the year 3,240,000 (2005: 4,320,000) are not recognised in accordance with AASB 2 *Share Based Payment* being granted before 7 November 2002 on terms not subsequently modified.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

SHARE BASED PAYMENT PLANS (CONT)

The fair value of equity-settled share options granted is estimated as at the date of grant using a binomial option pricing model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Expected volatility	66%	Option exercise price	20 cents
Risk-free interest rate	5.32%	Share price at grant date	8.1 cents
Expected life of option	5 years		

The expected volatility, calculated using historical volatilities of a basket of ASX listed exploration companies, reflects the assumption that historical volatility is indicative of future trends, which may not necessarily be the outcome.

Methanol Australia Performance Plan

Performance rights granted to executives and consultants entitle recipients to one fully paid ordinary share in the Company for each right held, upon attainment of performance conditions and upon expiration of the vesting period in relation to relevant shares. The Company purchases shares on market on behalf of the plan trustee to satisfy obligations under the Plan upon satisfaction of performance conditions.

Performance conditions include non market criteria being achievement of operational milestones in the development of the TSMP methanol project and the TSLNG LNG project and market criteria, being an increase in the Company's share price. Shares acquired on satisfaction of performance criteria may be subject to vesting periods based on cumulative vesting timetables for each holder of performance rights.

The fair value of rights with non-market conditions is the Company's share price at date of grant. The number of those rights, the fair value of which is recognised at balance date, is determined by the estimated likelihood of the rights vesting, i.e. the performance conditions being met. The amount recognised for such rights that expire unvested, is reversed.

	2006 Rights	2005 Rights
Movements in performance rights on issue during the year:		
Outstanding at the beginning of the year	4,560,000	3,897,500
Granted during the year	-	2,625,000
Vested during the year	-	(337,500)
Expired during the year	(360,000)	(1,625,000)
Outstanding at the end of the year	<u>4,200,000</u>	<u>4,560,000</u>

Rights outstanding at the end of the year are exercisable upon meeting performance conditions until:

- 31 December 2010 for 375,000 rights (2005: 375,000)
- 31 December 2007 for 2,700,000 rights (2005: 2,700,000)
- 31 December 2006 for 1,125,000 rights (2005: 1,125,000)
- 30 June 2006 for 360,000 outstanding at 30 June 2005

The fair value of rights with market criteria is estimated as at the date of grant using a binomial option pricing model taking into account the terms and conditions upon which the rights were granted and using the following inputs:

Expected volatility	95 %	Expected life of right	2.5 years
Risk-free interest rate	5.29%	Share price at grant date	24.5 cents

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**NOTES TO THE FINANCIAL STATEMENTS
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	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 15 TRADE AND OTHER PAYABLES				
Trade payables	127,587	84,826	127,587	84,826
Director-related entities (note 22)	52,407	53,163	52,407	53,163
	<u>179,994</u>	<u>137,989</u>	<u>179,994</u>	<u>137,989</u>

Trade payables are non-interest bearing and are normally settled on 30 day terms.

NOTE 16 PROVISIONS**CURRENT**

Employee Benefits

Director's retirement benefit	-	108,546	-	108,546
Annual leave entitlement	17,754	2,093	17,754	2,093
	<u>17,754</u>	<u>110,639</u>	<u>17,754</u>	<u>110,639</u>

The director's retirement benefit was paid during the year

NON-CURRENT

Long service leave entitlement	8,000	-	8,000	-
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	Consolidated		Consolidated	
	2006	2006	2005	2005
	Shares	\$	Shares	\$

NOTE 17 CONTRIBUTED EQUITY AND RESERVES**ISSUED AND PAID UP CAPITAL**

Ordinary shares	134,927,187	12,147,239	117,493,853	9,501,712
Ordinary shares issued pursuant to trustee stock scheme	5,622,918	-	22,956,252	-
	<u>140,550,105</u>	<u>12,147,239</u>	<u>140,450,105</u>	<u>9,501,712</u>

Movements in Ordinary Shares

Balance at beginning of year	117,493,853	9,501,712	101,682,074	7,922,109
Share Issues:				
3 May 2006 at 20 cents on exercise of options	100,000	20,000	-	-
14 July 2004 at 15 cents by share placement	-	-	1,240,304	186,045
Costs of issue	-	-	-	(28,024)
Shares sold by trustee of trustee stock scheme	17,333,334	2,752,629	14,571,475	1,482,750
Costs of sale	-	(127,102)	-	(61,168)
	<u>134,927,187</u>	<u>12,147,239</u>	<u>117,493,853</u>	<u>9,501,712</u>

**Movements in Ordinary Shares Issued
Pursuant to Trustee Stock Scheme**

Balance at beginning of year	22,956,252	-	37,527,727	-
Shares sold by trustee during the year	(17,333,334)	-	(14,571,475)	-
	<u>5,622,918</u>	<u>-</u>	<u>22,956,252</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 17 CONTRIBUTED EQUITY AND RESERVES (Cont)

(a) Terms and Condition of Ordinary Shares

Ordinary shares entitle their holder to receive dividends as declared. In the event of winding up the company, ordinary shares entitle their holder to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up or which should have been paid up on shares held. Each ordinary share entitles the holder to one vote, either in person or by proxy, at a meeting of the company. Ordinary shares issued during the year and since the end of the year, from date of issue rank equally with the ordinary shares on issue.

(b) Trustee Stock Scheme

The Company in 2000 established a Trustee Stock Scheme, pursuant to which ordinary shares, ranking equally with other ordinary shares on issue, were issued to a trustee. When those shares are sold by the trustee the net proceeds are paid to the Company by way of subscription moneys. The Trustee does not exercise any voting rights in respect of shares held pursuant to the scheme. The Trustee may sell shares at a discount up to 20% to the last sale price and at a greater discount, if so approved by the directors and recommended by a stockbroker. During the year, by orders of the Supreme Court of Victoria the vesting date of the plan was extended for 5 years to 25 August 2010.

(c) Share Options

At 30 June 2006 4,050,000 options over unissued shares granted to directors and executives were outstanding, exercisable at 20 cents per share on or before 30 September 2006. The options are granted pursuant to the Senior Executives and Officers Option Plan, details of which are set out in note 14.

Since balance date 52,706,288 options over unissued shares were granted exercisable at 25 cents per share on or before 30 April 2007, in the terms of issues of ordinary shares referred to in note 23.

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
OTHER RESERVES				
Employee Equity Benefits Reserve				
The employee equity benefits reserve records the value of benefits provided as equity instruments to directors and consultants under share-based payment plans (note 14).				
Balance at beginning of year	40,191	46,632	40,191	46,632
Cost of share based payments	34,540	98,652	34,540	98,652
Cost of unvested expired equity instruments transferred to accumulated losses	(54,725)	(105,093)	(54,725)	(105,093)
Balance at end of year	<u>20,006</u>	<u>40,191</u>	<u>20,006</u>	<u>40,191</u>
ACCUMULATED LOSSES				
Balance at beginning of year	(8,616,756)	(7,786,394)	(8,705,239)	(7,874,877)
Net loss for the year	(1,108,168)	(935,455)	(1,090,168)	(935,455)
Transfer from reserve:				
Cost of equity instruments expired unvested	54,725	105,093	54,725	105,093
Balance at end of year	<u>(9,670,199)</u>	<u>(8,616,756)</u>	<u>(9,740,682)</u>	<u>(8,705,239)</u>

**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits, the main purpose of which is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are credit risk, interest rate risk, exchange rate risk and liquidity risk. The board has reviewed each of those risks and has determined that they are not significant in terms of the Group's current activities.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Credit Risk

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored; the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group.

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and cash equivalents with a floating interest rate:

	Consolidated	
	2006	2005
	\$	\$
Cash and cash equivalents	2,454,356	11,010,768
Weighted average effective floating interest rate	5%	3%

Exchange Rate Risk

The Group's exposure to exchange rate risk relates primarily to trade payables denominated in US dollars. Where a payable is significant, US dollars are purchased on incurring the liability or commitment.

Liquidity Risk

The Group's exposure to financial obligations relating to corporate administration and projects expenditure, are subject to budgeting and reporting controls, to ensure that such obligations do not exceed cash held and known cash inflows for a period of at least 1 year.

Fair Values

The aggregate net fair values of the financial assets and liabilities are the same as balance sheet carrying values.

NOTE 19 COMMITMENTS AND CONTINGENCIES

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
Operating Lease				
Future minimum rentals payable under operating lease for office premises at balance date :				
Payable not later than one year	36,432	-	36,432	-
Payable later than one year but not later than five years	12,569	-	12,569	-
	<u>49,001</u>	<u>-</u>	<u>49,001</u>	<u>-</u>
	<u><u>49,001</u></u>	<u><u>-</u></u>	<u><u>49,001</u></u>	<u><u>-</u></u>
Exploration Commitments				
Estimated cost of minimum work requirements contracted for under exploration permit is estimated at balance date:				
Payable not later than one year	1,250,000	300,000	1,250,000	300,000
Payable later than one year but not later than five years	-	1,250,000	-	1,250,000
	<u>1,250,000</u>	<u>1,550,000</u>	<u>1,250,000</u>	<u>1,550,000</u>
	<u><u>1,250,000</u></u>	<u><u>1,550,000</u></u>	<u><u>1,250,000</u></u>	<u><u>1,550,000</u></u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 19 COMMITMENTS AND CONTINGENCIES (cont)

Exploration commitments are estimated expenditures for minimum work obligations for the primary 3 year work program of the exploration permit. Minimum work obligations, may, subject to approval, be varied. They may also be avoided by farm-out, sale, negotiation or surrender of the permit. Since balance date the Company has committed to seismic survey activity in excess of the minimum work commitment for the permit (note 23).

NOTE 20 RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Methanol Australia Limited, and the following subsidiaries all of which are incorporated in Australia and have a 30 June balance date. The Parent bears the costs of administration of the subsidiaries.

	% of Equity Interest		Consolidated Investment	
	2006 %	2005 %	2006 \$	2005 \$
Bonaparte Petroleum Pty Ltd	100	100	1	1
Methanol& Synfuels Pty Ltd	100	100	1	1
Gastech Systems Pty Ltd	100	100	1	1
TSP Arafura Petroleum Pty Ltd	100	100	1	1
Oz-Exoil N L	100	100	1	1
Offshore Methanol Pty Ltd	100	100	1	1
Offshore LNG Pty Ltd	100	100	1	1
			<u>7</u>	<u>7</u>
			=====	=====

Bonaparte Petroleum Pty Ltd has advanced \$88,485 to Methanol Australia (2005: \$88,485), unsecured and interest free.

Methanol and Synfuels Pty Ltd holds the Tassie Shoal Methanol Project. Methanol Australia Ltd operates the project and bears the cost of project expenditure.

Gastech Systems Pty Ltd holds the Timor Sea LNG Project. Methanol Australia Ltd operates the project and bears the cost of project expenditure.

TSP Arafura Petroleum Pty Ltd and Oz-Exoil N.L. are the holders of petroleum exploration permit NT/P68. Methanol Australia Ltd operates the permit and bears the cost of exploration expenditure.

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
NOTE 21 AUDITOR'S REMUNERATION				
Amounts received or due and receivable by the auditor for:				
Audit or review of the financial reports	50,000	43,000	50,000	43,000
Non-audit services:				
Advice on application of IFRS	10,000	7,500	10,000	7,500
	<u>60,000</u>	<u>50,500</u>	<u>60,000</u>	<u>50,500</u>
	=====	=====	=====	=====

NOTE 22 DIRECTOR AND EXECUTIVE DISCLOSURES

Directors

W Bisley	Chairman (non-executive)	AJ Rigg	Director (non-executive)
CR Hart	Managing Director	JMD Willis	Director (non-executive)
WJ Dewé	Director		

On 1 July 2005 W Bisley replaced EG Albers as Chairman. EG Albers retired as director on 30 August 2005.

There are no employees other than directors that meet the definition of key management personnel contained in AASB 124 *Related Party Disclosures*.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 22 DIRECTOR AND EXECUTIVE DISCLOSURES (cont)				
Compensation of key management personnel by category:				
Directors fees	108,534	84,270	108,534	84,270
Executive and other fees	259,530	232,705	259,530	232,705
Post employment	27,715	106,480	27,715	106,480
Termination benefits	-	20,139	-	20,139
Share-based payments	32,421	94,476	32,421	94,476
	<u>428,200</u>	<u>538,070</u>	<u>428,200</u>	<u>538,070</u>

Details of compensation of individual key management personnel are set out in the Remuneration Report.

During the year executive and other fees were paid by the Group to entities controlled by Directors. Terms and conditions of arrangements for the services of Mr C Hart and Mr W Dewé are set out in the Remuneration Report.

Director	Entity	Executive and Other Fees Paid		Outstanding at Balance Date	
		2006	2005	2006	2005
		\$	\$	\$	\$
W Bisley	Ridgefield Estates	1,500	4,500	-	-
W J Dewé	Fourties Pty Ltd	35,178	29,409	6,000	4,776
E G Albers	Great Missenden Holdings Pty Ltd	-	24,000	-	-
C R Hart	LNG Australia Pty Ltd	40,196	21,977	-	-
C R Hart	PetroEx Pty Ltd	182,656	152,819	46,407	48,387
		<u>259,530</u>	<u>232,705</u>	<u>52,407</u>	<u>53,163</u>

Equity instruments of key management personnel issued by Methanol Australia Limited

The disclosures relating to interests in equity instruments of key management personnel includes equity instruments held by personally related entities, relatives and the spouses of relatives and any entity under the joint or several control or significant influence of the person. Details of remuneration options and remuneration rights are set out in the Remuneration Report.

All other equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

30 June 2006	Opening Balance	Received as Remuneration	Options Exercised	Net Change Other	Closing Balance
Ordinary Shares					
W Bisley	644,794	-	-	75,406	720,200
WJ Dewé	1,060,171	-	-	106,886	1,167,057
CR Hart	10,349,929	-	-	-	10,349,929
AJ Rigg	583,331	-	-	38,950	622,281
JMD Willis	1,965,104	-	-	84,333	2,049,437
Total	<u>14,603,329</u>	<u>-</u>	<u>-</u>	<u>305,575</u>	<u>14,908,904</u>

Net Change Other during the year ended 30 June 2006 includes purchases of shares on market pursuant to Directors' Share Savings Plan.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 22 DIRECTOR AND EXECUTIVE DISCLOSURES (cont)

30 June 2006	Opening Balance	Received as Remuneration	Options Exercised	Net Change Other	Closing Balance
Options exercisable by 30 September 2005 at 25 cents per share (all options expired unexercised)					
W Bisley	93,620	-	-	(93,620)	-
WJ Dewé	94,292	-	-	(94,292)	-
CR Hart	324,377	-	-	(324,377)	-
AJ Rigg	31,359	-	-	(31,359)	-
JMD Willis	149,792	-	-	(149,792)	-
Total	693,440	-	-	(693,440)	-
30 June 2005					
Ordinary Shares					
W Bisley	504,698	-	-	104,096	644,794
WJ Dewé	1,248,286	37,500	-	(225,615)	1,060,171
CR Hart	9,462,451	300,000	-	587,478	10,349,929
AJ Rigg	484,048	-	-	99,283	583,331
JMD Willis	1,798,020	-	-	167,084	1,965,104
Total	13,497,503	337,500	-	732,326	14,603,329
Options exercisable by 30 September 2005 at 25 cents per share					
W Bisley	93,620	-	-	-	93,620
WJ Dewé	149,792	-	-	(55,500)	94,292
CR Hart	324,377	-	-	-	324,377
AJ Rigg	31,359	-	-	-	31,359
JMD Willis	149,792	-	-	-	149,792
Total	748,940	-	-	(55,500)	693,440

Net Change Other during the year ended 30 June 2005 includes purchases of shares on market pursuant to the Directors' Share Savings Plan and off market transfers.

At 30 June 2005 former director E G Albers held shares and 30 September 2006 Options and holds shares at the date of this report.

NOTE 23 EVENTS AFTER BALANCE DATE

Sale of Trustee Shares

The trustee of the Trustee Stock Plan sold 5,500,000 shares at market prices to raise \$1,093,950 net of costs of sale.

Share Issue

The company issued 14,055,010 fully paid ordinary shares at an issue price of 22.5 cents to raise \$3,130,749 net of costs of issue. As part of the terms of issue the Company has granted 14,055,010 options exercisable at 25 cents each by 30 April 2007.

Shareholder Rights Issue

The company issued 38,651,278 ordinary shares, via an underwritten non-renounceable pro-rata rights issue to shareholders of one ordinary share at an issue price of 22.5 cents for every four shares held on August 11, 2006, to raise \$8,696,538 before costs of the issue. For each share allotted, the Company granted one free option exercisable at 25 cents each by April, 2007.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Following the above issues the Company's total issued capital is 193,756,393 ordinary shares and there are 52,706,288 unissued shares in the capital of the Company subject to outstanding 30 April 2007 options.

Commitment to 2D and 3D Seismic Programs

Since balance date the Company has contracted seismic surveys across areas of the exploration tenement NT/P68, at an estimated cost of \$12,130,000, satisfying the NT/P68 year three permit work program.

NOTE 24 TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). The financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005. There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively. The Group has applied the following exemptions:

Comparative information for financial instruments is prepared in accordance with AGAAP. The group has adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. There were no adjustments for AASB 132 or AASB 139 on transition. AASB 2 *Share-based Payment* has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to any equity instruments granted after 7 November 2002 that vested before 1 January 2005.

Income Statement showing impact of transition to AIFRS for the year ended 30 June 2005

	CONSOLIDATED			PARENT		
	AGAAP	Transition Impact	AIFRS	AGAAP	Transition impact	AIFRS
	\$	\$	\$	\$	\$	\$
Revenue	540,174	-	540,174	540,174	-	540,174
Expenses						
Project costs (b)	-	(302,071)	(302,071)	-	(302,071)	(302,071)
Share- based payments (a)	-	(98,652)	(98,652)	-	(98,652)	(98,652)
Other expenses (b)	(915,771)	(159,135)	(1,074,906)	(915,771)	(159,135)	(1,074,906)
Total expenses	(915,771)	(559,858)	(1,475,629)	(915,771)	(559,858)	(1,475,629)
Loss before income tax	(375,597)	(559,858)	(935,455)	(375,597)	(559,858)	(935,455)
Income tax expense	-	-	-	-	-	-
Loss for the year	(375,597)	(559,858)	(935,455)	(375,597)	(559,858)	(935,455)

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006****NOTE 24 TRANSITION TO IFRS (Cont)****Balance Sheet showing impact of transition to AIFRS as at 1 July 2004**

	CONSOLIDATED			PARENT		
	AGAAP	Transition impact	AIFRS	AGAAP	Transition impact	AIFRS
	\$	\$	\$	\$	\$	\$
CURRENT ASSETS						
Cash and cash equivalents	463,606	-	463,606	463,603	-	403,663
Trade and other receivables	32,608	-	32,608	32,608	-	32,608
	-----	-----	-----	-----	-----	-----
Total Current Assets	496,214	-	496,214	496,211	-	496,211
	-----	-----	-----	-----	-----	-----
NON-CURRENT ASSETS						
Other financial assets	-	-	-	5	-	5
Plant and equipment	370	-	370	370	-	370
Deferred project costs (b)	3,909,854	(3,909,854)	-	3,905,355	(3,905,355)	-
	-----	-----	-----	-----	-----	-----
Total Non-current Assets	3,910,224	(3,909,854)	370	3,905,730	(3,905,355)	375
	-----	-----	-----	-----	-----	-----
Total Assets	4,406,438	(3,909,854)	496,584	4,401,941	(3,905,355)	496,586
	-----	-----	-----	-----	-----	-----
CURRENT LIABILITIES						
Trade and other receivables	225,400	-	225,400	225,400	-	225,400
Payable to subsidiary	-	-	-	88,485	-	88,485
Provisions	88,837	-	88,837	88,837	-	88,837
	-----	-----	-----	-----	-----	-----
Total Current Liabilities	314,237	-	314,237	402,722	-	402,722
	-----	-----	-----	-----	-----	-----
Total Liabilities	314,237	-	314,237	402,722	-	402,722
	-----	-----	-----	-----	-----	-----
Net Assets	4,092,201	(3,909,854)	182,347	3,999,219	(3,905,355)	93,864
	=====	=====	=====	=====	=====	=====
EQUITY						
Contributed equity	7,922,109	-	7,922,109	7,922,109	-	7,922,109
Other reserves						
Employee equity benefits (a)	-	46,632	46,632	-	46,632	46,632
Accumulated losses	(3,829,908)	(3,956,486)	(7,786,394)	(3,922,890)	(3,951,987)	(7,874,877)
	-----	-----	-----	-----	-----	-----
Total Equity	4,092,201	(3,909,854)	182,347	3,999,219	(3,905,355)	93,864
	=====	=====	=====	=====	=====	=====

Methanol Australia Limited

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006****NOTE 24 TRANSITION TO IFRS (Cont)****Balance Sheet showing impact of transition to AIFRS as at 30 June 2005**

	CONSOLIDATED			PARENT		
	AGAAP	Transition impact	AIFRS	AGAAP	Transition impact	AIFRS
	\$	\$	\$	\$	\$	\$
CURRENT ASSETS						
Cash and cash equivalents	1,010,768	-	1,010,768	1,010,763	-	1,010,763
Trade and other receivables	24,840	-	24,840	24,840	-	24,840
Prepayments	10,207	-	10,207	10,207	-	10,207
	-----	-----	-----	-----	-----	-----
Total Current Assets	1,045,815	-	1,045,815	1,045,810	-	1,045,810
	-----	-----	-----	-----	-----	-----
NON-CURRENT ASSETS						
Other financial assets	-	-	-	7	-	7
Plant and equipment	7,495	-	7,495	7,495	-	7,495
Deferred project costs (b)	4,371,060	(4,371,060)	-	4,366,561	(4,366,561)	-
Exploration costs	120,065	-	120,065	120,065	-	120,065
	-----	-----	-----	-----	-----	-----
Total Non-current Assets	4,498,620	(4,371,060)	127,560	4,494,128	(4,366,561)	127,567
	-----	-----	-----	-----	-----	-----
Total Assets	5,544,435	(4,371,060)	1,173,375	5,539,938	(4,366,561)	1,173,377
	-----	-----	-----	-----	-----	-----
CURRENT LIABILITIES						
Trade and other receivables	137,589	-	137,589	137,589	-	137,589
Payable to subsidiary	-	-	-	88,485	-	88,485
Provisions	110,639	-	110,639	110,639	-	110,639
	-----	-----	-----	-----	-----	-----
Total Current Liabilities	248,228	-	248,228	336,713	-	336,713
	-----	-----	-----	-----	-----	-----
Total Liabilities	248,228	-	248,228	336,713	-	336,713
	-----	-----	-----	-----	-----	-----
Net Assets	5,296,207	(4,371,060)	925,147	5,203,225	(4,366,561)	836,664
	=====	=====	=====	=====	=====	=====
EQUITY						
Contributed equity	9,501,712	-	9,501,712	9,501,712	-	9,501,712
Other reserves						
Employee equity benefits (a)	-	40,191	40,191	-	40,191	40,191
Accumulated losses	(4,205,505)	(4,411,251)	(8,616,756)	(4,298,487)	(4,406,752)	(8,705,239)
	-----	-----	-----	-----	-----	-----
Total Equity	5,296,207	(4,371,060)	925,147	5,203,225	(4,366,561)	836,664
	=====	=====	=====	=====	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**
NOTE 24 TRANSITION TO IFRS (Cont)
Areas impacted upon adoption of AIFRS, including equity and loss

Item	AGAAP	AIFRS	Impact
(a) Share-based Payments	Share-based payments were not expensed	Under AASB 2 <i>Share-based Payments</i> , fair value at grant of equity instrument provided to employees are recognised as expense evenly over the vesting period, with a corresponding increase in equity.	<i>Equity at transition and at 30 June 2005:</i> Increase in accumulated losses and increase to employee equity benefits reserve – net effect is zero. <i>Loss for 30 June 2005:</i> Increase in loss of \$98,652.
(b) Intangible Assets	Costs incurred in the projects as research and development, were recognised as an asset when expected to be recovered from cash flows in use or on disposal.	Under AASB 138 <i>Intangible Assets</i> research and development costs are expensed.	<i>Equity at transition:</i> decrease in Deferred Methanol & LNG Project Costs and increase in accumulated losses of: Parent \$3,905,355 Consolidated \$3,909,854 <i>Equity at 30 June 2005:</i> decrease in Deferred Methanol & LNG Project Costs and increase in accumulated losses of: Parent \$4,366,561 Consolidated \$4,371,060 <i>Loss for 30 June 2005:</i> increase of project costs and other expenses : Parent \$421,206 Consolidated \$421,206

Independent audit report to members of Methanol Australia Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Methanol Australia Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 6 to 10 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

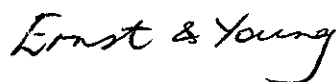
Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion:

1. the financial report of Methanol Australia Limited is in accordance with:
 - (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Methanol Australia Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
 - (b) other mandatory financial reporting requirements in Australia.
2. the remuneration disclosures that are contained on pages 6 to 10 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.



Ernst & Young



R.C. Piltz
Partner
Melbourne
27 September 2006

Auditor's Independence Declaration to the Directors of Methanol Australia Limited

In relation to our audit of the financial report of Methanol Australia Limited for the year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

R. C. Piltz

R.C. Piltz
Partner
Melbourne
27 September 2006