Methanol Australia Limited

ABN 43 066 447 957

HALF-YEAR FINANCIAL REPORT
AND DIRECTORS' REPORT

31 DECEMBER 2005

DIRECTORS' REPORT

The Directors of Methanol Australia Limited variously (the "Company" and "Methanol Australia") submit their report for the half-year ended 31 December 2005.

DIRECTORS

The Directors of the Company in office during the half-year ended 31 December 2005 and until the date of this report are:

Warwick Bisley B.Eng (Mech) (Hons), FTSE, FRACI, FIE Aust: *Chairman*
Christopher R Hart FAICD: *Managing Director*
Walter J Dewé MA FAICD: *Executive Director, Commercial-Gas*
Andrew J Rigg B.Sc MAICD: *Non-Executive Director*
James M D Willis LL.M (Hons) Dip Acc: *Non-Executive Director*

On 30 August Mr E.G. Albers retired as a Director of the Company having retired as Chairman on 1 July 2005.

REVIEW OF OPERATIONS

The net loss of the Company for the half-year, after provision for income tax, was $653,393.

Tassie Shoal Methanol Project
The Company and Air Products and Chemicals, Inc. continue to develop the Tassie Shoal Methanol Project (TSMP) under the terms of the joint development agreement (JDA) entered into in April 2004. The project plans the staged construction in Southeast Asia of two world-scale methanol production plants and then their location in the Australian waters of the Timor Sea, at an estimated total cost of A$2 billion.

The Commonwealth Government granted environmental approval for the Tassie Shoal Methanol Project on December 23, 2002. This approval is current until 2052.

Each plant would have a daily production capacity of 5,000 tonnes of chemical grade methanol. It is projected that both plants could produce a total of 3.5 million tonnes of methanol a year, to be exported throughout Asia and North America. The current methanol price delivered into northeast Asia is between A$400 -$440/t and on this basis, the project could generate export revenues in excess of A$1.5 billion a year.

During the half year, the Company and Air Products progressed discussions with the owners of gas resources to secure long-term supply for the project, further developed product off-take arrangements and reviewed the design and capital cost assumptions. Success in securing key commercial arrangements will allow the parties to proceed to front-end engineering and design (FEED) studies and EPC selection.

The prospectivity of the Company's own permit, NT/P68, encourages us to focus on a potential gas supply from the identified Heron North and Heron South structures, which if commercially proven, are expected to provide high CO_2 gas suitable for methanol production.

Further, the design of the methanol production facility makes the project highly portable allowing the concept to be applied in many regions where stranded gas resources are located.
The Company is currently conducting investigations to identify such sites, to thereby increase the development options for the concept.

DIRECTORS' REPORT

Timor Sea LNG Project (TSLNGP)
The Company's wholly owned subsidiary, Gastech Systems Pty Ltd ("Gastech"), holds a 100% interest in a project to develop, construct and operate of an offshore LNG liquefaction and production plant.

On May 5, 2004, the Commonwealth Minister for the Environment and Heritage, the Hon. Dr David Kemp MP, granted approval for the Timor Sea LNG Project to construct, install, commission and operate on Tassie Shoal, adjacent to the methanol plants. This approval has effect until May 6, 2052.

The LNG liquefaction and production plant was originally designed to produce 2.52 million tonnes of LNG each year (Mtpa).

During the half year, the production module was re-designed by Worley Limited utilising Air Products DMR (dual mixed refrigerant) technology. This new design has increased production to over 3 Mtpa and has resulted in a substantial improvement in plant conversion efficiency.

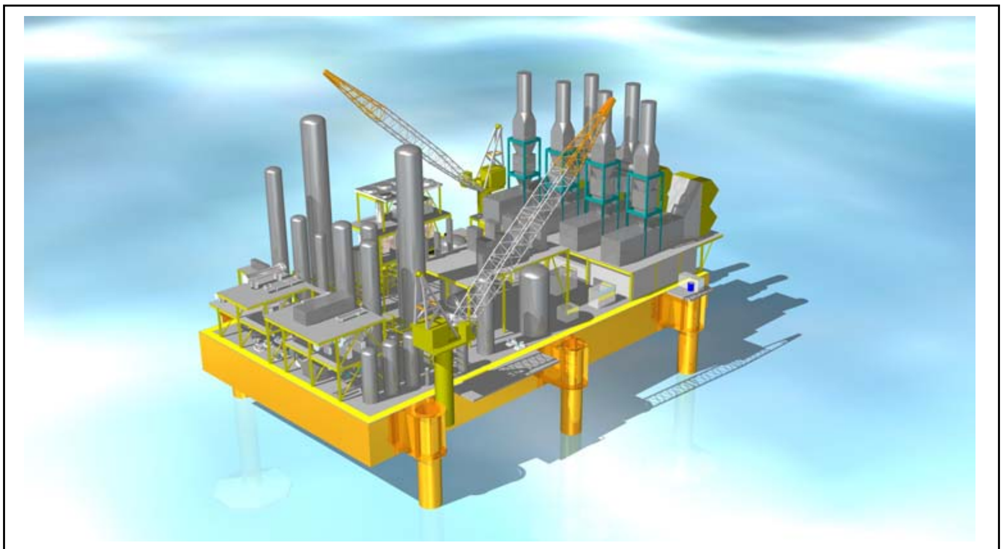
The production module, incorporating the DMR technology, is designed to be free-standing, supported by its own substructure on the shoal. The preferred substructure is a specific application of the ACE Platform system, designed by Arup Energy.

Arup Energy was also engaged to redesign the LNG tank. Recent developments have demonstrated significant capital and schedule savings when the tank size is increased. The original design allowed for the installation of two 85,000 m^3 LNG storage tanks. Arup have now designed a single 170,000 m^3 LNG tank for the TSLNGP.

The reduced emissions and facility footprint at the shoal are expected to lead to an amended environmental approval for the re-configured LNG project. These studies have provided highly feasible technical solutions that optimise the original concepts. They also provide updated cost estimates and further support the economic viability.

Methanol Australia believes there is an opportunity to develop new Australian LNG capacity to take advantage of the expanding markets both in Asia and North America. The Company continues to develop strategic relationships with companies experienced in the LNG production and marketing industry, and identify and secure gas supplies in order to advance the LNG project.

3D image of the new LNG production plant proposed to be located at Tassie Shoal



DIRECTORS' REPORT

Exploration Permit NT/P68 in the Timor Sea
TSP Arafura Petroleum Pty Ltd and Oz-Exoil NL, wholly owned subsidiaries of Methanol Australia Limited, hold a 100% interest in NT/P68, a petroleum exploration permit of 12,070 square kilometres located immediately to the west of Tassie Shoal in the Timor Sea. The Company believes that the permit offers considerable scope for the discovery of oil and or further gas accumulations that could support the future gas demands of either the Tassie Shoal Methanol Project or the Timor Sea LNG Project.

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

During the half year, the Company completed a number of studies in the permit, including petrology examinations of the Darwin Formation, the reservoir for the Epenarra prospect, and 2D seismic reprocessing of key strike and dip lines over the Epenarra and Seahawk prospects. These studies were designed to confirm the structures and the ability of the reservoir to commercially produce gas. The Company had also secured the Stena Clyde semi-submersible drilling rig to drill the prospects in 2006.

The Company is currently negotiating with a number of parties interested in the farmin opportunity. However, it is clear that these parties require acquisition of 3D seismic over the prospects to accurately determine the best location and orientation for a well prior to funding drilling activities. Farm-out terms are expected to include funding of any new seismic acquisition.

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

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

OTHER MATTERS

Issues of Shares and Options
During the half-year the Company raised $949,598 in subscription moneys, net of expenses, from the Trustee Stock Scheme being the net proceeds of the sale by the trustee of 8,333,334 shares pursuant to the Scheme, to fund ongoing activities.

Auditor's Independence Declaration
The Company has obtained an independence declaration from the auditor, Ernst & Young. A copy of the declaration is attached to this financial report.

Signed in accordance with a resolution of the Directors.

C R Hart
Managing Director
Melbourne, 16 March 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 statements and notes of the consolidated entity:

(i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board.

C R Hart
Managing Director
Melbourne, 16 March 2006

CONDENSED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	NOTE	CONSOLIDATED 31/12/2005 $	CONSOLIDATED 31/12/2004 $
Revenue	2	454,632	490,572
Expenses	2	1,108,025	904,646
Loss before income tax		(653,393)	(414,074)
Income tax expense		-	-
Loss for the period		(653,393)	(414,074)
Basic loss per share (cents per share)		(0.47)	(0.30)
Diluted loss per share (cents per share)		(0.47)	(0.30)

CONDENSED BALANCE SHEET
AS AT 31 DECEMBER 2005

	CONSOLIDATED	
	31/12/2005	**30/6/2005**
	$	**$**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	1,219,321	1,010,768
Trade and other receivables	36,652	24,840
Other	-	10,207
TOTAL CURRENT ASSETS	1,255,973	1,045,815
NON-CURRENT ASSETS		
Plant and equipment	79,513	7,495
Exploration and evaluation costs	121,635	120,065
TOTAL NON-CURRENT ASSETS	201,148	127,560
TOTAL ASSETS	1,457,121	1,173,375
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	204,359	137,589
Provisions	7,672	110,639
TOTAL CURRENT LIABILITIES	212,031	248,228
TOTAL LIABILITIES	212,031	248,228
NET ASSETS	1,245,090	925,147
EQUITY		
Issued capital	10,451,310	9,501,712
Other reserves	140,010	116,272
Accumulated losses	(9,346,230)	(8,692,837)
TOTAL EQUITY	1,245,090	925,147

**CONDENSED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2005**

	CONSOLIDATED	
	31/12/2005	**31/12/2004**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipt of project joint development agreement fee	-	476,969
Expenditure recoveries	426,266	7,231
Expenditure on methanol & LNG projects	(190,452)	(429,848)
Expenditure on exploration tenements	(424,294)	(19,140)
Other payments to suppliers and employees	(499,734)	(512,191)
Interest received	28,367	6,372
Net cash flows used in operating activities	(659,847)	(470,607)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditure on plant and equipment	(81,198)	(3,416)
Net cash flows used in investing activities	(81,198)	(3,416)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issues	994,170	307,911
Costs of share issues	(44,572)	(28,024)
Net cash flows from financing activities	949,598	279,887
Increase (decrease) in cash and cash equivalents	208,553	(194,136)
Cash and cash equivalents beginning of period	1,010,768	463,606
Cash and cash equivalents at end of period	1,219,321	269,470

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	CONSOLIDATED			
	Issued Capital	**Other Reserves**	**Accumulated Losses**	**Total Equity**
At 1 July 2005	9,501,712	116,272	(8,692,837)	925,147
Loss for the period	-	-	(653,393)	(653,393)
Cost of share based payment	-	23,738	-	23,738
Share issues	-	-	-	-
Sale of trustee shares	949,598	-	-	949,598
At 31 December 2005	10,451,310	140,010	(9,346,230)	1,245,090
At 1 July 2004	7,922,109	36,961	(7,776,724)	182,346
Loss for the period	-	-	(449,433)	(414,402)
Cost of share based payment	-	38,446	-	3,415
Share issues	158,021	-	-	158,021
Sale of trustee shares	121,866	-	-	121,866
At 31 December 2004	8,201,996	75,407	(8,226,157)	51,246

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Methanol Australia Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by Methanol Australia Limited and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 “Interim Financial Reporting” and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Statement of compliance

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

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS profit for the half-year 31 December 2004 and full year 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e) below.

(c) Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of Methanol Australia Limited and its subsidiaries ('the Group')

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (cont)

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are 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.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Methanol Australia Limited has control.

(ii) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

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.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of 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 economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition 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.

(iii) Methanol and LNG Project Costs

Research and feasibility costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

NOTE 1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (cont)

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.

(iv) 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 undiscounted 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.

(v) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (cont)

(vi) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(vii) 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 purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(viii) 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.

(ix) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There are currently two plans in place to provide these benefits:

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of options is determined by an external valuer using a

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

NOTE 1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (cont)

Black Scholes option pricing model. The fair value of rights with market based conditions is determined by reference to the estimated likelihood of the performance conditions attached to the rights being satisfied.

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 relevant employees 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 of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

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.

(x) 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 on a straight-line basis over the lease term.

(xi) 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. The following specific recognition criteria must also be met before revenue is recognised:

Interest

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

(xii) Government grants

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (cont)

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 account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(xiii) 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.

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; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where 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 utilised:

- 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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are 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 utilised.

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.

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

NOTE 1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (cont)

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.

(xiv) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables are stated with the amount of GST included.

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.

(d) 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:

Share-based payment transactions

AASB 2 'Share-Based Payments' 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.

(e) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 (“AGAAP”) are illustrated below.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (cont)

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

		CONSOLIDATED	
	30/6/2005	**31/12/2004**	**1/7/2004**
	$	**$**	**$**
Total equity under AGAAP	5,296,207	4,244,144	4,092,201
Adjustments to equity:			
De-recognition of research and feasibility costs for the Methanol and LNG Projects	(4,371,060)	(4,192,898)	(3,909,854)
	925,147	51,246	182,347

AASB138 requires expenditure on the research phase of a project to be recognised as an expense when it is incurred.

(ii) Reconciliation of loss after tax under AGAAP to that under AIFRS

		CONSOLIDATED
	Year ended 30/6/2005	**Half-Year ended 31/12/2004**
	$	**$**
Loss after tax as previously reported	(375,597)	(127,943)
Share-based payment costs charged to the income statement under AASB 2 'Share-based Payment', but not under AGAAP.	(8,592)	(3,087)
Research and feasibility costs for the Methanol and LNG Projects charged to the income statement under AASB 138 'Intangible Assets', and not under AGAAP.	(461,206)	(283,044)
Loss after tax under AIFRS	(845,395)	(414,074)

(iii) Explanation of material adjustments to the cash flow statements

There are no differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 2 REVENUE AND EXPENSES

Loss before income tax includes the following revenues and expenses:

	CONSOLIDATED 31/12/2005	31/12/2004
REVENUES		
Project joint development agreement fee	-	476,969
Expenditure recoveries	426,265	7,231
Interest from other persons and corporations	28,367	6,372
Total Revenues	454,632	490,572
EXPENSES		
Audit costs	18,000	13,500
Depreciation on non-current assets	4,180	695
Share base payments	23,738	3,087
Project participant fee	-	206,573
Rent and premises costs	19,758	16,096
Retirement benefits	-	10,115
Salaries and employee benefits	243,047	195,288
Stock exchange and registry costs	37,449	36,961
Travel and corporate promotion costs	57,339	92,633
Other expenses from ordinary activities	32,320	46,654
Methanol and LNG project costs	260,510	283,044
Costs relating to expenditure recoveries	411,684	-
Total Expenses	1,108,025	904,646

NOTE 3 SEGMENT INFORMATION

The economic entity operates predominantly in the petroleum and petrochemical sectors within Australia.

NOTE 4 CONTINGENT LIABILITY

The economic entity has a contingent liability for US$150,000 which is payable on commitment to the FEED phase of the Tassie Shoal Methanol Project.

NOTE 5 ISSUED CAPITAL

	31/12/2005 Shares	30/6/2005 Shares	31/12/2005 $	30/6/2005 $
Issued and Paid Up Capital				
Ordinary shares fully paid	125,827,187	117,493,853	10,451,310	9,501,712
Ordinary shares issued pursuant to Trustee Stock Scheme	14,622,918	22,956,252	-	-
	140,450,105	140,450,105	10,451,310	9,501,712

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NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 5 ISSUED CAPITAL (cont)

	31/12/2005 Shares	31/12/2005 $
Movements in Ordinary Shares Fully Paid		
Balance at beginning of period	117,493,853	9,501,712
Shares sold by trustee of trustee stock scheme	8,333,334	949,598
	125,827,187	10,451,310
Movements in Ordinary Shares Issued Pursuant to the Trustee Stock Scheme		
Balance at beginning of period	22,956,252	-
Shares sold by trustee during the period	(8,333,334)	-
	14,622,918	-

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Independent review report to members of Methanol Australia Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both Methanol Australia Limited (the company) and the entities it controlled during the half-year, and the directors' declaration for the company, for the half-year ended 31 December 2005.

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 consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", 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.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, 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.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Methanol Australia Limited and the entities it controlled during the half-year is not in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half-year ended on that date; and

  (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

R C Piltz

R C Piltz
Partner
Melbourne
16 March 2006

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

In relation to our review of the financial report of Methanol Australia Limited for the half-year ended 31 December 2005, 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
Partner
Melbourne
16 March 2006