

OCTANEX N.L.

ABN 61 005 632 315

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2005

DIRECTORY**BOARD OF DIRECTORS**

E.G. Albers (Chairman)
P.J. Albers
A.P. Armitage
C.R. Hart
G.A. Menzies

SECRETARY

D.B. Hill
Level 25,
500 Collins Street,
Melbourne, Victoria 3000

**REGISTERED OFFICE AND
PRINCIPAL ADMINISTRATION OFFICE**

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AUDITOR

PKF
Chartered Accountants
Level 11, CGU Tower
485 La Trobe Street
Melbourne, Victoria 3000

SHARE REGISTRY

ASX Perpetual Registrars Limited
Level 4
333 Collins Street
Melbourne, Victoria 3000
Telephone: (03) 9615 9800
Facsimile: (03) 9615 9900

STOCK EXCHANGE LISTING

Stock Exchange of Newcastle Ltd
384 Hunter Street
Newcastle, NSW 2300 Australia
Website: www.newsx.com.au

NSX Code:

OCT Ordinary Shares
OCTB Options 30 June 2008

INCORPORATED IN VICTORIA

13 March 1980

WEBSITE

www.octanex.com.au

CONTENTS

Directors' Report	1
Review of Operations	3
Auditor's Independence Declaration.....	6
Directors' Declaration.....	7
Statement of Financial Performance	8
Statement of Financial Position.....	9
Statement of Cash Flows	10
Notes to the Financial Statements	11
Independent Audit Report	26
5 Year Summary of Performance.....	28

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.

DIRECTORS' REPORT

The directors present their report on the results of Octanex NL (the "Company" or "Octanex") for the year ended 30 June, 2005.

DIRECTORS

The Directors in office during the entire year (except as noted) and to the date of this report are:-

Mr EG Albers (Director since 2/10/1984) Chairman and chief executive officer

Mr Albers is a company director with over 30 years experience as a lawyer and administrator in corporate law, petroleum exploration and resource sector investment. Mr Albers has sponsored the formation of companies that have made the original Maari (Moki) oilfield discovery in New Zealand, the Yolla Gas/Condensate discovery in Bass Strait, the Evans Shoal gasfield discovery in the Timor Sea and the SE Gobe oilfield development in Papua New Guinea.

For the past three years and to the date of this report Mr Albers has also served as a director of stock exchange listed companies Methanol Australia Limited, Bass Strait Oil Company Ltd, Moby Oil & Gas Limited, and Cue Energy Resources Limited. He is a member of the Petroleum Exploration Society of Australia and a member of the APPEA Exploration Committee.

Mrs PJ Albers (Director since 23/3/1996) Non-executive director

Mrs Albers is a primary producer whose commercial experience includes acting as director of a number of exploration companies.

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

Mr Armitage is a Fellow of the Institute of Chartered Accountants in Australia with over 30 years practical experience in business. He has previously practised in the insolvency and management consulting areas and more recently as a business consultant in Asia. Mr Armitage is a fellow of the AICD.

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

Mr Hart has wide corporate and commercial experience in the oil and gas industry with a primary focus towards gas marketing and utilization. For the past three years and to the date of this report Mr Hart has also served as managing director of ASX listed company Methanol Australia Limited.

Mr G Menzies (Director since 26 August 2003) Independent non-executive director

Graeme Menzies is a barrister and solicitor. He graduated from Melbourne University in 1971 and qualified for admission to the degree of Master of Laws in 1975. He was admitted to practice in 1972. Since 1987 he has carried on practice as a sole practitioner under the name of Menzies & Partners. In the course of his legal practice, Mr. Menzies has been involved in a wide range of activities, including takeovers, litigation in respect thereof, numerous capital raisings and corporate reconstructions. He has been involved in the listing or relisting of a large number of public companies ranging from junior exploration to substantial mining companies. Over recent years, his activities have focused primarily on corporate reconstructions and capital raisings.

Mr. Menzies has been a director of a number of stock exchange listed public companies. Mr. Menzies is currently a director of the following companies: Papyrus Australia Ltd (appointed September 2004), Moby Oil & Gas Limited (appointed October 2003) and Saxon Investment Group Ltd (appointed September 2004).

COMPANY SECRETARY

Mr DB Hill

Mr Hill was appointed as Company Secretary on 16 December 2004. David Hill began his professional career over 35 years ago with an international accounting firm. Since 1980 he has held office in a number of listed exploration companies active in the mining and oil and gas sectors in Australia and New Zealand, concentrating on fiscal aspects of project modelling and procurement of capital.

BOARD MEETINGS

The table below sets out the number of meetings of the Board of directors held during the year and the number of meetings attended during each director's period of office. During the year business of the Board was undertaken by circular resolution.

DIRECTORS' REPORT (CONTINUED)

	Meetings Held	Meetings Attended
EG Albers	3	3
PJ Albers	3	3
AP Armitage	3	3
CR Hart	3	3
GA Menzies	3	3

DIRECTORS' INTERESTS

At the date of this report the relevant interests of each of the directors in the Company's securities were:

	Ordinary Shares	30/6/2008 Options
EG Albers	28,052,905	20,527,490
PJ Albers	23,310,426	18,850,970
AP Armitage	50,000	-
CR Hart	1,730,235	150,000
GA Menzies	50,000	50,000

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were petroleum exploration and investment in that sector employing at 30 June 2005, five directors (2004: 5).

OPERATING RESULT FOR THE YEAR

The economic entity, being the Company and its controlled entity recorded a profit from ordinary activities for the year after income tax of \$177,080 (2004: a loss of \$20,827).

CHANGES IN STATE OF AFFAIRS**Capital Raising**

Following on from the success of the capital raising in 2004, 91% of shareholders exercised 31 March 2005 options resulting in a further \$1,496,924 of capital being raised.

Issued capital increased to 49,653,967 ordinary fully paid shares.

Capital Structure

At the date of this report the Company's capital structure is as follows:

49,653,967 Ordinary Fully Paid Shares
30,244,296 30 June 2008 Options (exercisable at 25¢)

OPTIONS

At the date of this report 30,244,296 of the 30 June 2008 options remain outstanding.

During the year 14,969,238 options exercisable at 25 cents per share by 30 June 2008, were granted pursuant to option holders exercising 31 March 2005 options.

DIVIDENDS

No dividend was proposed, recommended or paid during the year and to the date of this report.

DIRECTORS' REPORT (CONTINUED)**REVIEW OF OPERATIONS**

Over the past year Octanex has held interests in four joint ventures with exploration activities located on the North West Shelf offshore from Western Australia; the Exmouth Joint Venture; the Dampier Joint Venture; the Northern Deeps Joint Venture and the Western Otway Joint Venture.

EXMOUTH JOINT VENTURE

During July 2005 the Company announced that it and its joint venturers (Strata Resources N.L. and Rocky Mountain Minerals, Inc.), entered into an agreement with BHP Billiton Petroleum Pty Ltd ("BHP Billiton") and Apache Energy Limited ("Apache") for the sale of a 100% working interest in WA-329-P, a petroleum exploration permit in the offshore Exmouth Sub-basin of Australia. A full 100% working interest in the Permit WA-329-P has been assigned to BHP Billiton and Apache. The consideration for the transfer includes a cash reimbursement to the vendors, a deferred contingent cash payment, and the grant of an overriding royalty interest with respect to any future production from WA-329-P.

DAMPIER JOINT VENTURE WA-321-P, WA-323-P & WA-330-P

Octanex holds a 50% interest in the Dampier Project in which three underlying contiguous tenements, comprise a discrete project area of 1,200 kms². They are explored as a joint venture. The joint venture is preparing for the shooting of more than 1,300 km of new 2D seismic survey next month.

The Dampier project area covers parts of the Rankin Trend, Kendrew Trough, Parker Terrace (Kendrew Terrace), Madeleine Trend and part of Lewis Trough. All are proven locations for the formation and location of oil and gas. Major commercial hydrocarbon discoveries in close proximity include the giant gasfields of the North West Shelf; these being the Goodwyn, North Rankin and Perseus Gasfields, while the significant oil fields in Lambert, Wanaea and Cossack are in the same region. The undeveloped Dixon gas and condensate discovery is in immediately adjacent acreage.

The proximity of existing infrastructure and the likely future extensions to infrastructure bodes well for any discovery, whether oil or gas, in this project area. Significant future demand for gas to supply the North West Shelf JV LNG plant is envisaged, so that any gas discovery can be anticipated to be valuable and capable of monetisation.

Geologic and seismic interpretation of the Late Jurassic, Angle Formation submarine fan play near completion. A sand pinchout trend has been defined along the west flank of the Hartog anticlinal trend, and a drape trap over the North Webley horst structure similar to, and on trend with, the adjacent Dixon Field has been identified. There is potential for a Triassic or Early Jurassic structural trap within both the North Webley and Webley horst structures.

NORTHERN DEEPS JOINT VENTURE – WA-362-P & WA-363-P

Octanex holds a 35% interest in two exploration blocks known as WA-362-P and WA-363-P which were granted during the year. The permits, which cover an area of approximately 21,765 kms², are on the northern margin of the Exmouth Plateau, 300-400 kms north west of the Western Austral coastline. The Exmouth Plateau is the largely unexplored deepwater frontier of the Carnarvon Basin, Australia's premier petroleum basin which includes the giant gas resources of the North West Shelf (Rankin Trend) and the Greater Gorgon region.

The Carnarvon Basin is one of a number of sedimentary basins and sub-basins which together lay within the extensive world class North West Shelf hydrocarbon province of Australia. This province contains an estimated 2.6 billion barrels of oil, 2.6 billion barrels of condensate and 152 trillion cubic feet of gas with numerous hydrocarbon fields. The WA-362-P and WA-363-P permits lie 150 kilometres north west of the presently producing North Rankin Field complex, which was discovered in 1971, and has provided the bulk of more than 7.75 million tonnes of LNG which has been exported overseas.

DIRECTORS' REPORT (CONTINUED)

The planned 3 year work program by the consortium includes existing seismic data acquisition, reprocessing and the acquisition of more than 2,000 kms of 2D seismic acquisition.

WESTERN OTWAY JOINT VENTURE – EPP 34

EPP 34, in which Octanex has a 15% interest, is located in the Otway Basin, offshore from South Australia, and covers an area of 76 graticular blocks or approximately 4,850 sq km in water depths ranging from 75 metres in the north to over 2,000 metres in the southwest. The main potential identified in EPP 34, lies in prospects and leads within the Late Cretaceous Sherbrook Group plays, to the north and south of the inverted Morum High, which bisects EPP 34 centrally. Hydrocarbon source may be derived from Late Jurassic to Late Cretaceous petroleum systems, which are considered to be mature for hydrocarbon generation in the Morum Sub-basin.

INVESTMENTS

The Company's investments comprise shareholdings in each of Methanol Australia Limited and Cue Energy Resources Ltd.

The Company holds, as at the date of this report, 4,077,945 shares in Methanol Australia Limited ("MEO"), representing 2.9% of the issued paid up capital of MEO (excluding non-voting trustee stock scheme shares), following Octanex's original sponsorship of MEO (as Timor Sea Petroleum NL) as a publicly listed company in 1998.

Additional information about MEO may be obtained from MEO, from documents lodged by MEO with ASX and from the MEO website www.methanol.com.au

The Octanex Group presently holds 36,380,140 shares, representing 7.0% of the issued capital of Cue Energy Resources Ltd ("Cue").

Cue's main activities are in Papua New Guinea, Indonesia and New Zealand. In Papua New Guinea, Cue holds a current 3.86% economic interest in the production from the unitised SE Gobe oilfield. Cue's Indonesian project is the Sampang PSC (15%), which it holds in joint venture with Santos Ltd (45%) and Singapore Gas (40%). The joint venture has made the Oyong oil and gas discovery in the Sampang PSC, which is located offshore East Java, in the Madura Strait of Indonesia. This discovery is being developed for future oil and gas production in the near future. In New Zealand, Cue holds a 5% interest in PEP38413, the permit that contains the Maari oil field in the offshore Taranaki Basin.

Additional information about Cue may be obtained from Cue, from documents lodged by Cue with ASX and from the Cue website www.cuenrg.com.au

CORPORATE MATTERS**SHARE BUY-BACK**

In line with the Company's Constitution, the Directors resolved to enter into an on-market share buy-back of a maximum of 5% or 2,482,698 of the Company's shares over a 12 month period from 28th July 2005. No purchases have yet taken place.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

For the time being, we will concentrate on activities on our two project areas in offshore Western Australia, for which we hold out great hope. The Dampier and Northern Deeps areas are of particular focus for a number of large international companies.

The likely developments in the Company's operations in future years and the expected result from those operations are dependent on exploration success in the permit areas in which the Company holds an interest and the success of our investments in Methanol Australia Limited and Cue Energy Resources Limited.

DIRECTORS' REPORT (CONTINUED)**ENVIRONMENT, HEALTH AND SAFETY**

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

The Company's petroleum exploration and development activities are subject to environmental 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 Company believes all injuries are avoidable and has policies and procedures to ensure employees and contractors manage safety accordingly. We monitor and evaluate our procedures. During the year there were no reported health and safety incidents.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for non-executive directors and executive directors (referred to below as executives). There are no non-director employees that meet the definition of executive contained in AASB1046 Director and Executive Disclosures by Disclosing entities.

	Directors Fees \$	Other Fees	Super- annuation	Retirement Benefits \$	Option Plan	Total \$
<i>Non-executive</i>						
Mr EG Albers	20,000	-	1,800	36,333	-	58,133
Mr GA Menzies	10,000	-	900	-	-	10,900
Mrs PJ Albers	10,000	-	900	-	-	10,900
Mr CR Hart	10,000	-	-	-	-	10,000
Mr AP Armitage	-	31,488	-	-	-	31,488
Total	50,000	31,488	3,600	36,333	-	121,421

Remuneration Policies

The Board of directors is responsible for determining and reviewing compensation arrangements for the directors and the chief executive officer. The Board 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.

All directors have agreed to be subject to the directors' Share Savings Plan whereby directors apply a minimum of 50% of their base fee to the acquisition of shares in the Company.

At the date of this report no rights have been granted to directors pursuant to the Performance Plan adopted with the approval of members on 19 November 2003. The amount of each element of the emoluments of each director is set out in Note 16 to the financial statements.

Remuneration levels for directors and executives of the Company are competitively set to attract and retain appropriately qualified and experienced directors and executives.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structure takes into account:

- the capability and experience of the directors and senior executives.
- the ability of directors and senior executives to control the entity's performance.
- the requirement that directors apply a portion of their remuneration to the purchase of shares in the Company at market price, so as to align the interest of directors with that of shareholders.

DIRECTORS' REPORT (CONTINUED)

Remuneration levels are reviewed annually through a process that considers the performance of individual directors and the overall performance of the entity.

Non-executive Director Remuneration

Total non-executive director remuneration is set at \$60,000 per annum.

Directors do not receive performance related remuneration; the remuneration paid covering all board activities including serving on committees.

CORPORATE GOVERNANCE

On 31 March 2003 the ASX Corporate Governance Council (CGC) issued "Principles of Good Corporate Governance and Best Practice Recommendations" (the CGC Paper) requiring ASX listed companies to report their corporate governance practices against those principles and recommendations. An ASX listed company that has not followed a specified recommendation is required to disclose the reason why.

The Board has elected that the Company adopt the principles and recommendations set out in the CGC Paper, as appropriate to a company listed on a stock exchange, but also appropriate to a Company of the size and stage of development of Octanex.

SIGNIFICANT EVENTS AFTER BALANCE DATE*Sale of interest in WA-329-P*

During July 2005 the Company entered into an agreement with BHP Billiton and Apache for the sale of a 100% working interest in WA-329-P, a petroleum exploration permit in the offshore Exmouth Sub-basin of Australia.

The consideration for the transfer includes a cash reimbursement to the vendors, a deferred contingent cash payment of US\$400,000 (100%), and the grant of an overriding royalty interest with respect to any future production from WA-329-P.

Share Buy-Back

In line with the Company's Constitution, the Directors resolved to enter into an on-market share buy-back of a maximum of 5% or 2,482,698 of the Company's shares over a 12 month period from 28th July 2005. No purchases have yet taken place.

WEBSITE

The Company has a website at www.octanex.com.au where relevant Company documents are displayed.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration, as required under section 307C, is attached to this report.

Signed in accordance with a resolution of the directors, in Melbourne, 30 September 2005.



A.P. Armitage
Director

DIRECTORS' DECLARATION

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

- (a) the financial statements and notes of the Company and of the economic entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the economic entity's financial position as at 30 June 2005 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 the directors have been given the declaration by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the Corporations Act 2001.

On behalf of the Board



A.P. Armitage
Director

Melbourne, 30 September 2005

STATEMENT OF FINANCIAL PERFORMANCE
YEAR ENDED 30 JUNE 2005

	NOTE	Consolidated		The Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
Revenues from ordinary activities	2	553,259	487,895	553,259	487,895
Expenses from ordinary activities	3	(307,022)	(502,029)	(273,542)	(502,029)
Profit (loss) from ordinary activities before income tax expense		246,237	(14,134)	279,717	(14,134)
Income tax expense relating to ordinary activities	4	(69,157)	(6,693)	(69,157)	(6,693)
Net profit (loss) from ordinary activities after income tax expense	12	177,080	(20,827)	210,560	(20,827)
Net increase (decrease) in asset revaluation reserve	11	7,491,166	906,968	5,047,095	739,567
Share issue prospectus costs	10	-	(289,886)	-	(289,886)
Net profit (loss) and total changes in equity other than those resulting from transactions with owners as owners.		7,668,246	596,255	5,257,655	428,854
Basic earnings (loss) per share (\$ per share)	20	0.0047	(0.0008)		
Diluted earnings (loss) per share (\$ per share)	20	0.0047	(0.0008)		

The Statement of Financial Performance is to be read in conjunction with the Notes to the Financial Statements

STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2005

	NOTE	Consolidated		The Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
CURRENT ASSETS					
Cash assets		2,366,984	895,467	2,366,983	895,466
Receivables	5	185,285	76,733	185,285	76,733
TOTAL CURRENT ASSETS		2,552,269	972,200	2,552,268	972,199
NON-CURRENT ASSETS					
Receivables	5	-	-	558,007	558,007
Other financial assets	6	14,170,701	3,020,931	9,929,849	2,295,524
Deferred exploration costs carried forward	7	368,473	176,587	368,473	176,587
Deferred tax assets		9,050	9,740	9,050	9,740
TOTAL NON-CURRENT ASSETS		14,548,224	3,207,258	10,865,379	3,039,858
TOTAL ASSETS		17,100,493	4,179,458	13,417,647	4,012,057
CURRENT LIABILITIES					
Payables	8	161,461	131,259	161,461	131,259
Current tax liabilities		6,860	34,887	6,860	34,887
TOTAL CURRENT LIABILITIES		168,321	166,146	168,321	166,146
NON-CURRENT LIABILITIES					
Provisions	9	18,166	18,167	18,166	18,167
Deferred tax liabilities		3,806,667	52,976	2,701,813	52,976
TOTAL NON-CURRENT LIABILITIES		3,824,833	71,143	2,719,979	71,143
TOTAL LIABILITIES		3,993,154	237,289	2,888,300	237,289
NET ASSETS		13,107,339	3,942,169	10,529,347	3,774,768
EQUITY					
Contributed equity	10	3,935,700	2,438,776	3,935,700	2,438,776
Reserves	11	10,116,211	2,807,055	7,817,668	2,952,583
Accumulated losses	12	(944,572)	(1,303,662)	(1,224,021)	(1,616,591)
TOTAL EQUITY		13,107,339	3,942,169	10,529,347	3,774,768

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements

STATEMENT OF CASH FLOWS
YEAR ENDED 30 JUNE 2005

	NOTE	Consolidated		The Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Proceeds from sale of tenement		-	321,474	-	321,474
Interest received		58,062	7,167	58,062	7,167
Payments to suppliers and employees		(468,990)	(504,853)	(468,990)	(504,853)
Payments of income tax		(34,887)	(21,380)	(34,887)	(21,380)
Net cash used in operating activities	(i)	(445,815)	(197,592)	(445,815)	(197,592)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of investments		495,197	159,254	495,197	159,254
Loans to related parties		(74,789)	-	(74,789)	-
Net cash from investing activities		420,408	159,254	420,408	159,254
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	(ii)	1,496,924	1,513,696	1,496,924	1,513,696
Payment for prospectus costs	(ii)	-	(282,386)	-	(282,386)
Repayment of loan from related entities		-	(394,074)	-	(394,074)
Net cash from (used in) investing activities		1,496,924	837,236	1,496,924	837,236
Net increase in cash assets		1,471,517	798,898	1,471,517	798,898
Cash assets at the beginning of the financial year		895,467	96,569	895,466	96,568
CASH ASSETS AT THE END OF THE FINANCIAL YEAR		2,366,984	895,467	2,366,983	895,466
(i) RECONCILIATION OF NET CASH FROM OPERATING ACTIVITIES WITH LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX					
Profit (loss) from ordinary activities after income tax		177,080	(20,827)	210,560	(20,827)
Decrease (increase) in receivables		(33,763)	(66,300)	(33,763)	(66,300)
Increase (decrease) in payables		30,202	(187,719)	30,202	(187,719)
Increase (decrease) in provisions		(1)	18,167	(1)	18,167
Increase (decrease) in current tax liabilities		(28,027)	13,507	(28,027)	13,507
Increase (decrease) in deferred tax liabilities		61,607	(31,904)	61,607	(31,904)
Increase in deferred tax assets		690	3,710	690	3,710
Loss (profit) on sale of investments		(495,197)	418	(495,197)	418
Write back investments		33,480	-	-	-
Write back advance to subsidiary		-	-	-	(33,480)
Decrease (increase) in exploration expenditure		(191,886)	106,347	(191,886)	106,347
Write down investments		-	(32,991)	-	489
Net Cash Used In Operating Activities		(445,815)	(197,592)	(445,815)	(197,592)
(ii) NON-CASH FINANCING ACTIVITIES					
Issue of shares for prospectus costs		-	7,500	-	7,500

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2005****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of Preparation**

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial statements have been prepared in accordance with the historical cost convention, except for non-current listed shares measured at market value.

The financial statements have been prepared under the going concern concept (which assumes the realisation of assets and the extinguishment of liabilities in the normal course of business at the amounts stated in the financial statements) on the assumption that the Company maintains appropriate funding by capital raising, sale of investments, or sale or farmout of its petroleum exploration tenement interests.

The accounting policies adopted are consistent with those of the previous year.

Principles of consolidation

The consolidated financial statements are those of the parent entity, Octanex NL and all entities controlled from time to time during the year and at reporting date.

Information from the financial statements of controlled entities is included from the date the parent company obtains control until such time as control ceases. Acquisitions are accounted for using the purchase method of accounting.

The financial statements of controlled entities 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.

Exploration and Evaluation Expenditure

Exploration and evaluation expenditure is measured on the cost basis, 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.

Exploration expenditure which no longer satisfies the above conditions is written off. In addition, a provision is raised against exploration expenditure where the directors are of the opinion that the carried forward net cost may not be recoverable. The increase in the provision is charged against the results for the year.

Restoration, Rehabilitation and Environment Expenditure

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.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2005****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)****Joint Ventures**

Interest in joint ventures is brought to account by including in the respective classifications, the Company's share of individual assets employed and share of liabilities and expenses incurred. Where the Company is acquiring or disposing of a joint venture interest the Company's share of joint venture assets is based on the contributions made to the joint venture.

Recoverable Amount

The carrying amount of non-current assets is reviewed at balance date to determine whether it is in excess of the recoverable amount. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows are not discounted to their present value.

Taxes*Income Taxes*

Income taxes are accounted for using the comprehensive balance sheet liability method whereby:

- the tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- current and deferred tax is recognised as income or expense except to the extent that the tax relates to equity items or to a business combination;
- a deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

This represents a change in accounting policy from the prior year.

In the 2004 year tax effect accounting procedures were followed whereby the income tax expense (benefit) in the statement of financial performance was matched with the accounting profit (loss) after allowing for permanent differences. The future tax benefit relating to tax losses was not carried forward as an asset unless the benefit was virtually certain of realisation. Income tax on cumulative timing differences was set aside to the deferred income tax or future income tax benefit accounts at the rates which were expected to apply when those timing differences reverse.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except 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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

Cash Assets

Cash assets stated at nominal value comprise cash at bank and short term deposits convertible into cash within 2 working days.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2005****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)****Payables**

Payables are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

Receivables

Receivables are stated at the lower of cost and net realisable value.

Investments

Non-current investments quoted on a prescribed stock exchange are measured on the fair value basis being the lower of market value and recoverable amount, being a directors' valuation. Current investments are carried at the lower of cost and realisable value.

A net revaluation increment relating to a class of non-current investments is credited to an asset revaluation reserve except that, to the extent that the increment reverses a revaluation decrement previously recognised as an expense, it is recognised as revenue.

A net revaluation decrement relating to a class of non-current investments is recognised as an expense – except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of that same class of investments, the revaluation decrement is debited directly to the revaluation reserve.

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Investments - Control of the right to receive the consideration.

Sale of Other Assets - Control of the right to receive the consideration.

Interest and Dividends - Control the right to receive consideration for the provision of, or investment in, assets.

Adoption of an AASB Accounting Standard before its application date

The Directors have elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 1020 Income Taxes for this financial year, even though the standard is not required to be applied until annual reporting periods beginning on or after 31 December 2005. The impact of adopting this standard has been that the consolidated entity has recorded an additional deferred tax liability of \$3,692,085 with the offset in asset revaluation reserve whilst the Company has recorded an additional \$2,587,231 deferred tax liability with the offset also in asset revaluation reserve.

Had this standard been adopted in 2004 it would have resulted in the consolidated entity recording an additional deferred tax liability of \$347,154 with the offset in asset revaluation reserve whilst the Company would have recorded an additional \$296,933 deferred tax liability with the offset also in asset revaluation reserve

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2005

	NOTE	Consolidated 2005 \$	2004 \$	The Company 2005 \$	2004 \$
NOTE 2 REVENUE FROM ORDINARY ACTIVITIES					
Operating activities:					
Interest received		58,062	7,167	58,062	7,167
Proceeds from sale of investments		495,197	159,254	495,197	159,254
Proceeds from sale of exploration tenement		-	321,474	-	321,474
Total revenues from ordinary activities		<u>553,259</u>	<u>487,895</u>	<u>553,259</u>	<u>487,895</u>
NOTE 3 EXPENSES AND LOSSES (GAINS)					
Administration – director-related		60,000	72,850	60,000	72,850
Audit fees		19,500	12,500	19,500	12,500
Carrying value of investments sold		-	159,672	-	159,672
Carrying value of tenements sold		-	140,178	-	140,178
Directors' remuneration		44,100	21,800	44,100	21,800
Directors' retirement benefit		36,333	18,167	36,333	18,167
Employees and consultants		40,130	38,032	40,130	38,032
Interest – director-related		-	14,875	-	14,875
Reporting, registry and stock exchange		48,560	41,851	48,560	41,851
Other expenses from ordinary activities		24,919	15,584	24,919	15,584
Write (back) down advance to subsidiary		-	-	-	(33,480)
Write (back) down investments		33,480	(33,480)	-	-
Total expenses from ordinary activities		<u>307,022</u>	<u>502,029</u>	<u>273,542</u>	<u>502,029</u>
During the year a loss (gain) was recorded on:					
Disposal of investments		(495,197)	418	(495,197)	418
Disposal of exploration tenement		-	(181,297)	-	(181,297)
NOTE 4 INCOME TAX					
The prima facie tax calculated at 30% on profit (loss) from ordinary activities differs from the income tax provided in the financial statements as follows:					
Prima facie income tax benefit on loss from ordinary activities		73,871	(4,240)	83,915	(4,240)
Tax effect of:					
Capital gain on sale of investments		-	35,735	-	35,735
Prospectus costs		(14,758)	(14,758)	(14,758)	(14,758)
Write (back) down on advance to subsidiary		-	-	-	(10,044)
Write (back) down of investments		10,044	(10,044)	-	-
Income tax expense attributable to ordinary activities		<u>69,157</u>	<u>6,693</u>	<u>69,157</u>	<u>6,693</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2005

	NOTE	Consolidated		The Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
NOTE 5 RECEIVABLES					
CURRENT					
Director-related entities	17	151,522	76,733	151,522	76,733
Other		33,763	-	33,763	-
		<u>185,285</u>	<u>76,733</u>	<u>185,285</u>	<u>76,733</u>
NON CURRENT					
Controlled entity	17			<u>558,007</u>	<u>558,007</u>
NOTE 6 OTHER FINANCIAL ASSETS					
NON-CURRENT					
Listed shares:					
Director-related entities at market value	6(a)	14,167,000	3,017,180	9,926,147	2,291,772
Other companies at market value		3,700	3,750	3,700	3,750
		<u>14,170,700</u>	<u>3,020,930</u>	<u>9,929,847</u>	<u>2,295,522</u>
Shares in associate	6(b)	1	1	1	1
Shares in controlled entity at cost	6(c)	-	-	1	1
	6(d)	<u>14,170,701</u>	<u>3,020,931</u>	<u>9,929,849</u>	<u>2,295,524</u>
(a) Director-related Entities:					
<i>Cue Energy Resources Ltd</i>					
Principal activity is oil and gas exploration and production (7.0% : interest)		13,824,453	2,364,709	9,583,600	1,639,301
<i>Methanol Australia Limited</i>					
Principal activity is development of the Tassie Shoal Methanol Project (2.9% : interest)		342,547	652,471	342,547	652,471
		<u>14,167,000</u>	<u>3,017,180</u>	<u>9,926,147</u>	<u>2,291,772</u>
(b) Reconciliation of the Carrying Amount of Listed Shares					
Balance at beginning of year		3,020,930	2,080,482	2,295,522	1,555,955
Additions		-	-	-	-
Carrying value of disposals		-	-	-	-
Net revaluation increment		11,149,770	940,448	7,634,325	739,567
		<u>14,170,700</u>	<u>3,020,930</u>	<u>9,929,847</u>	<u>2,295,522</u>
(c) Associate					
United Oil & Gas Pty Ltd, 50% owned with Strata Resources NL, acted as operator of the Western Otway Joint Venture (Note 17) and did not contribute to the consolidated net profit for the year.					
(d) Controlled Entity					
Octanex Operations Pty Ltd, 100% owned, incorporated in Australia and balancing at 30 June, invests in the petroleum exploration sector. The controlled entity did not contribute to the consolidated net profit for the year.					

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2005

	NOTE	Consolidated		The Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
NOTE 7 DEFERRED EXPLORATION COSTS CARRIED FORWARD					
Cost at beginning of year		176,587	282,934	176,587	282,934
Cost attributable to interest sold		-	(140,178)	-	(140,178)
Cost reimbursed		-	(105,219)	-	(105,219)
Cost for the year		191,886	139,050	191,886	139,050
Cost at end of year	13	<u>368,473</u>	<u>176,587</u>	<u>368,473</u>	<u>176,587</u>

Ultimate recovery of deferred exploration costs carried forward is dependent upon exploration success and/or the company maintaining appropriate funding to support continued exploration activities.

NOTE 8 PAYABLES

Trade creditors and accruals		64,895	87,561	64,895	87,561
Director-related entity other payables	17	96,566	43,698	96,566	43,698
		<u>161,461</u>	<u>131,259</u>	<u>161,461</u>	<u>131,259</u>

NOTE 9 PROVISIONS

Provision for retirement benefit of director	16	<u>18,166</u>	<u>18,167</u>	<u>18,166</u>	<u>18,167</u>
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NOTE 10 CONTRIBUTED EQUITY

	2005	2004	Consolidated		The Company	
	Shares	Shares	2005	2004	2005	2004
			\$	\$	\$	\$
Issued and Paid Up Capital						
Ordinary shares fully paid	49,653,967	34,684,729	<u>3,935,700</u>	<u>2,438,776</u>	<u>3,935,700</u>	<u>2,438,776</u>
Movements in Shares on Issue						
Ordinary shares on issue at beginning	34,684,729	19,409,671	2,438,776	1,207,467	2,438,776	1,207,467
Issue pursuant to prospectus (ii)	-	15,275,058	-	1,521,195	-	1,521,195
Costs of issue	-	-	-	(289,886)	-	(289,886)
Options exercised	14,969,238	-	1,496,924	-	1,496,924	-
	<u>49,653,967</u>	<u>34,684,729</u>	<u>3,935,700</u>	<u>2,438,776</u>	<u>3,935,700</u>	<u>2,438,776</u>

(i) Terms and Conditions of Contributed Equity

Ordinary shares confer on the holder the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of (irrespective of the amounts paid up on) shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2005

NOTE 10 CONTRIBUTED EQUITY (CONT)

(ii) Shares Issued Pursuant to Prospectus

During 2004 a total of 15,275,058 fully paid ordinary shares were issued pursuant to the prospectus dated 7 November 2003 at an issue price of 10 cents per share. For each share subscribed the Company granted free of charge one 31 March 2005 option and one 30 June 2008 option.

(iii) Share buy-back

In line with the Company's Constitution, the Directors resolved to enter into an on-market share buy-back of a maximum of 5% or 2,482,698 of the Company's shares over a 12 month period from 28th July 2005. No purchases have yet taken place.

(iv) Options over Unissued Shares

The Company has granted options over unissued shares in the Company, each option conferring the right to subscribe for one fully paid ordinary share. The options do not confer the right to dividends or to vote at meetings of members. Shares allotted on exercise of the options will rank pari passu in all respects with other fully paid ordinary shares. Each option will entitle the holder to participate in new issues in which shares or other securities are offered to members on the prior exercise of the option.

Options exercisable at 10 cents by 31 March 2005

During the year 14,969,238 options were exercised.

On exercise the holder was granted one 30 June 2008 option free of charge for each option exercised.

Options exercisable at 25 cents by 30 June 2008

During 2004 the Directors granted 15,275,058 30 June 2008 options and during the 2005 year an additional 14,969,238 30 June 2008 options were granted as a result of shareholders exercising their 31 March 2005 options.

No 30 June 2008 options were exercised during the year. At balance date there were 30,244,296 options over unissued shares outstanding.

NOTE 11 RESERVES

	NOTE	Consolidated		The Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
Asset Revaluation Reserve					
Balance at beginning of the year		1,026,260	119,292	1,171,788	432,221
Revaluation of listed shares		11,183,251	906,968	7,634,326	739,567
Transfer to Accumulated Losses	12	(182,010)	-	(182,010)	-
Deferred tax liability		(3,692,085)	-	(2,587,231)	-
		<u>8,335,416</u>	<u>1,026,260</u>	<u>6,036,873</u>	<u>1,171,788</u>
Capital Profits Reserve		1,780,795	1,780,795	1,780,795	1,780,795
		<u><u>10,116,211</u></u>	<u><u>2,807,055</u></u>	<u><u>7,817,668</u></u>	<u><u>2,952,583</u></u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2005

	NOTE	Consolidated		The Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
NOTE 12 ACCUMULATED LOSSES					
Balance at beginning of year		(1,303,662)	(1,282,835)	(1,616,591)	(1,595,764)
Net profit (loss)		177,080	(20,827)	210,560	(20,827)
Transfer from Asset Revaluation Reserve	11	182,010	-	182,010	-
		<u>(944,572)</u>	<u>(1,303,662)</u>	<u>(1,224,021)</u>	<u>(1,616,591)</u>

NOTE 13 EXPLORATION EXPENDITURE COMMITMENTS

The Company's share of minimum work requirements contracted for under exploration permit interests held in joint venture is estimated at balance date:

Payable not later than one year	1,927,864	615,000	1,927,864	615,000
Payable later than one year but not later than three years	1,562,136	450,000	1,562,136	450,000
	<u>3,490,000</u>	<u>1,065,000</u>	<u>3,490,000</u>	<u>1,065,000</u>

NOTE 14 INTEREST IN JOINT VENTURES

The Company has an interest in the assets, liabilities and output of various joint ventures for the exploration and development of petroleum in Australia:

Dampier Project (50% Interest)	
WA-321-P, WA-323-P & WA-330-P	17
Exmouth Project (37.5% Interest)	
WA-329-P	17
Western Otway Joint Venture (15% Interest)	
EPP34	17
Northern Deeps Joint Venture (35% Interest)	
WA-362-P & WA-363-P	17

CURRENT ASSETS

Cash Assets		11,858	-	11,858	-
Receivables		1,898	-	1,898	-
Receivable – director-related entity	5, 17	6,763	76,733	6,763	76,733

NON-CURRENT ASSETS

Deferred exploration costs carried forward	7	368,473	176,587	368,473	176,587
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CURRENT LIABILITIES

Payables – director-related entity	8, 17	2,075	46,475	2,075	46,475
Payables	8	15,266	-	15,266	-

EXPLORATION EXPENDITURE COMMITMENTS

	13	3,490,000	1,065,000	3,490,000	1,065,000
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NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2005

NOTE	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
NOTE 15 AUDITOR'S REMUNERATION				
Amounts received or due and receivable by the auditors of the Company for:				
Audit or review of the financial reports	19,500	12,500	19,500	12,500
Other services	-	-	-	-
	<u>19,500</u>	<u>12,500</u>	<u>19,500</u>	<u>12,500</u>

NOTE 16 DIRECTOR AND EXECUTIVE DISCLOSURES**Specified Directors**

EG Albers	Chairman	PJ Albers	Director (non-executive)
CR Hart	Director (non-executive)	AP Armitage	Director (non-executive)
GA Menzies	Director (non-executive)		

Specified Executives

There are no employees that meet the definition of executive contained in AASB 1046 Director and Executive Disclosures by Disclosing Entities.

Remuneration Policy for Specified Directors

The Board of Directors is responsible for determining and reviewing compensation arrangements for the directors and the managing director. The appropriateness of the nature and amount of emoluments of such officers is assessed 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. Such officers are given the opportunity to receive their base emolument in a form optimal for the recipient without creating undue cost for the company.

During the 2004 year options were granted to some specified directors in accordance with the approval of members. At the date of this report no rights have been issued under the Company's Performance Plan.

Remuneration of Specified Directors

	Year	Primary		Post Employment		Equity	Total
		Directors Fees	Other Fees	Superannuation	Retirement Benefit	Option Plan	
		\$	\$	\$	\$	\$	\$
EG Albers*	2005	20,000	-	1,800	36,333	-	58,133
	2004	10,000	-	900	18,167	-	29,067
PJ Albers*	2005	10,000	-	900	-	-	10,900
	2004	5,000	-	450	-	-	5,450
AP Armitage	2005	-	31,488	-	-	-	31,488
	2004	5,000	38,224	450	-	7,000	50,674
CR Hart	2005	10,000	-	-	-	-	10,000
	2004	5,000	-	450	-	7,000	12,450
GA Menzies	2005	10,000	-	900	-	-	10,900
	2004	5,000	30,000	450	-	7,000	42,450
TOTAL	2005	50,000	31,488	3,600	36,333	-	121,421
	2004	30,000	68,224	2,700	18,167	21,000	140,091

* Refer to Note 17 for fees paid to director-related entities

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2005****NOTE 16 DIRECTOR AND EXECUTIVE DISCLOSURES (CONT)****Equity Instruments of Specified Directors issued by Octanex N.L.**

	Balance 1/7/2004	Received as Remuneration	Options Exercised	Net Change Other	Balance 30/6/2005
Ordinary Shares					
EG Albers *	17,647,970	-	8,061,260	2,343,675	28,052,905
PJ Albers*	13,793,752	-	7,273,000	2,243,674	23,310,426
AP Armitage	50,000	-	-	-	50,000
CR Hart	1,580,235	-	-	-	1,580,235
GA Menzies	-	-	50,000	-	50,000
Total	33,071,957	-	15,384,260	4,587,349	53,043,566
* Ordinary shares in which more than one specified director holds an interest	13,281,251	-	7,273,000	2,243,675	22,797,926

Options – each option may be exercised for one fully paid ordinary share

	Balance 1/7/2004	Received as Remuneration	Options Exercised	Net Change Other	Balance 30/6/2005
Options exercisable by 31 March 2005 at 10 cents per share					
EG Albers *	10,066,260	-	(8,061,260)	(2,005,000)	-
PJ Albers *	9,278,000	-	(7,273,000)	(2,005,000)	-
AP Armitage	200,000	-	-	(200,000)	-
CR Hart	200,000	-	(150,000)	(50,000)	-
GA Menzies	200,000	-	(50,000)	(150,000)	-
Total	19,944,260	-	(15,534,260)	(4,410,000)	-
* Options in which more than one specified director holds an interest	8,178,000	-	(6,173,000)	(2,005,000)	-

Options exercisable by 30 June 2008 at 25 cents per share

EG Albers	10,066,260	-	8,061,260	2,399,970	20,527,490
PJ Albers	9,278,000	-	7,273,000	2,299,970	18,850,970
CR Hart	-	-	150,000	-	150,000
GA Menzies	-	-	50,000	-	50,000
Total	19,344,260	-	15,534,260	4,699,940	39,578,460
Options in which more than one specified director hold an interest	8,178,000	-	6,173,000	2,299,970	16,650,970

The disclosures relating to equity instruments of specified directors includes equity instruments of personally related entities, being relatives and the spouses of relatives of the specified director and any entity under the joint or severed control or significant influence of the specified director.

All equity transactions with specified directors other than options granted as remuneration have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2005****NOTE 16 DIRECTOR AND EXECUTIVE DISCLOSURES (CONT)**

The assessed value at grant date of the options granted to Specified Directors was determined on 17 September 2003 by an independent valuer, DMR Corporate Pty Ltd at 3.5 cents each, using the Black-Scholes pricing model and assuming a price of 10 cents for the underlying shares, an expected volatility in the share price of 40% and a risk free interest rate of 6% per annum.

NOTE 17 RELATED PARTY TRANSACTIONS*Other Transactions of Directors and Director-Related Entities*

During the year services were provided under normal commercial terms and conditions by entities related to Directors as set out below.

A director-related entity of E.G. Albers and P.J. Albers, Great Missenden Holdings Pty Ltd provided: administration, secretarial and office facilities, and other services relating to the management of the Company in the amount of \$60,000 (2004: \$60,000), management for all of the Company's exploration tenements in the amount of \$108,970 (2004: \$89,045). At balance date fees payable of \$96,566 are included at Note 8.

During the year the Company had no interest bearing loans. During 2004 the Company paid interest of \$14,875 on interest bearing loans from director-related entities of E.G. Albers and P.J. Albers and made repayments of principal of \$394,074.

During 2004 the Company paid to Great Missenden Holdings Pty Ltd commission of \$75,375 and management fees of \$20,000, pursuant to the underwriting agreement relating to the prospectus offer dated 7 November 2003.

During 2004 Great Missenden Holdings Pty Ltd arranged settlement of the amount of \$103,454, relating to the provision of access to and use of geophysical data for the Exmouth Project.

During the year Great Missenden Holdings Pty Ltd made available in Western Australia, on a non exclusive basis, a Kingdom work station and various support facilities, equipment, software and maintenance in consideration of Octanex paying a monthly charge of \$4,000, effective 1 July 2003, subject to review in proportion to any increase in lease fees and outgoings payable by Great Missenden Holdings Pty Ltd in respect of such items.

The Company holds interests in petroleum exploration joint ventures with director-related entities of E.G. Albers:

As operator of the Exmouth and Dampier Projects, conducted as joint ventures with Strata Resources NL and Rocky Mountain Resources Inc. A receivable \$138,079 (2004: \$73,508) from Strata Resources NL is carried in Note 5.

United Oil & Gas Pty Ltd, 50% owned by each of the Company and Strata Resources NL (Note 6) has acted as operator of the Western Otway Joint Venture on behalf of itself (30%), National Energy Pty Ltd (25%), Exoil Ltd (25%) and Moby Oil & Gas Ltd (20%). A receivable of \$3,225 (2004: \$3,225) from United Oil & Gas Pty Ltd is carried in Note 5.

As operator of the Northern Deeps Project, conducted as a joint venture with Strata Resources NL (35%) and Gascorp Australia Ltd (30%). A receivable of \$5,502 from Strata Resources NL and \$4,716 from Gascorp Australia Ltd is carried in Note 5.

At balance date the economic entity carried investments (Note 6) in Director-related entities listed on ASX and active in upstream and downstream petroleum industry, representing 2.9% (2004: 4.4%) of the issued share capital of Methanol Australia Limited (excluding non-voting trustee stock scheme shares) and 7.0% (2004: %10.9%) of the issued capital of Cue Energy Resources Ltd.

Controlled Entity

The wholly owned subsidiary, Octanex Operations Pty Ltd, is provided with management and administration services and an interest free loan to fund its investment activities.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2005

NOTE 18 FINANCIAL INSTRUMENTS**(a) Net fair values**

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Cash and cash equivalents: The carrying amount approximates fair value because of the short-term to maturity.

Receivables and accounts payable: The carrying amount approximates fair value because of settlement terms.

Listed securities: The carrying amounts are based on market values at balance date.

(b) Terms, conditions and accounting policies

The Company's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Accounting Policies	Terms and Conditions
(i) Financial Assets		
Cash at Bank	Cash at bank is stated at nominal value	At call, interest rate subject to balance.
Receivables	Receivables are stated at the lower of cost and net realisable value.	Receivables are repayable at nominal value and are interest free.
Listed Securities	Listed securities are carried at the lower of Directors' value and market value.	Dividend income is recognised on receipt.
(ii) Financial Liabilities		
Payables	Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.	Trade liabilities are normally settled on 30 day terms.
(iii) Equity		
Ordinary shares	Ordinary share capital is recognised at the fair value of the consideration received by the Company.	Details of shares issued and options outstanding are set out in Note 10.

(c) Interest Risk

The consolidated entity's exposure to interest rate risk and the effective rates of interest of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

	Floating Interest Rate		Fixed Interest Rate		Non-Interest Bearing		Total Carrying Amount as per Statement of Financial Position		Weighted Average Effective Interest Rate	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
FINANCIAL ASSETS										
Cash	616,984	395,467	1,750,000	500,000	-	-	2,366,984	895,467	5.13%	3%
Receivables	-	-	-	-	185,285	76,733	185,285	76,733	N/A	N/A
Other financial assets	-	-	-	-	14,170,701	3,020,931	14,170,701	3,020,931	N/A	N/A
	616,984	395,467	1,750,000	500,000	14,355,986	3,097,664	16,722,970	3,993,131		
FINANCIAL LIABILITIES										
Trade creditors	-	-	-	-	161,461	131,259	161,461	131,259	N/A	N/A
	-	-	-	-	161,461	131,259	161,461	131,259		

(d) Credit Risk Exposure

The maximum credit risk exposure of financial assets is represented by the carrying amounts recognised in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2005

NOTE 19 SEGMENT INFORMATION

The economic entity operates in Australia in the petroleum exploration industry.

NOTE 20 EARNINGS PER SHARE

	Consolidated	
	2005	2004
	\$	\$
The following reflects the income and share data used in the calculations of basic and diluted earnings (loss) per share:		
Net profit (loss)	177,080	(20,827)
	Number of	Number of
	Shares	Shares
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings (loss) per share	38,006,466	26,979,726

30,244,296 potential ordinary shares arising from 30 June 2008 options are not considered dilutive and are not included in the calculation of diluted earnings (loss) per share.

NOTE 21 EVENTS SUBSEQUENT TO BALANCE DATE*Sale of interest in WA-329-P*

During July 2005 the Company announced that it entered into an agreement with BHP Billiton and Apache for the sale of a 100% working interest in WA-329-P, a petroleum exploration permit in the offshore Exmouth Sub-basin of Australia.

The consideration for the transfer includes a cash reimbursement to the vendors, a deferred contingent cash payment of US\$400,000 (100%), and the grant of an overriding royalty interest with respect to any future production from WA-329-P.

Share Buy-Back

In line with the Company's Constitution, the Directors resolved to enter into an on-market share buy-back of a maximum of 5% or 2,482,698 of the Company's shares over a 12 month period from 28th July 2005. No purchases have yet taken place.

NOTE 22 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS STANDARDS

During the year, Octanex NL has continued with its transition process from Australian GAAP to Australian equivalents to International Financial Reporting Standards (AIFRS). The transition to AIFRS is currently at the practical implementation phase and is substantially complete. During the reporting period, key areas of impact have been addressed.

The opening AIFRS balance sheet as at 1 July 2004 is still the priority as it forms the basis of accounting under AIFRS in the future and is required for the preparation of the Company's and the consolidated entity's first fully compliant financial statements for the year ending 30 June 2006. These opening balance sheets will incorporate the choice of accounting policies available, including elective exemptions under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*.

As at 30 June 2005, the key areas identified as being impacted are listed below, including where possible the estimated financial impacts on the financial report, had it been prepared under AIFRS:

Impairment of assets

Under AASB 136 *Impairment of Assets*, the recoverable amount of an asset is determined as the higher of its net selling price and value in use. The group's current accounting policy is to determine the recoverable amount of an asset on the basis of undiscounted cash flows. The Group's assets were tested for impairment on transition and each subsequent reporting date as part of the cash generating unit to which they belong. This testing has shown that no impairment loss be recognised under AIFRS.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2005****NOTE 22 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS STANDARDS (CONT)***Deferred exploration costs*

AIFRS requires any capitalised exploration and evaluation expenditures (known as ‘exploration and evaluation assets’) to be tested for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. It is estimated that no adjustments will be required.

Share-based payments

Share-based payments are only made to directors and executives and, currently, the company does not recognise any associated expense. Under AIFRS the company must determine the fair value of equity instruments and options issued to employees as remuneration and be recognised as an employee benefit expense with a corresponding increase in equity. The fair value of the options granted will be measured using the Black-Scholes option pricing model, taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

For the financial year ended 30 June 2004 employee benefits expense and accumulated losses are expected to increase by \$21,000 in the consolidated entity and \$21,000 in the Company representing the options expense for the period. There were no additional options granted in 2005 therefore, for the financial year ended 30 June 2005, there will be no adjustment to employee benefits expense and accumulated losses.

Income taxes

For the 2005 year the Company adopted the revised AASB 1020 Income Taxes accounting standard which calculates income tax using the “balance sheet” approach which is virtually the same as that required by AIFRS. However, the 2004 year calculated income tax balances under the income statement method.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes.

Current tax is the expected tax payable on the taxable income for the year.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised.

For the 2004 financial year both the consolidated entity and the Company revalued their investments. As a result of this revaluation it is expected that deferred tax liabilities will increase by \$347,154 in the consolidated entity and \$296,933 in the Company. The offset to these adjustments will be recorded in the asset revaluation reserve.

For the 2005 financial year no adjustment will be required for IFRS due to the Company’s adoption of the revised AASB 1020 Income Taxes accounting standard.

Financial Instruments

The Company has advanced funds to its 100% owned subsidiary. This advance is interest free and to be repaid when the subsidiary has sufficient funds to do so. Under AIFRS this type of transaction is a non derivative financial asset whose value must be amortised using the effective interest method. The impact of adopting this methodology results in the principal value of the loan being reduced by \$46,074 and interest expense (accumulated losses) increasing by \$46,074. This adjustment is only reflected in the Company’s accounts.

Revenue

Under AIFRS income is made up of revenue and gains and expenses include both expenses and losses. Revenues and expenses which are presented on a gross basis only arise in the ordinary course of business. Gains and losses may be presented on a net basis and may not necessarily arise in the ordinary course of business.

While the company has endeavoured to provide details on all areas it believes will be materially impacted by the transition to AIFRS, further differences may arise as implementation is finalised.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2005

NOTE 22 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS STANDARDS (CONT)

The following table sets out the expected adjustments to the statements of financial performance of the Company and the consolidated entity for the year ended 30 June 2005.

	CONSOLIDATED For the year ended 30 June 2005			COMPANY For the year ended 30 June 2005		
	AGAAP	Transition impact	AIFRS	AGAAP	Transition impact	AIFRS
	\$	\$	\$	\$	\$	\$
Interest received	58,062	-	58,062	58,062	-	58,062
Gross proceeds on sale of investments	495,197	-	495,197	495,197	-	495,197
Administration – director related	(60,000)	-	(60,000)	(60,000)	-	(60,000)
Audit fees	(19,500)	-	(19,500)	(19,500)	-	(19,500)
Directors' remuneration	(44,100)	-	(44,100)	(44,100)	-	(44,100)
Director's retirement benefit	(36,333)	-	(36,333)	(36,333)	-	(36,333)
Employees and consultants	(40,130)	-	(40,130)	(40,130)	-	(40,130)
Interest expense	-	(46,074)	(46,074)	-	(46,074)	(46,074)
Other expenses from ordinary activities	(24,919)	-	(24,919)	(24,919)	-	(24,919)
Reporting, registry and stock exchange	(48,560)	-	(48,560)	(48,560)	-	(48,560)
Write back (down) investments	(33,480)	-	(33,480)	-	-	-
<i>Profit before income tax expense</i>	246,237	(46,074)	200,163	279,717	(46,074)	233,643
Income tax expense	(69,157)	-	(69,157)	(69,157)	-	(69,157)
<i>Profit for the period</i>	177,080	(46,074)	131,006	210,560	(46,074)	164,486

The impact of the transition to AIFRS on retained earnings as at 1 July 2004 is summarised below:

	Consolidated \$	Company \$
Accumulated losses as at 1 July 2004 under AGAAP	(1,303,662)	(1,616,591)
- fair value of non-current receivables	-	(46,074)
- impact of share based payments	<u>(21,000)</u>	<u>(21,000)</u>
Accumulated losses as at 1 July 2004 under AIFRS	<u>(1,324,662)</u>	<u>(1,683,665)</u>

NOTE 23 CORPORATE INFORMATION

The Company's registered office and principal place of business is located at Level 25, 500 Collins Street, Melbourne. The principal activity of the economic entity is petroleum exploration and investment in that sector. At 30 June 2005 there were no employees other than Directors.

A Member Firm of PKF International

**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF OCTANEX NL**

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Octanex NL (the company), for the year ended 30 June 2005. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at year end or during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report 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.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing and Assurance Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. 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 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 performance as represented by the results of their operations and cash flows.

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

- (a) examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- (b) 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.

Independence

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

Audit Opinion

In our opinion, the financial report of Octanex NL is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position at 30 June 2005, 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.



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PKF
Chartered Accountants

30 September 2005
Melbourne

A Victorian Partnership

M L Port
Partner

AUDITOR'S INDEPENDENCE DECLARATION

A Member Firm of PKF International



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30 September 2005

The Directors
Octanex NL
Level 25
500 Collins Street
MELBOURNE VIC 3000

Dear Sirs

INDEPENDENCE DECLARATION

As lead engagement partner for the audit of Octanex NL, for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF

Chartered Accountants

M L Port
Partner

A Victorian Partnership

5 YEAR SUMMARY OF PERFORMANCE

		2001	2002	2003	2004	2005
Gross Revenue	\$	32,217	3,135,751	411,389	487,895	553,259
Net (loss) profit before tax	\$	225,937	(77,437)	(306,892)	(14,134)	246,237
Total assets	\$	4,188,667	2,850,756	2,644,030	4,179,458	17,100,493
Total liabilities	\$	1,182,781	580,158	819,311	237,289	3,993,154
Shareholders funds	\$	3,005,886	2,270,598	1,824,719	3,942,169	13,107,339
Earnings (loss) per share	Cents	10.96	(3.79)	(2.00)	(0.08)	0.47
Dividends per share	Cents	N/A	N/A	N/A	N/A	N/A
Net tangible assets	\$	2,900,561	2,071,876	1,528,335	3,755,842	12,729,815
Price earnings ratio	\$	*	*	*	**	32.19

* Not listed

** Not applicable (loss)

N/A Not Applicable