

OCTANEX N.L.

ABN 61 005 632 315

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2006

DIRECTORY**BOARD OF DIRECTORS**

E.G. Albers (Chairman)
P.J. Albers
A.P. Armitage
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

Link Market Services Limite
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

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FORWARD LOOKING STATEMENTS

This Financial Report includes certain forward-looking statements that have been based on current expectations about future acts, events and circumstances. These forward-looking statements are, however, subject to risks, uncertainties and assumptions that could cause those acts, events and circumstances to differ materially from the expectations described in such forward-looking statements.

These factors include, among other things, commercial and other risks associated with the meeting of objectives and other investment considerations, as well as other matters not yet known to the company or not currently considered material by the company.

DIRECTORS' REPORT

The directors present their report on the results of Octanex NL (the “company” or “Octanex”) for the year ended 30 June, 2006.

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.

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 Armitage is a member of the audit committee.

Mr CR Hart (Director 25/11/1991 to 21/08/06) 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. Mr Hart resigned his directorship during the year.

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 2005), Moby Oil & Gas Limited (appointed October 2003), Oil Basins Limited (appointed September 2005) and China Cattle Limited (appointed December, 2005). Mr Menzies is a member of the audit committee.

COMPANY SECRETARY

Mr DB Hill

Mr Hill was appointed as Company Secretary on 17 September 1997. 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.

DIRECTORS' REPORT (CONTINUED)**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.

	Meetings Held	Meetings Attended
EG Albers	4	4
PJ Albers	4	-
AP Armitage	4	4
CR Hart	4	1
GA Menzies	4	1

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

PRINCIPAL ACTIVITIES

The principal activities of the company during the year were petroleum exploration and investment in that sector employing at 30 June 2006, five directors (2005: 5).

OPERATING RESULT FOR THE YEAR

The economic entity, being the company and its controlled entity recorded a profit for the year after income tax of \$2,746 (2005: \$177,080).

CHANGE IN STATE OF AFFAIRS

During the financial year, there was no significant change in the state of affairs of the company, other than as referred to in this report, the financial statements and the notes thereto.

DIVIDENDS

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

REVIEW OF OPERATIONS

Over the past year Octanex has held royalty interests in two petroleum exploration permits and has had interests in four joint ventures with petroleum exploration activities located in the offshore waters of Australia.

DIRECTORS' REPORT (CONTINUED)**ROYALTY INTERESTS****WA-329-P (EXMOUTH SUB-BASIN)**

In July 2005 the company and its joint venturers entered into an agreement with BHP Billiton Petroleum Pty Ltd ("BHP Billiton") and Apache Energy Limited ("Apache") for the sale and subsequent assignment of a 100% working interest in WA-329-P, a petroleum exploration permit in the offshore Exmouth Sub-basin of Australia.

The sale consists of the buyers becoming responsible for the terms and conditions of the Permit, a cash payment, a deferred cash payment contingent upon the drilling of a well in WA-329-P, and the grant of an overriding royalty interest should there be any future production, less applicable petroleum resource rent tax, depending on the level of aggregate production.

The Exmouth Joint Venture was informed that BHP had completed the acquisition of 107 square kilometres of 3D seismic on Exploration Permit WA-329-P in October 2005.

WA-322-P (EXMOUTH SUB-BASIN)

In early 2004 the company, together with its joint venturers entered into an agreement with BHP Billiton Petroleum Pty Ltd ("BHP Billiton") for the sale and subsequent assignment of a 100% working interest in WA-322-P, a petroleum exploration permit in the offshore Exmouth Sub-basin of Australia.

In return BHP agreed to the acquisition and processing of 3D seismic in the Joint Venture's adjacent exploration permit, WA-329-P, as well as an initial cash payment, a deferred cash payment contingent upon BHP drilling a well in WA-322-P and the granting of an overriding royalty interest with respect to revenue from any future production from WA-322-P, less applicable petroleum resource rent tax, depending on the level of aggregate production.

The Exmouth Joint Venturers were informed by BHP in October 2005 that BHP had completed the acquisition of 635 km² of 3D seismic in Exploration Permit WA-322-P.

In addition, BHP are required to offer to reconvey the Permit to the Exmouth Joint Venturers should they decide not to proceed further with exploration and to relinquish the Permit before its full-term expiry.

The transactions with BHP/Apache will see our joint venturers participate in the most cost effective way through the royalty arrangement in a significantly more intensive program than might otherwise have been undertaken. The Exmouth Sub-basin is a highly desirable exploration focus, with a high level of exploration and development activity being carried out by major international oil companies.

WA-329-P is centrally located in the Exmouth Sub-basin close to numerous Barrow Group discoveries, both to the northeast and in the southwest (See Figure 1 attached). The Vincent oil discovery in 1998 was significant in that it proved producible oil. The Vincent 1 well became the harbinger of successful exploration drilling campaigns in this area. The Vincent/Van Gogh oil accumulation is located approximately 15 kilometres west of WA-329-P.

The Novara/Coniston oil accumulation, discovered on the Novara Arch, is also in the same area. The Macedon gas and Pyrenees oil accumulations, which are collectively known as the West Muiron accumulation, are another example of successful plays on the Novara Arch.

Importantly, the Basal Barrow Group plays have emerged as a successful exploration play concept in recent years. The basal sandstone (Macedon Formation) of the Barrow Group is the oil-bearing reservoir of the Enfield, Laverda, Stybarrow, Ravensworth, Crosby and Stickle accumulations. These accumulations are located about 30 km southwest of WA-329-P.

DIRECTORS' REPORT (CONTINUED)**PETROLEUM EXPLORATION INTERESTS****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. During the year the joint venture completed the shooting of the Tourmaline Survey of 1,578 line km of new 2D seismic over the Permits.

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. Recently, important new gas discoveries have been made at Pluto and Wheatstone, to the west.

The proximity of existing infrastructure and the likely future extensions, as well as new 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 and the proposed Pluto LNG development are anticipated, so that any gas discovery in our permits should be valuable and capable of monetisation.

Geologic and seismic interpretation of the Late Jurassic, Angle Formation submarine fan play continues. 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 traps within both the North Webley and Webley horst structures. Further potential is seen in the vicinity of the Withnell well which had good hydrocarbon shows.

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. 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 largest petroleum basin which includes the giant gas resources of the North West Shelf (Rankin Trend), the Greater Gorgon region and Io/Janz.

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 within 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.

The planned 3 year work program by the consortium includes reprocessing existing seismic data acquisition, and the acquisition of more than 2,200 kms of 2D seismic.

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. A 700 line km 2D seismic survey is planned for 2007.

DIRECTORS' REPORT (CONTINUED)**SOUTHERN EXMOUTH JOINT VENTURE – WA-384-P AND WA-385-P**

In August 2006 two new exploration permits were granted to a joint venture between Octanex NL (50%) and Strata Resources NL (50%). The two new exploration permits known as WA-384-P and WA-385-P located in the southern Exmouth Sub-basin will be explored as one joint venture. The joint venture has committed to shoot not less than 1,800 line km of 2D seismic survey over the permits in the first three years of the Permits.

The two new permits are located within a poorly explored region just south of Australia's newest oil province (Enfield, Lavenda, Skiddaw and Stybarrow discoveries). There is a significant amount of non-exclusive seismic available, but just one structural test well, Herdsman-1, in the far south of the blocks. A typical North West Shelf type Mesozoic sedimentary section is inferred in the northern part of the permits, with the Jurassic section apparently in the "oil window".

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 2.1% of the issued paid up capital of MEO, 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 5.8% 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 (13.5%), which it holds in joint venture with Santos Ltd (45%) and others. This joint venture has made the Oyong oil and gas discovery, which is located offshore East Java, in the Madura Strait of Indonesia and is being developed for future oil and gas production. In New Zealand, Cue holds a 5% interest in PEP38413, the permit that contains the Maari oil field in the offshore Taranaki Basin. It is also under development.

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**LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

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.

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.

DIRECTORS' REPORT (CONTINUED)

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

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.

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.

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.

Total director remuneration is capped at \$60,000 per annum.

Directors do not receive performance related remuneration; the remuneration paid covers all board activities including serving on committees. The directors do not receive employee benefits including annual leave and long service leave, but remuneration may include the grant of options over shares of the company to align directors' interests with that of the shareholders.

	Year	Equity Settled	Primary			Post Employment		Total
		Options	Directors Fees	Other Fees	Salary	Superannuation	Retirement Benefit	
		\$	\$	\$	\$	\$	\$	\$
EG Albers	2006	-	10,000	-	-	900	-	10,900
	2005	-	20,000	-	-	1,800	36,333	58,133
PJ Albers	2006	-	5,000	-	-	450	-	5,450
	2005	-	10,000	-	-	900	-	10,900
AP Armitage	2006	-	-	12,000	-	-	-	12,000
	2005	-	-	31,488	-	-	-	31,488
CR Hart	2006	-	-	-	-	-	-	-
	2005	-	10,000	15,000	-	-	-	25,000
GA Menzies	2006	-	5,000	-	-	450	-	5,450
	2005	-	10,000	-	-	900	-	10,900
TOTAL	2006	-	20,000	12,000	-	1,800	-	33,800
	2005	-	50,000	46,488	-	3,600	36,333	136,421

DIRECTORS' REPORT (CONTINUED)**INDEMNIFICATION AND INSURANCE OF DIRECTORS**

During the year and to the date of this report, the company did not pay premiums in respect of contracts insuring directors of the company against liabilities arising from their position of directors of the company.

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

Octanex NL accepted the grant of two new permits WA384P and WA385P in August, 2006, together with its joint venture participant, Strata Resources NL. The company's share of estimated costs to complete the first three years' minimum work commitments for these permits is \$1.875m.

WEBSITE

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

AUDITOR INDEPENDENCE AND NON - AUDIT SERVICES

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 30 and forms part of the directors' report for the financial year ended 30 June 2006.

No audit fees were paid to auditors for non audit services.

Signed in accordance with a resolution of the directors, in Melbourne, 29 September 2006.



AP 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 and the additional disclosures included in the Directors' Report, designated as audited, of the company are in accordance with the Corporations Act 2001 and:
 - (i) give a true and fair view of the company's financial position as at 30 June 2006 and performance for the year ended on that date; and
 - (ii) comply with the 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 handwritten signature in black ink, appearing to be 'AP Armitage', with a stylized, elongated flourish extending to the right.

AP Armitage
Director

Melbourne, 29 September 2006

INCOME STATEMENT
YEAR ENDED 30 JUNE 2006

	NOTE	Consolidated		The Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
Revenues	2	190,268	553,259	190,268	553,259
Expenses	3	(189,852)	(307,022)	(189,852)	(273,542)
		<hr/>	<hr/>	<hr/>	<hr/>
Profit before tax		416	246,237	416	279,717
Income tax benefit/ (expense)	4	2,330	(69,157)	2,330	(69,157)
		<hr/>	<hr/>	<hr/>	<hr/>
Profit after tax		2,746	177,080	2,746	210,560
		<hr/>	<hr/>	<hr/>	<hr/>
Basic earnings per share (\$ per share)	22	0.0001	0.0047		
Diluted earnings per share (\$ per share)	22	0.0001	0.0047		

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

BALANCE SHEET
AT 30 JUNE 2006

	NOTE	Consolidated		The Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents		1,680,185	2,366,984	1,680,184	2,366,983
Trade and other receivables	5	279,370	185,285	279,370	185,285
TOTAL CURRENT ASSETS		1,959,555	2,552,269	1,959,554	2,552,268
NON-CURRENT ASSETS					
Other Financial Assets	6	7,509,436	14,170,701	6,002,819	10,487,856
Exploration costs	7	952,639	368,473	952,639	368,473
Deferred tax asset		174,065	-	174,065	-
TOTAL NON-CURRENT ASSETS		8,636,140	14,539,174	7,129,523	10,856,329
TOTAL ASSETS		10,595,695	17,091,443	9,089,077	13,408,597
CURRENT LIABILITIES					
Trade and other payables	8	174,116	161,461	174,116	161,461
Current tax liabilities		-	6,860	-	6,860
TOTAL CURRENT LIABILITIES		174,116	168,321	174,116	168,321
NON-CURRENT LIABILITIES					
Provisions	9	18,166	18,166	18,166	18,166
Deferred tax liabilities	10	1,956,213	3,797,617	1,504,227	2,692,763
TOTAL NON-CURRENT LIABILITIES		1,974,379	3,815,783	1,522,393	2,710,929
TOTAL LIABILITIES		2,148,495	3,984,104	1,696,509	2,879,250
NET ASSETS		8,447,200	13,107,339	7,392,568	10,529,347
EQUITY					
Contributed equity	11	3,956,700	3,956,700	3,956,700	3,956,700
Reserves	12	3,672,531	8,335,416	2,897,348	6,036,873
Accumulated losses		817,969	815,223	538,520	535,774
TOTAL EQUITY		8,447,200	13,107,339	7,392,568	10,529,347

The Balance Sheet is to be read in conjunction with the Notes to the Financial Statements

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 JUNE 2006

	Issued Capital	Reserves	Accumulated Losses	Total Equity
	\$	\$	\$	\$
CONSOLIDATED				
At 1 July 2005	3,956,700	8,335,416	815,223	13,107,339
Profit for the period	-	-	2,746	2,746
Gain on revaluation of financial assets at fair value	-	(6,661,264)	-	(6,661,264)
Tax on items taken directly to equity	-	1,998,379	-	1,998,379
	<u>3,956,700</u>	<u>3,672,531</u>	<u>817,969</u>	<u>8,447,200</u>
At 30 June 2006	<u>3,956,700</u>	<u>3,672,531</u>	<u>817,969</u>	<u>8,447,200</u>
At 1 July 2004	2,459,776	1,026,260	456,133	3,942,169
Option exercised	1,496,924	-	-	1,496,924
Profit for the period	-	-	177,080	177,080
Removed and recognised in profit and loss	-	(182,010)	182,010	-
Gain on revaluation of financial assets at fair value	-	11,183,251	-	11,183,251
Tax on items taken directly to equity	-	(3,692,085)	-	(3,692,085)
	<u>3,956,700</u>	<u>8,335,416</u>	<u>815,223</u>	<u>13,107,339</u>
At 30 June 2005	<u>3,956,700</u>	<u>8,335,416</u>	<u>815,223</u>	<u>13,107,339</u>
COMPANY				
At 1 July 2005	3,956,700	6,036,873	535,774	10,529,347
Profit for the period	-	-	2,746	2,746
Gain on revaluation of financial assets at fair value	-	(4,485,036)	-	(4,485,036)
Tax on items taken directly to equity	-	1,345,511	-	1,345,511
	<u>3,956,700</u>	<u>2,897,348</u>	<u>538,520</u>	<u>7,392,568</u>
At 30 June 2006	<u>3,956,700</u>	<u>2,897,348</u>	<u>538,520</u>	<u>7,392,568</u>
At 1 July 2004	2,459,776	1,171,788	143,204	3,774,768
Option exercised	1,496,924	-	-	1,496,924
Profit for the period	-	-	210,560	210,560
Removed and recognised in profit and loss	-	(182,010)	182,010	-
Gain on revaluation of financial assets at fair value	-	7,634,326	-	7,634,326
Tax on items taken directly to equity	-	(2,587,231)	-	(2,587,231)
	<u>3,956,700</u>	<u>6,036,873</u>	<u>535,774</u>	<u>10,529,347</u>
At 30 June 2005	<u>3,956,700</u>	<u>6,036,873</u>	<u>535,774</u>	<u>10,529,347</u>

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

CASH FLOW STATEMENT
YEAR ENDED 30 JUNE 2006

	NOTE	Consolidated		The Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Proceeds from sale of tenement		195,186	-	195,186	-
Interest received		114,491	58,062	114,491	58,062
Payments to suppliers and employees		(983,042)	(468,990)	(983,042)	(468,990)
Payments of income tax		(21,618)	(34,887)	(21,618)	(34,887)
Net cash used in operating activities	(i)	(694,983)	(445,815)	(694,983)	(445,815)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of investments		-	495,197	-	495,197
Loans to related parties		-	(74,789)	-	(74,789)
Net cash from investing activities		-	420,408	-	420,408
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	1,496,924	-	1,496,924
Net cash from investing activities		-	1,496,924	-	1,496,924
Net (decrease) / increase in cash assets		(694,983)	1,471,517	(694,983)	1,471,517
Exchange gains		8,184	-	8,184	-
Cash and cash equivalents at 1 July		2,366,984	895,467	2,366,983	895,466
CASH AND CASH EQUIVALENTS					
AT 30 JUNE		1,680,185	2,366,984	1,680,184	2,366,983

(i) RECONCILIATION OF NET CASH WITH LOSS BEFORE INCOME TAX

Profit (loss) after income tax	2,746	177,080	2,746	210,560
<i>Non cash items:</i>				
Profit on sale of investments	-	(495,197)	-	(495,197)
<i>Effect of exchange rate changes on the balances</i>				
Held in foreign currency	(8,184)	-	(8,184)	-
Write back of investments	-	33,480	-	-
<i>Changes in assets and liabilities:</i>				
Decrease (increase) in receivables	(94,085)	(33,763)	(94,085)	(33,763)
Increase (decrease) in payables	12,656	30,202	12,656	30,202
Increase (decrease) in provisions	-	(1)	-	(1)
Increase (decrease) in current tax liability	(6,860)	(28,027)	(6,860)	(28,027)
Increase (decrease) in deferred tax liabilities	(17,090)	62,297	(17,090)	62,297
Decrease (increase) in exploration expenditure	(584,166)	(191,886)	(584,166)	(191,886)
Net Cash Used In Operating Activities	(694,983)	(445,815)	(694,983)	(445,815)

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

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2006****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Octanex NL is a company incorporated and domiciled in Australia with its registered office and principal place of business located at level 25, 500 Collins Street, Melbourne, Victoria 3000. The consolidated financial report of the company for the financial year ended 30 June 2006 comprise the company and its subsidiary (together referred to as the 'consolidated entity') and the consolidated entity's interest in associates and jointly controlled entities.

The financial report was authorised by the directors for issue on 29 September, 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. International Financial Reporting Standards ('IFRS') form the basis of Australian Accounting Standards, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish them from previous Australian generally accepted accounting principles ('AGAAP'). The financial reports of the company also comply with IFRS and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first annual financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied.

(b) Basis of preparation

The financial report is presented in Australian dollars and is rounded to the nearest dollar.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in the financial report and in preparing an opening balance sheet at 1 July 2004 for the purposes of the transition to AIFRS.

(c) Principles of consolidation

The consolidated financial statements have been prepared by Octanex NL in accordance with paragraph Aus 9.1 of AASB 127, Consolidated and Separate Financial Statements.

(i) Subsidiaries

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in subsidiaries are carried at their cost of acquisition in the company's financial statements.

(ii) Associates

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the consolidated entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2006****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Principles of consolidation****(ii) Associates**

date that significant influence commences until the date that significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the consolidated entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate. In the company's financial statements, investments in associates are carried at fair value, with resulting revaluation gains and losses recognised in equity. The fair value of investments in listed shares of associates is their current market value at the balance sheet date.

(iii) Joint ventures***Jointly controlled entities***

In the consolidated financial statements, investments in jointly controlled entities are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's share of the jointly controlled entity's net profit or loss is recognised in the consolidated statement of financial performance from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in the consolidated reserves. In the company's financial statements, investments in joint venture entities are carried at cost.

Jointly controlled operations and assets

The interest of the company and of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(iv) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the 'Investment in associates' and 'Share of associates' net profit accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

(d) Taxes***Income Tax***

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 related to equity items or to a business combination;

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2006****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(d) Taxes**

- 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 asset and liabilities are measured at the tax rates that are expected to apply to the period where the asset is realised or the liability settled.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Receivables

Trade and other receivables are stated at their amortised cost less impairment losses.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and at call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(g) Payables

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 60-day terms.

(h) Investments

Financial instruments not held for trading are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses.

The fair value of financial instruments classified as being available-for-sale is their quoted bid price at the balance sheet date.

Available-for-sale investments are recognised by the consolidated entity on the date it commits to purchase and derecognised on the date it commits to sell the investment.

Long term non bearing receivables to controlled entities and associates for unspecified periods are classified as investments and valued at cost.

(i) Share Capital

Ordinary share capital is recognised at the fair value of the consideration received by the company. Transactions costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the consideration received.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2006****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Impairment**

The carrying amounts of the consolidated entity's assets, other than deferred tax are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit and loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss.

(i) Calculation of 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 groups or assets, in which case, the recoverable amount is determined for the class of assets to which the asset belongs.

(ii) Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Exploration costs

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis.

Exploration and evaluation costs are only recognised if the rights of the area of interest are current and either:

- (i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- (ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation costs are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

(l) 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 legal requirements, anticipated technology and future costs that have been discounted to their present value. Estimates of future costs are reassessed at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 2 REVENUE				
Interest income	108,413	58,062	108,413	58,062
Profit on sale of investments	5,564	495,197	5,564	495,197
Profit from sale of exploration tenement	68,107	-	68,107	-
Foreign exchange gains	8,184	-	8,184	-
Total revenue	<u>190,268</u>	<u>553,259</u>	<u>190,268</u>	<u>553,259</u>
NOTE 3 EXPENSES				
Administration – director-related	81,000	60,000	81,000	60,000
Audit fees	21,500	19,500	21,500	19,500
Directors' remuneration	20,000	44,100	20,000	44,100
Directors' retirement benefit	1,800	36,333	1,800	36,333
Employees and consultants	22,919	40,130	22,919	40,130
Interest	21	-	21	-
Reporting, registry and stock exchange	28,534	48,560	28,534	48,560
Other expenses	14,078	24,919	14,078	24,919
Write down of investments	-	33,480	-	-
Total expenses	<u>189,852</u>	<u>307,022</u>	<u>189,852</u>	<u>273,542</u>
NOTE 4 INCOME TAX				
Components of income tax expense				
Current tax expense/(income)	(174,063)	6,860	(174,063)	6,860
Adjustments recognised in the period for Current tax of prior periods	14,758	-	14,758	-
Deferred tax expense (income) relating to the origination and reversal of temporary differences	156,975	62,297	156,975	62,297
Income tax expense (benefit)	<u>(2,330)</u>	<u>69,157</u>	<u>(2,330)</u>	<u>69,157</u>
Reconciliation between tax expense and pre-tax loss				
Profit before tax	416	246,237	416	279,717
Income tax using statutory income tax rate of 30% (2005: 30%)	125	73,871	125	83,915
Tax effect of:				
Adjustment recognised in the period for Current tax of prior periods	14,758	-	14,758	-
Prospectus costs incurred in 2005 @20%	(14,758)	(14,758)	(14,758)	(14,758)
Foreign exchange gain	(2,455)	-	(2,455)	-
Write down of investments	-	10,044	-	-
Income tax expense (benefit)	<u>(2,330)</u>	<u>69,157</u>	<u>(2,330)</u>	<u>69,157</u>
Deferred tax assets and liabilities				
Losses	174,063	-	174,063	-
Temporary differences	(1,956,213)	(3,798,489)	(1,504,227)	(2,693,635)
	<u>(1,782,150)</u>	<u>(3,798,489)</u>	<u>(1,330,164)</u>	<u>(2,693,635)</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

NOTE 5 TRADE AND OTHER RECEIVABLES

CURRENT

Director-related entities	18	189,601	151,522	189,601	151,522
Other		89,769	33,763	89,769	33,763
		<u>279,370</u>	<u>185,285</u>	<u>279,370</u>	<u>185,285</u>
		=====	=====	=====	=====
		Consolidated		The Company	
	NOTE	2006	2005	2006	2005
		\$	\$	\$	\$

NOTE 6 OTHER FINANCIAL ASSETS

NON-CURRENT

Listed shares:

Director-related entities at market value	6(a)	7,505,135	14,167,000	5,440,510	9,926,147
Other companies at market value		4,300	3,700	4,300	3,700
		<u>7,509,435</u>	<u>14,170,700</u>	<u>5,444,810</u>	<u>9,929,847</u>
		=====	=====	=====	=====
Investment in controlled entity at cost	6(b)	7,509,435	14,170,700	5,444,810	9,929,847
Shares in controlled entity at cost	6(c)	-	-	558,007	558,007
Shares in associate	6(d)	-	-	1	1
	6(e)	1	1	1	1
		<u>7,509,436</u>	<u>14,170,701</u>	<u>6,002,819</u>	<u>10,487,856</u>
		=====	=====	=====	=====

(a) Director-related Entities:

Cue Energy Resources Ltd

Principal activity is oil and gas exploration and production (5.8% : interest)

6,730,325	13,824,453	4,665,700	9,583,600
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Methanol Australia Limited

Principal activity is development of the Tassie Shoal Methanol Project (2.1%: interest)

774,810	342,547	774,810	342,547
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<u>7,505,135</u>	<u>14,167,000</u>	<u>5,440,510</u>	<u>9,926,147</u>
=====	=====	=====	=====

(b) Reconciliation of the Carrying Amount of

Listed Shares

Balance at beginning of year	14,170,700	3,020,930	9,929,847	2,295,522
Net revaluation increment/(decrement)	(6,661,265)	11,149,770	(4,485,037)	7,634,325
	<u>7,509,435</u>	<u>14,170,700</u>	<u>5,444,810</u>	<u>9,929,847</u>
	=====	=====	=====	=====

(c) Investment in Controlled Entity

Octanex NL loaned an amount of \$558,007 in 2001 to its wholly owned subsidiary, Octanex Operations Pty Ltd, to purchase shares in Cue Energy Resources Ltd (Cue). This loan was not made for a predetermined period. While management's intention is that Octanex Operations will settle its debt to Octanex NL as and when its shares in Cue are sold, there exists no set date as to when this transaction will occur. The investment is valued at original cost.

The market value of the Cue shares held by Octanex Operations Pty Ltd at balance date was \$2,064,625 (2005: \$4,240,853).

(d) Shares in 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 2006
NOTE 6 OTHER FINANCIAL ASSETS (CONTINUED)

(e) Associate

United Oil & Gas Pty Ltd, 50% owned with Strata Resources NL, has a thirty percent interest in the Western Otway Joint Venture (Note 17) and did not contribute to the consolidated net profit for the year.

	NOTE	Consolidated		The Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
NOTE 7 EXPLORATION COSTS					
Cost at beginning of year		368,473	176,587	368,473	176,587
Cost attributable to interest sold		(127,079)	-	(127,079)	-
Cost for the year		711,245	191,886	711,245	191,886
Cost at end of year		<u>952,639</u>	<u>368,473</u>	<u>952,639</u>	<u>368,473</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 TRADE AND OTHER PAYABLES

Trade creditors and accruals		74,176	64,895	74,176	64,895
Director-related entity other payables	18	99,940	96,566	99,940	96,566
		<u>174,116</u>	<u>161,461</u>	<u>174,116</u>	<u>161,461</u>

NOTE 9 PROVISIONS

Provision for retirement benefit of director		<u>18,166</u>	<u>18,166</u>	<u>18,166</u>	<u>18,166</u>
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NOTE 10 DEFERRED TAX LIABILITIES

	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Consolidated						
Investment Revaluations	-	-	1,693,705	3,692,085	1,693,705	3,692,085
Exploration Costs	-	-	287,199	109,372	287,199	109,372
Interest Receivable	-	-	3,388	5,210	3,388	5,210
Accrued Expenses	(22,629)	(3,600)	-	-	(22,629)	(3,600)
Provisions	(5,450)	(5,450)	-	-	(5,450)	(5,450)
	<u>(28,079)</u>	<u>(9,050)</u>	<u>1,984,292</u>	<u>3,806,667</u>	<u>1,956,213</u>	<u>3,797,617</u>
Recognised in Accumulated Profits	(28,079)	(9,050)	290,587	114,582	262,508	105,532
Recognised directly in Equity	-	-	1,693,705	3,692,085	1,693,705	3,692,085
	<u>(28,079)</u>	<u>(9,050)</u>	<u>1,984,292</u>	<u>3,806,667</u>	<u>1,956,213</u>	<u>3,797,617</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

NOTE 10 DEFERRED TAX LIABILITIES

	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Company						
Investment Revaluations	-	-	1,241,719	2,587,231	1,241,719	2,587,231
Exploration Costs	-	-	287,199	109,372	287,199	109,372
Interest Receivable	-	-	3,388	5,210	3,388	5,210
Accrued Expenses	(22,629)	(3,600)	-	-	(22,629)	(3,600)
Provisions	(5,450)	(5,450)	-	-	(5,450)	(5,450)
	<u>(28,079)</u>	<u>(9,050)</u>	<u>1,532,306</u>	<u>2,971,813</u>	<u>1,504,227</u>	<u>2,692,763</u>
Recognised in Accumulated Profits	(28,079)	(9,050)	290,587	114,582	262,508	105,532
Recognised directly in Equity	-	-	1,241,719	2,587,231	1,241,719	2,587,231
	<u>(28,079)</u>	<u>(9,050)</u>	<u>1,532,306</u>	<u>2,701,813</u>	<u>1,504,227</u>	<u>2,692,763</u>

NOTE 11 CONTRIBUTED EQUITY

	2006	2005	Consolidated		The Company	
	Shares	Shares	2006	2005	2006	2005
			\$	\$	\$	\$
Issued Capital						
Ordinary shares fully paid	49,653,967	49,653,967	3,956,700	3,956,700	3,956,700	3,956,700
	<u>49,653,967</u>	<u>49,653,967</u>	<u>3,956,700</u>	<u>3,956,700</u>	<u>3,956,700</u>	<u>3,956,700</u>
Ordinary Shares						
Ordinary shares on issue at 1 July	49,653,967	34,684,729	3,956,700	2,459,776	3,956,700	2,459,776
Options exercised	-	14,969,238	-	1,496,924	-	1,496,924
Ordinary shares on issue at 30 June	<u>49,653,967</u>	<u>49,653,967</u>	<u>3,956,700</u>	<u>3,956,700</u>	<u>3,956,700</u>	<u>3,956,700</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.

The company does not have a limited authorised capital and issued shares have no par value.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

NOTE 11 CONTRIBUTED EQUITY

(ii) 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.

No 30 June 2008 options were exercised during the year. During 2005 a total of 14,969,238 31 March 2005 options were exercised. On exercise, the holder was granted one free option exercisable at 25 cents by 30 June 2008 for each option exercised. At balance date there were 30,244,296 options over unissued shares outstanding.

NOTE 12 RESERVES

	NOTE	Consolidated		The Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
Asset Revaluation Reserve					
Balance at beginning of the year		8,335,416	1,026,260	6,036,873	1,171,788
Revaluation of listed shares		(6,661,264)	11,183,251	(4,485,037)	7,634,326
Transfer to Accumulated Losses	13	-	(182,010)	-	(182,010)
Deferred tax liability		1,998,379	(3,692,085)	1,345,512	(2,587,231)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at end of the year		<u>3,672,531</u>	<u>8,335,416</u>	<u>2,897,348</u>	<u>6,036,873</u>

NOTE 13 ACCUMULATED LOSSES

Balance at beginning of year		815,223	456,133	535,774	143,204
Net profit		2,746	177,080	2,746	210,560
Transfer from Asset Revaluation Reserve	12	-	182,010	-	182,010
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
		<u>817,969</u>	<u>815,223</u>	<u>538,520</u>	<u>535,774</u>

NOTE 14 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	852,048	1,927,864	852,048	1,927,864
Payable later than one year but not later than three years	1,232,383	1,562,136	1,232,383	1,562,136
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>2,084,431</u>	<u>3,490,000</u>	<u>2,084,431</u>	<u>3,490,000</u>

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2006****NOTE 15 INTEREST IN JOINT VENTURES**

The company has an interest in the assets, liabilities and output of joint venture operations for the exploration and development of petroleum in Australia. The company has taken up its share of joint venture transactions based on the company's contributions to the joint ventures. Expenditure commitments in respect of the joint ventures are disclosed in Note 13. Details of the company's interests in the joint ventures are:

Joint Venture		Interest	Permits Held
Dampier Project	17	50%	WA-321-P, WA-323-P & WA-330-P
Western Otway Joint Venture	17	15%	EPP34
Northern Deeps Joint Venture	17	35%	WA-362-P & WA-363-P

These interests remain unchanged from the prior year.

Assets and liabilities of the joint venture operations are included in the financial statements as follows:

		Consolidated		The Company	
	NOTE	2006	2005	2006	2005
		\$	\$	\$	\$
CURRENT ASSETS					
Cash Assets		15,456	11,858	15,456	11,858
Receivables		64,096	1,898	64,096	1,898
Receivable – director-related entity	5, 18	179,328	6,763	179,328	6,763
NON-CURRENT ASSETS					
Exploration costs	7	952,639	368,473	952,639	368,473
CURRENT LIABILITIES					
Payables – director-related entity	8, 18	27,894	2,075	27,894	2,075
Payables	8	-	15,266	-	15,266-
COMMITMENTS					
Exploration Expenditure		2,084,431	3,490,000	2,084,431	3,490,000

NOTE 16 AUDITOR'S REMUNERATION

Amounts received or due and receivable by the auditors of the company for:

Audit and review of the financial reports	21,500	19,500	21,500	19,500
	<u>21,500</u>	<u>19,500</u>	<u>21,500</u>	<u>19,500</u>
	=====	=====	=====	=====

NOTE 17 DIRECTOR AND EXECUTIVE DISCLOSURES**Key management personnel disclosures****Non-executive Directors**

PJ Albers
AP Armitage
CR Hart (resigned 21 August 2006)
GA Menzies

Executive Directors

EG Albers

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2006****NOTE 17 DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)**

There are no employees that meet the definition of key management personnel other than the executive director of the company.

Individual compensation disclosures

Information regarding individual directors compensation is provided in the Remuneration Report section of the directors' report.

Other transactions

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

Director-related entity of EG Albers and PJ 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 \$52,040 (2005: \$60,000); management for all of the company's exploration tenements in the amount of \$45,075 (2005: \$108,970). At balance date fees payable of \$57,038 (2005: \$96,566) are included at Note 8.

Capricorn Mining Pty Ltd, a director-related entity of EG Albers, provided management services to the company of \$20,000 (2005: Nil).

A director-related entity of EG Albers, Setright Oil & Gas Pty Ltd provided: accounting, administration, secretarial, and other services relating to the management of the company in the amount of \$4,245 (2005: nil); administration for all of the company's exploration tenements in the amount of \$11,545 (2005: Nil). At balance date fees payable of \$12,055 (2005: Nil) are included at Note 8.

Interests in Equity Instruments of Octanex N.L.**Ordinary Shares**

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

All equity transactions with 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.

	Balance	Received as	Options	Net Change	Balance
		Remuneration	Exercised	Other	
	1/7/2005				30/6/2006
EG Albers **	28,052,905	-	-	-	28,052,905
PJ Albers**	23,310,426	-	-	-	23,310,426
AP Armitage	50,000	-	-	-	50,000
CR Hart	1,730,235	-	-	-	1,730,235
GA Menzies	50,000	-	-	(50,000)	-
Total	53,193,566	-	-	(50,000)	53,143,566
	1/7/2004				30/6/2005
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	-	150,000	-	1,730,235
GA Menzies	-	-	50,000	-	50,000
Total	33,071,957	-	15,384,260	4,587,349	53,193,566

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

NOTE 17 DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

** Ordinary shares included in each director's interests:

For the year ended 30 June 2006	22,797,926	-	-	-	22,797,926
For the year ended 30 June 2005	13,281,251	-	7,273,000	2,243,675	22,797,926

Options (exercisable by 30 June 2008 at 25 cents per share)

	Balance	Received as Remuneration	Options Exercised	Net Change Other	Balance
	1/7/2005				30/6/2006
EG Albers*	20,527,490	-	-	-	20,527,490
PJ Albers*	18,850,970	-	-	-	18,850,970
CR Hart	150,000	-	-	-	150,000
GA Menzies	50,000	-	-	-	50,000
Total	39,578,460	-	-	-	39,578,460
	1/7/2004				30/6/2005
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 included in both directors' interests:

For the year ended 30 June 2006	16,650,970	-	-	-	16,650,970
For the year ended 30 June 2005	8,178,000	-	6,173,000	2,299,970	16,650,970

The assessed value at grant date of the options granted to 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.

Other Transactions of Directors and Director-Related Entities

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

- As operator of the Dampier Project which is conducted as a joint venture with Strata Resources NL with each venturer holding a fifty percent interest.
- United Oil & Gas Pty Ltd is owned 50% by the company and 50% by Strata Resources NL and is a participant in the Western Otway Joint Venture (30%), National Energy Pty Ltd (25%), Exoil Ltd (25%) and Moby Oil & Gas Ltd (20%). GA Menzies, a director of Octanex NL is also a director of Moby Oil & Gas Ltd.
- As a participant of the Northern Deeps Project which is conducted as a joint venture with Strata Resources NL (35%) and Gascorp Australia Ltd (30%).

At balance date the economic entity carried investments in director-related entities listed on ASX and active in upstream and downstream petroleum industry, representing 2.1% (2005: 2.9%) of the issued share capital of Methanol Australia Limited (excluding non-voting trustee stock scheme shares) and 5.8% (2005: 7.0%) of the issued capital of Cue Energy Resources Ltd.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

NOTE 18 RELATED PARTY DISCLOSURES

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.

Amounts payable by and payable to related parties including those under joint venture arrangements.

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Receivables:				
Gascorp Australia Ltd	5,442	4,716	5,442	4,716
Strata Resources NL	179,328	143,581	179,328	143,581
United Oil & Gas Pty Ltd	4,831	3,225	4,831	3,225
	<u>189,601</u>	<u>151,522</u>	<u>189,601</u>	<u>151,522</u>
	=====	=====	=====	=====
Payables				
Great Missenden Holdings Pty Ltd	57,038	96,566	57,038	96,566
Setright Oil & Gas Pty Ltd	12,005	-	12,005	-
Strata Resources NL	10,897	-	10,897	-
Capricorn Mining Pty Ltd	20,000	-	20,000	-
	<u>99,940</u>	<u>96,566</u>	<u>99,940</u>	<u>96,566</u>
	=====	=====	=====	=====

NOTE 19 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 due to short 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 60 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 11.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

NOTE 19 FINANCIAL INSTRUMENTS (CONTINUED)

(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	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
FINANCIAL ASSETS										
Cash	140,710	616,984	1,539,474	1,750,000	-	-	1,680,184	2,366,984	5.50%	5.13%
Receivables	-	-	-	-	279,370	185,285	279,370	185,285	N/A	N/A
Other financial assets	-	-	-	-	7,509,436	14,170,701	7,509,436	14,170,701	N/A	N/A
	140,710	616,984	1,539,474	1,750,000	7,788,806	14,355,986	9,468,990	16,722,970		
FINANCIAL LIABILITIES										
Trade creditors	-	-	-	-	188,856	161,461	188,856	161,461	N/A	N/A
	-	-	-	-	188,856	161,461	188,856	161,461		

(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.

(e) Foreign Exchange Risk Exposure

The company has a US bank account and incurs seismic, exploration and well drillings costs in US dollars. To this extent, the company is exposed to exchange rate fluctuations between the Australian and US dollar.

NOTE 20 SEGMENT INFORMATION

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

NOTE 21 EVENTS SUBSEQUENT TO BALANCE DATE

Octanex NL accepted the grant of two new permits WA384P and WA385P in August, 2006, together with its 50% joint venture participant, Strata Resources NL. The company's share of estimated costs to complete the first three years' minimum work commitments for these permits is \$1.875m.

	Consolidated	
	2006	2005
	\$	\$

NOTE 22 EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

Net profit	2,746	177,080
------------	-------	---------

	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	49,653,967	38,006,466

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 per share.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2006****NOTE 23 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS STANDARDS**

During the year, Octanex NL completed its transition process from Australian GAAP to Australian equivalents to International Financial Reporting Standards (AIFRS).

Adopting the Australian equivalent to IFRS had no impact on Group or company profit or cash flows. There was no impact on the net asset position as at 1 July 2004 or 1 July 2005.

The effect of the transition to AIFRS on accumulated losses 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)
Impact of share based payments (a)	(21,000)	(21,000)
Transfer from Capital Profit Reserve no longer required (b)	1,780,795	1,780,795
	<hr/>	<hr/>
Accumulated losses as at 1 July 2004 under AIFRS	456,133	143,204
	<hr/> <hr/>	<hr/> <hr/>

(a) Prior year share based payments

Under AIFRS, the fair value of options issued to directors and employees of a company is recognised as an expense with a corresponding increase in equity. A fair value of 3.5 cents per option was obtained from an independent valuation undertaken by DMR Corporate for options issued to directors in September 2003. This adjustment increased share capital by \$21,000 as at 1 July 2004.

(b) Transfer from Capital Profit Reserve

This reserve is considered to be no longer required and the adjustment occurred as at 1 July 2004.

At balance date, Octanex Operations' net tangible asset position was \$1m.

(c) Non-current receivable from controlled entity

The company's loan of \$558,007 to its subsidiary, Octanex Operations, is re-classified within non-current assets as an investment at balance date and valued at original cost. The loan is non interest bearing and for an indefinite term. Applying an amortised cost as prescribed by AASB 139, Financial Instruments – Recognition and Measurement, to establish the fair value of financial assets classified as receivables is not applicable under the terms of the loan.

At balance date, Octanex Operations' net tangible asset position was \$1m.



Chartered Accountants
& Business Advisers

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF OCTANEX NL

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Octanex NL (the company), for the year ended 30 June 2006. 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 company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Australian Accounting Standard AASB 124 "Related Party Disclosures", under the heading "Remuneration Report" in the Directors' Report, as permitted by the Corporations Regulations 2001.

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. The directors are also responsible for the remuneration disclosures contained in the Directors' 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 and the remuneration disclosures comply with Australian Accounting Standard AASB 124 and the Corporations Regulations 2001. 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 and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124 and the Corporations Regulations 2001.

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.



Chartered Accountants
& Business Advisers

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:

- (1) 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 2006, and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and,
 - (b) other mandatory financial reporting requirements in Australia.
- (2) the remuneration disclosures under the heading "Remuneration Report" in the Directors' Report comply with Australian Accounting Standard AASB 124 and the Corporations Regulations 2001

PKF

Chartered Accountants

M L Port
Partner

29 September 2006
Melbourne



Chartered Accountants
& Business Advisers

29 September 2006

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 2006, 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

PKF

Chartered Accountants

Michael Port

M L Port
Partner