

OCTANEX N.L.

ABN 61 005 632 315

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2004

DIRECTORY**BOARD OF DIRECTORS**

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

SECRETARY

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AUDITOR

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Chartered Accountants
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Melbourne, Victoria 3000

BANKERS

National Australia Bank
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Melbourne, Victoria 3004

SHARE REGISTRY

ASX Perpetual Registrars Limited
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STOCK EXCHANGE LISTING

Stock Exchange of Newcastle Ltd
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Website: www.newsx.com.au

NSX Code: OCT

INCORPORATED IN VICTORIA

13 March 1980

WEBSITE

www.octanex.com.au

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FORWARD LOOKING STATEMENTS

This Annual 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, 2004.

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 specialises in the petroleum industry and has a Bachelor of Laws degree from Melbourne University. He has had many years experience in commercial activities and corporate law. Mr Albers is the Chairman and Public Officer of the Company, his other directorships include Cue Energy Resources Ltd, Methanol Australia Limited and Bass Strait Oil Company Ltd.

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 commercial and technical experience including appointments as a board member of both corporate and civic bodies. Mr Hart is the Managing Director of Methanol Australia Limited, and a fellow of AICD.

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

Mr Menzies is a barrister and solicitor and has carried on practice as a sole practitioner since 1987. He specialises in corporate reconstructions and capital raisings and obtained his Master of Laws from Melbourne University.

Directors Emoluments

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 including the assessed value of options granted to directors during the year are set out in Note 18 to the financial statements.

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	3	3
PJ Albers	3	1
AP Armitage	3	3
CR Hart	3	1
GA Menzies	3	3

DIRECTORS' INTERESTS

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

	Ordinary Shares	31/3/2005 Options	30/6/2008 Options
EG Albers	17,647,970	10,066,260	10,066,260
PJ Albers	13,793,752	9,278,000	9,278,000
AP Armitage	50,000	200,000	-
CR Hart	1,580,235	200,000	-
GA Menzies	-	200,000	-

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were petroleum exploration and investment in that sector employing at 30 June 2004, 5 directors (2003 : 4).

OPERATING RESULT FOR THE YEAR

The economic entity, being the Company and its controlled entity recorded a loss from ordinary activities for the year after income tax of \$20,827 (2003 : \$391,507).

CHANGES IN STATE OF AFFAIRS**Funding**

The Company has entered a new phase of its development as a result of its direct participation as Operator of each of the Exmouth and Dampier Projects. This role is challenging and will require that additional working capital be raised to fund exploration. During the year the directors reviewed various alternative methods of funding, including inviting others to fund participation in the Projects or, raising new equity capital by way of IPO or a combination of both. As a result your Directors elected to issue a prospectus to raise approximately \$1,500,000.

Capital Raising

The Prospectus based IPO, which included an entitlement offer to shareholders, offered fully paid ordinary shares, each with two (2) free attaching options. The issue price of the shares pursuant to the offer was 10 cents and the two associated options were granted free of cost.

A total of 15,275,058 shares were subscribed, raising approximately \$1.5 million for exploration activities, increasing issued capital to 34,684,729 ordinary fully paid shares.

Listing on Newcastle Stock Exchange

Following the IPO capital raising the Company's share and option securities became quoted on the Newcastle Stock Exchange ("NSX"). The Company's code on NSX is "OCT".

Capital Structure

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

34,684,729 Ordinary Fully Paid Shares
16,425,058 31 March 2005 Options (exercisable at 10¢)
15,275,058 30 June 2008 Options (exercisable at 25¢)

OPTIONS

During the year the following options were granted over unissued shares in the capital of the Company:

Granted pursuant to the prospectus offer dated 7 November 2003

15,275,058 options exercisable at 10 cents per share by 31 March 2005
15,275,058 options exercisable at 25 cents per share by 30 June 2008

Granted to Directors

600,000 options exercisable at 10 cents per share by 31 March 2005, following approval of members given on 19 November 2003.

Granted to Employees and Consultants

650,000 options exercisable at 10 cents per share by 31 March 2005, following approval of members given on 19 November 2003.

During the year, and to the date of this report, no options over unissued shares have been exercised and all of the above options remain outstanding.

DIVIDENDS

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

REVIEW OF OPERATIONS

Octanex holds interests in two joint ventures with exploration activities located on the North West Shelf offshore from Western Australia; the Exmouth Joint Venture and the Dampier Joint Venture.

EXMOUTH JOINT VENTURE

The Exmouth Joint Venture; in which Octanex has a 37.5% interest, presently comprises interests in two oil and gas exploration tenements; WA-322-P and WA-329-P.

Recently, the Exmouth Joint Venture concluded and settled an agreement with a subsidiary of BHP Billiton Petroleum Limited ("BHP Billiton") for the sale of the whole of the participating interest in WA-322-P to BHP Billiton. In return BHP Billiton have agreed to fund the acquisition and processing of a 55 kms² of 3D seismic in the Exmouth Joint Venture's adjacent permit, WA-329-P, as well as a cash reimbursement, a deferred contingent cash payment, and the grant of an overriding royalty interest with respect to any production from WA-322-P to the Exmouth Joint Venturers. The Joint Venture also retains residual rights to a reconveyance of WA-322-P in certain limited circumstances.

The Exmouth Joint Venture has acquired an extensive body of existing geological data available in relation to WA-329-P, including a large amount of seismic data, together with pertinent existing reports and basic data collected by previous operators in the area. This data includes the 800 kms² reprocessed, combined Swell and Baylis 3-D seismic data set. In addition, BHP Billiton will, at their cost, acquire and process a new 55 kms² 2-D seismic programme on behalf of the Exmouth Joint Venture in WA-329-P as part of the terms of their acquisition of WA-322-P, as well as a further 80 kms² of ingress data in WA-329-P.

The transaction with BHP Billiton is significantly beneficial to the Exmouth Joint Venturers, relieving them of significant seismic acquisition costs and opening up the opportunity for significant royalty cash flow should WA-322-P ultimately be the subject of hydrocarbon production.

EXPLORATION ACTIVITIES – WA-329-P

Geologic and seismic interpretation completed with seven prospects and leads defined.

Four robust structural closures have been mapped within the Triassic, Mungaroo Formation reservoir sand play (Swell, North Baylis, South Baylis & Southwest Nimrod prospects) Top and cross fault seal provided by shaly Brigadier Formation. Presence of both reservoir and seal confirmed in nearby Nimrod-1 well.

One amplitude anomaly and possible flat spot (Algol Lead) within the Upper Barrow Group has been reconfirmed on reprocessed 3D seismic within a subtle structural rollover trap.

One stratigraphic pinchout lead within the base Cretaceous Macedon Sand play defined on reprocessed 3D seismic. This new play is proving highly prospective in adjacent acreage to the west. Submarine fan channel system defined on seismic sealed by basinal shales penetrated in updip Outtrim-1 well, which also confirmed pinchout.

One subcrop lead within the sandy Upper Barrow Group defined by amplitude anomaly within fault terrace. The reservoir play is proven in the nearby Griffin Field, and the top seal is provided by the regional muderong Shale.

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 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.

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 4.4% 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 10.9% of the issued capital of Cue Energy Resources Ltd ("Cue").

Cue's main activities are in Papua New Guinea and Indonesia. 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 assessed for development in the near future.

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**AMENDMENTS TO CONSTITUTION**

At a meeting of members held on 5th March 2004 resolutions were passed which approved various amendments to the Constitution of the Company, the principle effect being to enable the Company to sell shares on behalf of shareholders, particularly small shareholdings representing non-marketable parcels.

ELIMINATION OF SMALL PARCELS

Following the amendment to the Constitution an offer was made to shareholders holding 1,000 shares or less to sell their holdings free of commission. A total of 4,176 holdings were eliminated, providing a significant and permanent cost saving benefit for the Company in relation to report printing, mailing and share registry costs.

BOARD OF DIRECTORS/CONSULTANTS

During the year we expanded our Board of Directors, to include the experienced corporate lawyer, Mr Graeme Menzies, in anticipation of increased corporate and capital raising activity. In Western Australia, we have appointed Dr Simon Sturrock of Strat Trap Pty Ltd to act as a consultant to the Company.

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 Exmouth and Dampier 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 licence areas in which the Company holds an interest and the success of Methanol Australia Limited and Cue Energy Resources in their operations.

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.

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.

WEBSITE

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

Signed in accordance with a resolution of the directors, in Melbourne, 14 October 2004.

A handwritten signature in black ink, appearing to be 'A.P. Armitage', with a stylized flourish at the end.

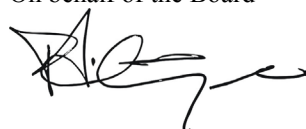
A.P. Armitage
Director

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 2004 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.

On behalf of the Board



A.P. Armitage
Director

Melbourne, 14 October 2004

STATEMENT OF FINANCIAL PERFORMANCE
YEAR ENDED 30 JUNE 2004

	NOTE	Consolidated		The Company	
		2004	2003	2004	2003
		\$	\$	\$	\$
Revenues from ordinary activities	2	487,895	411,389	487,895	411,389
Expenses from ordinary activities	3	(502,029)	(613,387)	(502,029)	(646,867)
Correction of fundamental error	14	-	(104,894)	-	-
Loss from ordinary activities before income tax expense		(14,134)	(306,892)	(14,134)	(235,478)
Income tax expense relating to ordinary activities	4	(6,693)	(84,615)	(6,693)	(84,615)
Net loss from ordinary activities after income tax expense	13	(20,827)	(391,507)	(20,827)	(320,093)
Net increase (decrease) in asset revaluation reserve	12	906,968	(159,266)	739,567	(125,786)
Correction of fundamental error	14	-	104,894	-	-
Share issue prospectus costs	11	(289,886)	-	(289,886)	
Net loss and total changes in equity other than those resulting from transactions with owners as owners.		596,255	(445,879)	428,854	(445,879)
Basic earnings (loss) per share (cents per share)	22	(0.08)	(2.0)		
Diluted earnings (loss) per share (cents per share)	22	(0.08)	(2.0)		

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 2004

	NOTE	Consolidated		The Company	
		2004	2003	2004	2003
			\$	\$	\$
CURRENT ASSETS					
Cash assets		895,467	96,569	895,466	96,568
Receivables	5	76,733	10,433	76,733	10,433
Other financial assets	6	-	159,672	-	159,672
TOTAL CURRENT ASSETS		972,200	266,674	972,199	266,673
NON-CURRENT ASSETS					
Receivables	5	-	-	558,007	524,527
Other financial assets	6	3,020,931	2,080,972	2,295,524	1,556,446
Deferred exploration costs carried forward	7	176,587	282,934	176,587	282,934
Deferred tax assets		9,740	13,450	9,740	13,450
TOTAL NON-CURRENT ASSETS		3,207,258	2,377,356	3,039,858	2,377,357
TOTAL ASSETS		4,179,458	2,644,030	4,012,057	2,644,030
CURRENT LIABILITIES					
Payables	8	131,259	318,977	131,259	318,977
Interest bearing liabilities	9	-	394,074	-	394,074
Current tax liabilities		34,887	21,380	34,887	21,380
TOTAL CURRENT LIABILITIES		166,146	734,431	166,146	734,431
NON-CURRENT LIABILITIES					
Provisions	10	18,167	-	18,167	-
Deferred tax liabilities		52,976	84,880	52,976	84,880
TOTAL NON-CURRENT LIABILITIES		71,143	84,880	71,143	84,880
TOTAL LIABILITIES		237,289	819,311	237,289	819,311
NET ASSETS		3,942,169	1,824,719	3,774,768	1,824,719
EQUITY					
Contributed equity	11	2,438,776	1,207,467	2,438,776	1,207,467
Reserves	12	2,807,055	1,900,087	2,952,583	2,213,016
Accumulated losses	13	(1,303,662)	(1,282,835)	(1,616,591)	(1,595,764)
TOTAL EQUITY		3,942,169	1,824,719	3,774,768	1,824,719

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 2004

	NOTE	Consolidated		The Company	
		2004	2003	2004	2003
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Proceeds from sale of tenement		321,474	-	321,474	-
Dividends received		-	12,619	-	12,619
Interest received		7,167	-	7,167	-
Payments to suppliers and employees		(504,853)	(95,333)	(504,853)	(95,333)
Payments of income tax		(21,380)	-	(21,380)	-
Net cash used in operating activities	(i)	(197,592)	(82,714)	(197,592)	(82,714)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of investments		159,254	398,765	159,254	398,765
Payment for purchase of investments		-	(280,575)	-	(280,576)
Net cash from investing activities		159,254	118,190	159,254	118,189
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	(ii)	1,513,696	-	1,513,696	-
Payment for prospectus costs	(ii)	(282,386)	-	(282,386)	-
Repayment of loan from related entities		(394,074)	(35,200)	(394,074)	(35,200)
Net cash from (used in) investing activities		837,236	(35,200)	837,236	(35,200)
Net increase in cash assets		798,898	276	798,898	275
Cash assets at the beginning of the financial year		96,569	96,293	96,568	96,293
CASH ASSETS AT THE END OF THE FINANCIAL YEAR		895,467	96,569	895,466	96,568
(i) RECONCILIATION OF NET CASH FROM OPERATING ACTIVITIES WITH LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX					
Loss from ordinary activities after income tax		(20,827)	(391,507)	(20,827)	(320,093)
Decrease (increase) in receivables		(66,300)	559	(66,300)	559
Increase (decrease) in payables		(187,719)	127,455	(187,719)	127,455
Increase in provisions		18,167	-	18,167	-
Correction of fundamental error		-	104,894	-	-
Increase in current tax liabilities		13,507	13,185	13,507	13,185
Increase in deferred tax liabilities		(31,904)	84,880	(31,904)	84,880
Increase in deferred tax assets		3,710	(13,450)	3,710	(13,450)
Loss (profit) on sale of investments		418	21,135	418	21,135
Write down advance to subsidiary		-	-	(33,480)	33,480
Decrease (increase) in exploration expenditure		106,347	(36,631)	106,347	(36,631)
Write down investments		(32,991)	6,766	489	6,766
Net Cash Used In Operating Activities		(197,592)	(82,714)	(197,592)	(82,714)
(ii) NON-CASH FINANCING ACTIVITIES					
Issue of shares for prospectus costs		7,500	-	7,500	-

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2004****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 2004****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 Tax*

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

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.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

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.

NOTE	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
NOTE 2 REVENUE FROM ORDINARY ACTIVITIES				
Operating activities:				
Dividends received	-	12,619	-	12,619
Interest received	7,167	5	7,167	5
Proceeds from sale of investments	159,254	398,765	159,254	398,765
Proceeds from sale of exploration tenement	321,474	-	321,474	-
Total revenues from ordinary activities	<u>487,895</u>	<u>411,389</u>	<u>487,895</u>	<u>411,389</u>

NOTE 3 EXPENSES AND LOSSES (GAINS)

Administration – director-related	72,850	16,000	72,850	16,000
Audit fees	12,500	3,800	12,500	3,800
Carrying value of investments sold	159,672	419,900	159,672	419,900
Carrying value of tenements sold	140,178	-	140,178	-
Directors' remuneration	21,800	54,500	21,800	54,500
Directors' retirement benefit	18,167	36,333	18,167	36,333
Employees and consultants	38,032	3,660	38,032	3,660
Exploration expenditure	-	11,170	-	11,170
Interest – director-related	14,875	32,063	14,875	32,063
Other expenses from ordinary activities	15,584	21,195	15,584	21,195
Reporting, registry and stock exchange	41,851	8,000	41,851	8,000
Write (back) down advance to subsidiary	-	-	(33,480)	33,480
Write (back) down investments	(33,480)	6,766	-	6,766
Total expenses from ordinary activities	<u>502,029</u>	<u>613,387</u>	<u>502,029</u>	<u>646,867</u>

During the year a loss (gain) was recorded on:

Disposal of investments	418	21,135	418	21,135
Disposal of exploration tenement	(181,297)	-	(181,297)	-

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004

	NOTE	Consolidated		The Company	
		2004	2003	2004	2003
		\$	\$	\$	\$
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		(4,240)	(92,068)	(4,240)	(70,643)
Tax effect of:					
Non-deductible expenses		-	2,031	-	12,074
Capital gain on sale of investments		35,735	96,749	35,735	96,749
Correction of fundamental error		-	31,468	-	-
Rebate on dividends		-	(3,786)	-	(3,786)
Prospectus costs		(14,758)	-	(14,758)	-
Write (back) down on advance to subsidiary		-	-	(10,044)	-
Under provision in previous year		-	50,221	-	50,221
Write (back) down of investments		(10,044)	-	-	-
Income tax expense attributable to ordinary activities		<u>6,693</u>	<u>84,615</u>	<u>6,693</u>	<u>84,615</u>
NOTE 5 RECEIVABLES					
CURRENT					
Director-related entities	19	76,733	7,040	76,733	7,040
Goods and services tax refunds		-	3,393	-	3,393
		<u>76,733</u>	<u>10,433</u>	<u>76,733</u>	<u>10,433</u>
NON CURRENT					
Controlled entity	19			558,007	558,007
Less provision for diminution in value				-	(33,480)
				<u>558,007</u>	<u>524,527</u>
NOTE 6 OTHER FINANCIAL ASSETS					
CURRENT					
Listed shares at market value	6(b)	-	159,672	-	159,672
NON-CURRENT					
Listed shares:					
Director-related entities at market value	6(a)	3,017,180	2,076,882	2,291,772	1,552,355
Other companies at market value		3,750	3,600	3,750	3,600
		<u>3,020,930</u>	<u>2,080,482</u>	<u>2,295,522</u>	<u>1,555,955</u>
Shares in associate	6(c)	1	490	1	490
Shares in controlled entity at cost	6(e)	-	-	1	1
		<u>3,020,931</u>	<u>2,080,972</u>	<u>2,295,524</u>	<u>1,556,446</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2004

	NOTE	Consolidated		The Company	
		2004	2003	2004	2003
		\$	\$	\$	\$
NOTE 6 OTHER FINANCIAL ASSETS (CONT)					
(a) Director-related Entities:					
<i>Cue Energy Resources Ltd</i>					
Principal activity is oil and gas exploration and production (10.9% : interest)		2,364,709	1,709,867	1,639,301	1,185,340
<i>Methanol Australia Limited</i>					
Principal activity is development of the Tassie Shoal Methanol Project (4.4% : interest)		652,471	367,015	652,471	367,015
		<u>3,017,180</u>	<u>2,076,882</u>	<u>2,291,772</u>	<u>1,552,355</u>
(b) Other Companies:					
<i>Santos Ltd</i>					
Principal activity is oil and gas exploration and production		-	159,672	-	159,672
(c) Reconciliation of the Carrying Amount of Listed Shares					
Balance at beginning of year		2,080,482	2,546,000	1,555,955	1,987,992
Additions		-	280,085	-	280,085
Carrying value of disposals		-	(419,900)	-	(419,900)
Net revaluation decrement and write downs		940,448	(166,031)	739,567	(132,550)
Transfer to current assets		-	(159,672)	-	(159,672)
		<u>3,020,930</u>	<u>2,080,482</u>	<u>2,295,522</u>	<u>1,555,955</u>
(d) Associate					
United Oil & Gas Pty Ltd, 50% owned with Strata Resources NL, acted as operator of the western joint venture (Note 19) and did not contribute to the consolidated net loss for the year.					
(e) 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 loss for the year.					

NOTE 7 DEFERRED EXPLORATION COSTS CARRIED FORWARD

Cost at beginning of year		282,934	198,722	282,934	198,722
Cost attributable to interest sold		(140,178)	-	(140,178)	-
Cost reimbursed		(105,219)	-	(105,219)	-
Cost for the year		139,050	84,212	139,050	84,212
Cost at end of year	15	<u>176,587</u>	<u>282,934</u>	<u>176,587</u>	<u>282,934</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		84,290	90,045	84,290	90,045
Goods and services tax		3,271	-	3,271	-
Director-related entity other payables	19	43,698	228,932	43,698	228,932
		<u>131,259</u>	<u>318,977</u>	<u>131,259</u>	<u>318,977</u>

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2004**

	NOTE	Consolidated		The Company	
		2004	2003	2004	2003
		\$	\$	\$	\$

NOTE 9 INTEREST BEARING LIABILITIES

Director-related entities	19	-	394,074	-	394,074
		=====	=====	=====	=====

NOTE 10 PROVISIONS

Provision for retirement benefit of director	18	18,167	-	18,167	-
		=====	=====	=====	=====

NOTE 11 CONTRIBUTED EQUITY

	2004	2003	Consolidated		The Company	
	Shares	Shares	2004	2003	2004	2003
			\$	\$	\$	\$

Issued and Paid Up Capital

Ordinary shares fully paid	34,684,729	19,409,671	2,438,776	1,207,467	2,438,776	1,207,467
	=====	=====	=====	=====	=====	=====

Movements in Shares on Issue

Ordinary shares on issue at beginning	19,409,671	19,409,671	1,207,467	1,207,467	1,207,467	1,207,467
Issue pursuant to prospectus (ii)	15,275,058	-	1,521,195	-	1,521,195	-
Costs of issue	-	-	(289,886)	-	(289,886)	-
	=====	=====	=====	=====	=====	=====
	34,684,729	19,409,671	2,438,776	1,207,467	2,438,776	1,207,467

(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.

(ii) Shares Issued Pursuant to Prospectus

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) 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 Directors granted the following 31 March 2005 options:
600,000 to Directors as approved by members on 19 November 2003 (Note 18).
650,000 to employees and consultants, and
15,275,058 pursuant to the prospectus offer dated 7 November 2003.

On exercise the holder of each 31 March 2005 option will be granted one 30 June 2008 option free of charge.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004

		Consolidated		The Company	
	NOTE	2004	2003	2004	2003
		\$	\$	\$	\$

NOTE 11 CONTRIBUTED EQUITY (CONT)
Options exercisable at 25 cents by 30 June 2008

During the year Directors granted 15,278,058 30 June 2008 options pursuant to the prospectus offer dated 7 November 2003.

No options were exercised during the year. All of the above options over unissued shares were outstanding at balance date.

NOTE 12 RESERVES

Asset Revaluation Reserve					
Balance at beginning of the year		119,292	173,664	432,221	558,007
Correction of fundamental error	14	-	104,894	-	-
Revaluation of listed shares		906,968	(159,266)	739,567	(125,786)
		<u>1,026,260</u>	<u>119,292</u>	<u>1,171,788</u>	<u>432,221</u>
Capital Profits Reserve		1,780,795	1,780,795	1,780,795	1,780,795
		<u>2,807,055</u>	<u>1,900,087</u>	<u>2,952,583</u>	<u>2,213,016</u>

NOTE 13 ACCUMULATED LOSSES

Balance at beginning of year		(1,282,835)	(891,328)	(1,595,764)	(1,275,671)
Net loss (including correction of fundamental error)	14	(20,827)	(391,507)	(20,827)	(320,093)
		<u>(1,303,662)</u>	<u>(1,282,835)</u>	<u>(1,616,591)</u>	<u>(1,595,764)</u>

NOTE 14 FUNDAMENTAL ERROR IN ASSET REVALUATION RESERVE

The consolidated carrying value of investments sold in 2002 was understated, thereby understating the asset revaluation reserve and accumulated losses at 30 June 2002 by \$104,894. Restated financial information for 2003 is presented below, as if the error had not been made.

Proforma Statement of Financial Performance:

Revenues from ordinary activities	-	411,389
Expenses from ordinary activities	-	(613,387)
Loss from ordinary activities before income tax expense		
Income tax expense	-	(201,998)
Income tax expense	-	(84,615)
Net loss from ordinary activities after income tax expense	-	(286,613)
Net decrease in asset revaluation reserve	-	(159,266)
Net loss and total changes of equity other than those resulting from transactions with owners as owners	-	(445,879)

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2004

	NOTE	Consolidated		The Company	
		2004	2003	2004	2003
		\$	\$	\$	\$

NOTE 15 EXPLORATION EXPENDITURE COMMITMENTS

Minimum work requirements contracted for under exploration permit interests held in joint venture is estimated at balance date:

Payable not later than one year		615,000	687,500	615,000	687,500
Payable later than one year but not later than three years		450,000	790,000	450,000	790,000
		<u>1,065,000</u>	<u>1,477,500</u>	<u>1,065,000</u>	<u>1,477,500</u>

NOTE 16 INTEREST IN JOINT VENTURES

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

Dampier Project (50% Interest)	
WA-321-P, WA-323-P & WA-330-P	19
Exmouth Project (37.5% Interest)	
WA-322-P & WA-329-P	19
Western Otway Joint Venture (15% Interest)	
EPP34	19

CURRENT ASSETS

Receivable – director-related entity	5, 19	76,733	7,040	76,733	7,040
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NON-CURRENT ASSETS

Deferred exploration costs carried forward	7	176,587	282,934	176,587	282,934
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CURRENT LIABILITIES

Payables – director-related entity	8, 19	46,475	228,932	46,475	228,932
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EXPLORATION EXPENDITURE COMMITMENTS

	15	1,065,000	1,477,500	1,065,000	1,477,500
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NOTE 17 AUDITOR'S REMUNERATION

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

Audit or review of the financial reports		12,500	4,000	12,500	4,000
Other services		-	1,800	-	1,800
		<u>12,500</u>	<u>5,800</u>	<u>12,500</u>	<u>5,800</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2004

NOTE 18 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) (appointed 26 August 2003)		

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 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*	2004	10,000	-	900	18,167	-	29,067
	2003	20,000	-	1,800	36,333	-	58,133
PJ Albers*	2004	5,000	-	450	-	-	5,450
	2003	10,000	-	900	-	-	10,900
AP Armitage	2004	5,000	38,224	450	-	7,000	50,674
	2003	-	5,225	-	-	-	5,225
CR Hart	2004	5,000	-	450	-	7,000	12,450
	2003	10,000	-	900	-	-	10,900
GA Menzies	2004	5,000	30,000	450	-	7,000	42,450
TOTAL	2004	30,000	68,224	2,700	18,167	21,000	140,091
	2003	40,000	5,225	3,600	36,333	-	85,158

* Refer to Note 19 for fees paid to director-related entities

Equity Instruments of Specified Directors issued by Octanex N.L.

	Balance 1/7/2003	Received as Remuneration	Options Exercised	Net Change Other	Balance 30/6/2004
Ordinary Shares					
EG Albers	8,039,867	-	-	9,608,103	17,647,970
PJ Albers	4,973,909	-	-	8,819,843	13,793,752
AP Armitage	50,000	-	-	-	50,000
CR Hart	1,104,995	-	-	475,240	1,580,235
GA Menzies	-	-	-	-	-
Total	14,168,771	-	-	18,903,186	33,071,957
Ordinary shares in which more than one specified director holds an interest					
	4,461,408	-	-	8,819,843	13,281,251

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2004

NOTE 18 DIRECTOR AND EXECUTIVE DISCLOSURES (CONT)

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

	Balance 1/7/2003	Received as Remuneration	Options Exercised	Net Change Other	Balance 30/6/2004
Options exercisable by 31 March 2005 at 10 cents per share					
EG Albers	-	-	-	10,066,260	10,066,260
PJ Albers	-	-	-	9,278,000	9,278,000
AP Armitage	-	200,000	-	-	200,000
CR Hart	-	200,000	-	-	200,000
GA Menzies	-	200,000	-	-	200,000
Total	-	600,000	-	19,344,260	19,944,260

Options in which more than one specified director holds an interest	-	-	-	8,178,000	8,178,000
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Options exercisable by 30 June 2008 at 25 cents per share

EG Albers	-	-	-	10,066,260	10,066,260
PJ Albers	-	-	-	9,278,000	9,278,000
Total	-	-	-	19,344,260	19,344,260

Options in which more than one specified director hold an interest	-	-	-	8,178,000	8,178,000
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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.

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 19 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 (2003: \$33,500), management for all of the Company's exploration tenements in the amount of \$89,045 (2003 : \$26,108). At balance date fees payable of \$43,698 are included at Note 8.

A director-related entity of C.R. Hart in 2003 provided management services in the amount of \$4,000.

During the year the Company paid interest of \$14,875 (2003 : \$32,063) on interest bearing loans from director-related entities of E.G. Albers and P.J. Albers and made repayments of principal of \$394,074.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2004****NOTE 19 RELATED PARTY TRANSACTIONS (CONT)**

During the year 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 the year 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 Geoquest work station, including all hardware and printing equipment, and a Kingdom work station and various support facilities and equipment 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 of \$73,508 (2003 : \$7,040) 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) acts as operator of the Western 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 from United Oil & Gas Pty 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 the upstream and downstream petroleum industry, representing 4.4% (2003 : 4.4%) of the issued share capital of Methanol Australia Limited (excluding non-voting trustee stock scheme shares) and 10.9% (2003 : 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.

NOTE 20 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:

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2004

NOTE 20 FINANCIAL INSTRUMENTS (CONT)

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 11.

(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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
FINANCIAL ASSETS										
Cash	395,467	96,569	500,000	-	-	-	895,467	96,569	3%	1%
Receivables	-	-	-	-	76,733	10,433	76,733	10,433	N/A	N/A
Other financial assets	-	-	-	-	3,020,931	2,240,644	3,020,931	2,240,644	N/A	N/A
	395,467	96,569	500,000	-	3,097,664	2,251,077	3,993,131	2,347,646		
FINANCIAL LIABILITIES										
Trade creditors	-	-	-	-	131,259	318,977	131,259	318,977	N/A	N/A
Interest bearing liabilities	-	-	-	394,074	-	-	-	394,074	N/A	10%
	-	-	-	394,074	131,259	318,977	131,259	713,051		

(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.

NOTE 21 SEGMENT INFORMATION

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

NOTE 22 EARNINGS PER SHARE

Consolidated
2004 2003
\$ \$

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

Net loss (20,827) (391,507)

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2004

NOTE 22 EARNINGS PER SHARE (CONT)

	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings (loss) per share	26,979,726	19,409,671

16,528,058 potential ordinary shares arising from 31 March 2005 options and 15,275,058 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 23 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS STANDARDS

Octanex N.L. has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents to International Financial Reporting Standards (IFRS). The Company has allocated internal resources to conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS. The Company has established a process whereby solutions have been developed and will shortly be implemented. As the Company has a 30 June year-end, priority has been given to considering the preparation of an opening balance sheet in accordance with IFRS. This will form the basis of accounting for IFRS in the future, and is required when The Company prepares its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are key areas where accounting policies will change and may have an impact on the Company's financial report. The Company has not yet been able to reliably quantify the impacts of changes to the financial report as a result of the adoption of IFRS.

(a) Impairment of Assets

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use. This will result in a change in the company's accounting policy which determines the recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater.

(b) Classification of Financial Instruments

Under AASB 139 *Financial Instruments: Recognition and Measurement*, financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are loans and receivables- measured at amortised cost, held to maturity - measured at amortised cost, held for trading – measured at fair value with fair value changes charged to net profit or loss, available for sale – measured at fair value with fair value changes taken to equity and non-trading liabilities - measured at amortised cost.

This will result in a change in the current accounting policy that does not classify financial instruments. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

(c) Share Based Payments

Under AASB 2 *Share Based Payments*, the company will be required to recognise an expense in net profit for the fair value of share rights and options issued to employees as remuneration. It applies to all share rights issued after 7 November 2002 that have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown.

(d) Income Taxes

Under AASB 112 *Income Taxes*, the company will be required to use a balance sheet liability method which focuses on the tax-effects of the transactions and other events that affect amounts recognized in either the Statement of Financial Position or a tax-based balance sheet. It is not expected that there will be any material impact as a result of adoption of this standard.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2004****NOTE 23 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS STANDARDS (CONT)***(e) Exploration and evaluation expenditure*

Australian Accounting Standards currently have a specific accounting standard on extractive industries that includes the appropriate accounting treatment for exploration and development expenditure. An equivalent Australian-IFRS standard is not expected until late in 2004. Accordingly it is too early to comment on the differences, if any, between this future standard and existing Australian Accounting Standards.

However, the International Accounting Standards Board (IASB) has announced that it has decided to fully grandfather national GAAP, such as Australia's existing area of interest method of accounting for exploration costs, for both producers and explorers, until such time as the IASB produces a comprehensive extractive industry IFRS.

As soon as the IASB has incorporated this decision into its Standards, the Australian Accounting Standards Board is expected to produce an Australian equivalent so as to allow extractive industry companies to take advantage of the grandfathering in their 2005 transition to Australian-IFRS.

NOTE 24 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 2004 there were no employees other than Directors.

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 2004. 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 2004, 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.



PKF
Chartered Accountants

15 October 2004
Melbourne

A Victorian Partnership



M L Port
Partner