

DIRECTORY**BOARD OF DIRECTORS**

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

SECRETARY

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

**REGISTERED OFFICE AND
PRINCIPAL ADMINISTRATION OFFICE**

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AUDITOR

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

SHARE REGISTRY

ASX Perpetual Registrars Limited
Level 4
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Melbourne, Victoria 3000
Telephone: (03) 9615 9947
Facsimile: (03) 9615 9744

STOCK EXCHANGE LISTING

Stock Exchange of Newcastle Ltd
384 Hunter Street
Newcastle, NSW 2300 Australia
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 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' REPORT**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:

DIRECTORS' REPORTGranted 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.

DIRECTORS' REPORT

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").

DIRECTORS' REPORT

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.

DIRECTORS' REPORT

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 read 'A.P. Armitage', with a long horizontal flourish extending to the right.

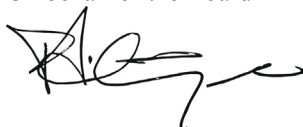
A.P. Armitage
Director

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 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL CURRENT ASSETS | | 972,200 | 266,674 | 972,199 | 266,673 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| 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 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL NON-CURRENT ASSETS | | 3,207,258 | 2,377,356 | 3,039,858 | 2,377,357 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL ASSETS | | 4,179,458 | 2,644,030 | 4,012,057 | 2,644,030 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| 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 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL CURRENT LIABILITIES | | 166,146 | 734,431 | 166,146 | 734,431 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| NON-CURRENT LIABILITIES | | | | | |
| Provisions | 10 | 18,167 | - | 18,167 | - |
| Deferred tax liabilities | | 52,976 | 84,880 | 52,976 | 84,880 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL NON-CURRENT LIABILITIES | | 71,143 | 84,880 | 71,143 | 84,880 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL LIABILITIES | | 237,289 | 819,311 | 237,289 | 819,311 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| NET ASSETS | | 3,942,169 | 1,824,719 | 3,774,768 | 1,824,719 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| 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) |
| | | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL EQUITY | | 3,942,169 | 1,824,719 | 3,774,768 | 1,824,719 |
| | | <hr/> | <hr/> | <hr/> | <hr/> |

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) | - |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net cash used in operating activities | (i) | (197,592) | (82,714) | (197,592) | (82,714) |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| 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) |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net cash from investing activities | | 159,254 | 118,190 | 159,254 | 118,189 |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| 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) |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net cash from (used in) investing activities | | 837,236 | (35,200) | 837,236 | (35,200) |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| 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 |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| CASH ASSETS AT THE END OF THE FINANCIAL YEAR | | <u>895,467</u> | <u>96,569</u> | <u>895,466</u> | <u>96,568</u> |
| (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 |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net Cash Used In Operating Activities | | <u>(197,592)</u> | <u>(82,714)</u> | <u>(197,592)</u> | <u>(82,714)</u> |
| (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(d) | - | - | 1 | 1 |
| | 6(e) | <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 |
| | | | \$ | \$ | \$ | \$ |
| 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) | - |
| | <u>34,684,729</u> | <u>19,409,671</u> | <u>2,438,776</u> | <u>1,207,467</u> | <u>2,438,776</u> | <u>1,207,467</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.

(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

| | NOTE | Consolidated | | The Company | |
|--|------|--------------|------|-------------|------|
| | | 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) |
| | | <u> </u> |
| Loss from ordinary activities before income tax expense | - | (201,998) |
| Income tax expense | - | (84,615) |
| | | <u> </u> |
| Net loss from ordinary activities after income tax expense | - | (286,613) |
| Net decrease in asset revaluation reserve | - | (159,266) |
| | | <u> </u> |
| Net loss and total changes of equity other than those resulting from transactions with owners as owners | - | (445,879) |
| | | <u> </u> |

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 |
|--------------------------------------|-------|--------|-------|--------|-------|

NON-CURRENT ASSETS

| | | | | | |
|--|---|---------|---------|---------|---------|
| Deferred exploration costs carried forward | 7 | 176,587 | 282,934 | 176,587 | 282,934 |
|--|---|---------|---------|---------|---------|

CURRENT LIABILITIES

| | | | | | |
|------------------------------------|-------|--------|---------|--------|---------|
| Payables – director-related entity | 8, 19 | 46,475 | 228,932 | 46,475 | 228,932 |
|------------------------------------|-------|--------|---------|--------|---------|

EXPLORATION EXPENDITURE

| | | | | | |
|-------------|----|-----------|-----------|-----------|-----------|
| COMMITMENTS | 15 | 1,065,000 | 1,477,500 | 1,065,000 | 1,477,500 |
|-------------|----|-----------|-----------|-----------|-----------|

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 |
|---|---|---|---|-----------|-----------|

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 |
|--|---|---|---|-----------|-----------|

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 |
| | <u>395,467</u> | <u>96,569</u> | <u>500,000</u> | <u>-</u> | <u>3,097,664</u> | <u>2,251,077</u> | <u>3,993,131</u> | <u>2,347,646</u> | | |
| 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% |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>394,074</u> | <u>131,259</u> | <u>318,977</u> | <u>131,259</u> | <u>713,051</u> | | |

(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

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

| | Consolidated | |
|----------|---------------------|-------------|
| | 2004 | 2003 |
| | \$ | \$ |
| 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

CORPORATE GOVERNANCE

Following completion of the Company's IPO and listing on NSX, the Board has reviewed the Company's corporate governance practices against the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice recommendations ("ASX Principles and Recommendations"). The review gave the Board an opportunity to progress adoption of the ASX Principles and Recommendations as appropriate to the Company.

Specific instances where the Company has followed alternative corporate governance practices to the ten corporate governance principles established by the ASX Corporate Governance Council, and details of current practices, are set out below.

Lay Solid Foundations for Management and Oversight

The Board's primary role is the stewardship of shareholders' funds with the objective of creating long term shareholder value. In fulfilling this role, the Board accepts overall responsibility for corporate governance including:

- evaluating, approving and monitoring the strategic and financial plans of the Company;
- evaluating, approving and monitoring major capital expenditure, capital management and all major corporate transactions, including the issue of Company securities;
- approving all financial reports and material reporting and external communication;
- monitoring and reviewing management performance and overseeing the formulation of appropriate succession plans;
- approving and monitoring the Company's risk management framework;
- ensuring policies and procedures are in place to enable compliance with the Company's legal obligations; and
- ensuring Company personnel comply with appropriate ethical standards.

At the date of this report a formal Board charter which outlines a framework for its operation and of those functions delegated to management is in preparation.

Structure the Board to Add Value

Board Composition

At the date of this report, the Board comprises five Directors, three of whom are independent non-executive Directors.

The Directors' Report on page 1 sets out the names, and the skills, expertise and term of appointment of each Board member, and the attendance of Directors at meetings of the Board during the year

Since year end, to assist the Board to discharge its responsibilities, an Audit and Compliance Committee has been established. The committee's membership consists of non-executive directors with the appropriate skills for the responsibilities of the committee.

Given that the Company is small, with limited activities and limited resources, the Board has not established committees to address specific areas such as risk management, strategic review, environment, health & safety, and remuneration. Such issues will be dealt with by the Board, with interested Directors abstaining to avoid conflict of interest or breach of their fiduciary duties.

The procedure for Directors to seek independent professional advice, at the Company's expense, to assist them to fulfil their obligations is administered by the Chairman.

CORPORATE GOVERNANCE (CONT)***Independence***

The Board has an assessment procedure to determine the independence of Directors and has determined those non-executive Directors that are independent.

At the present stage of the Company's development, the resources available to the Board are limited. Accordingly, the Board has determined that the specific skills of Board members may be called upon from time to time to assist management. The Board has established a level of remuneration paid for those services as a materiality threshold.

In relation to the IPO, Mr G A Menzies and Mr A P Armitage were engaged to assist in preparation of the prospectus dated 7 November 2003. While the remuneration for those services provided by Mr Menzies exceeded the threshold, Mr Menzies is independent of management and in the opinion of the Board is able to exercise independent judgement.

Chairman of the Board

The Chairman, while being responsible for the leadership and effective functioning of the Board, is an executive Director. The Chairman's responsibilities include management of the Company's projects and corporate administration.

Promote Ethical and Responsible Decision Making

The corporate goal of Octanex N L is to build an energy business providing lasting growth in shareholder value while at the same time maintaining a reputation for integrity and fairness.

Directors, officers and employees are personally responsible for applying the principles set out below to relationships with each other, with the Company and with all the people with whom they deal in their work and, if the need arises.

The Company has:

- (i) by the adoption of a code of conduct and other appropriate measures, clarified the standards of ethical behaviour required of directors, officers and employees.
- (ii) by the adoption of an appropriate policy, affirmed the position of the Company concerning trading in Company securities.

Safeguard Integrity in Financial Reporting***Statement to the Board by the Chief Executive Officer and Chief Financial Officer***

The Board requires the CEO and CFO to state in writing to the Board that financial reports of the Company present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards.

Audit Committee

The Board has adopted a formal charter for the role and responsibilities of the Audit Committee to oversee the following:

- the adequacy of the Company's accounting system and internal control environment;
- the adequacy of the Company's system for compliance with relevant laws, regulations, standards and codes;
- the effectiveness of accounting controls;

CORPORATE GOVERNANCE (CONT)

- the identification of improvements that can or should be made to the Company's internal controls, policies and financial disclosures;
- the frequency and significance of all transactions with related parties including their propriety;
- the integrity and quality of the Company's financial information including financial information provided to ASIC, NSX and shareholders;
- the independent, objectivity, scope and quality of the external audit; and
- such additional matters as requested by the Board.

The Audit Committee has assessed auditor independence and the non-audit consultancy work performed by the Company's auditor, to ensure that the audit firm is independent of the Company, its management and directors.

The Audit Committee meets not less than four times each year. The Committee is empowered to investigate any matter brought to the attention of the Committee with full access to all books, records, facilities, and personnel of the Company and the authority to engage independent counsel and other advisers as the Audit Committee determines necessary to carry out the duties of the Audit Committee.

During the year the committee comprised two non-executive and independent Directors:

- Mr A P Armitage
- Mr G A Menzies

Other Directors, and the auditors, may attend meetings by invitation.

Timely and Balanced Disclosure

The Board has established policies and procedures designed to ensure compliance with the NSX requirements such that:

- (i) all investors have equal and timely access to material information concerning the Company, including its financial position, performance, ownership and governance; and
- (ii) Company announcements are factual and presented in a clear and balanced way.

The Chairman authorises all disclosures necessary to ensure compliance with NSX Business and Listing Rules disclosure requirements.

Respect the Rights of Shareholders

The Board has established a policy for communicating with shareholders:

- using the Company's website to promote and to facilitate shareholder communications;
- ensuring shareholder participation in meetings by use of ASX Corporate Governance Council guidelines for meetings and notices, and placing all shareholder related information and Company NSX announcements promptly onto the website in an accessible manner.

Shareholders at the annual general meeting are encouraged to question the directors regarding the Company's governance and business.

Recognise and Manage Risk

The Board is responsible for overseeing the effectiveness of risk management and is developing a risk management system to:

CORPORATE GOVERNANCE (CONT)

- identify, assess, monitor and manage risk; and
- inform investors, where necessary of material changes to the Company's risk profile.

The Company's activities are currently centred on advancing its projects in stage, inherently high in risk. Existing policies and procedures are appropriate for business at that stage of development. At each major milestone of the projects, specific risk oversight and management policies will be developed consistent with activities at that time.

The systems of internal financial control have been determined by the Board as adequate to provide reasonable, but not absolute, protection against fraud, material misstatement or loss.

Encourage Enhanced Performance

The size of the Company and the limited resources available to the Board has precluded the development of performance evaluation processes in relation to the Board, individual directors and key executives.

Remuneration Fairly and Equally

The Board will review the remuneration packages of all Directors and executive officers on an annual basis.

The Company's policy for determining the nature and amount of emoluments of directors and senior executives is as follows:

- Fees for non-executive Directors are based on the demands and responsibilities of their role, within the aggregate amount approved by shareholders.
- In determining fees, professional advice and fees paid to non-executive directors in peer group companies is taken into account. There is no provision of retiring allowances for Directors, other than for the Chairman.
- The remuneration structure for executive officers, including Directors, is determined having regard to industry practice, market trends and company performance, supplemented by performance related incentive payments based on achieving performance targets.

Recognise the Legitimate Interests of Stakeholders

The Board has established a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders in the Company. The code of conduct gives guidance to the Directors and other key executives about:

- (i) the practices necessary to maintain confidence in the integrity of the Company; and
- (ii) the right of employees to alert management and the Board in good faith to potential misconduct without fear of retribution, and, where necessary, recording and investigation of such alerts.

SHAREHOLDER AND OTHER INFORMATION**COMPILED AS AT 18 OCTOBER 2004****DISTRIBUTION OF ORDINARY SHARES**

Numbers of members by size of holding and the total number of shares on issue:

| Ordinary Shares | No. of Holders | No. of Shares |
|------------------------|-----------------------|----------------------|
| 1 – 1,000 | 349 | 151,283 |
| 1,001 – 5,000 | 655 | 1,597,363 |
| 5,001 – 10,000 | 92 | 692,011 |
| 10,001 – 100,000 | 181 | 5,122,277 |
| 100,001 and over | 43 | 27,121,795 |
| TOTAL ON ISSUE | 1,320 | 34,684,729 |

1,039 holders held less than a marketable parcel of ordinary shares. There is no current on-market buy-back.

SUBSTANTIAL SHAREHOLDERS

As disclosed in notices given to the Company.

| Name of Substantial Shareholder | Interest in Number of Shares <i>Beneficial and non-beneficial</i> | % of Shares |
|--|--|--------------------|
| Ernest Geoffrey Albers | 17,530,899 | 50.54 |
| Pamela Joy Albers | 13,676,681 | 39.43 |

VOTING RIGHTS

At meetings of members or classes of members:

- (a) each member entitled to vote may vote in person or by proxy, attorney or representative;
- (b) on a show of hands, every person present who is a member or a proxy, attorney or representative of a member has one vote; and
- (c) on a poll, every person present who is a member or a proxy, attorney or representative of a member has:
 - (i) for each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, one vote for the share;
 - (ii) for each partly paid share, only the fraction of one vote which the amount paid (not credited) on the share bears to the total amounts paid and payable on the share (excluding amounts credited),

subject to any rights or restrictions attached to any shares or class or classes of shares.

SHAREHOLDER AND OTHER INFORMATION (CONT)**COMPILED AS AT 18 OCTOBER 2004****DISTRIBUTION OF 31 MARCH 2005 OPTIONS (EXERCISE PRICE 10 CENTS)**

Numbers of optionholders by size of holding and the total number of options on issue:

| | No. of Holders | No. of Options |
|------------------|-----------------------|-----------------------|
| 1 – 1,000 | 195 | 86,393 |
| 1,001 – 5,000 | 87 | 202,451 |
| 5,001 – 10,000 | 26 | 204,834 |
| 10,001 – 100,000 | 132 | 3,868,150 |
| 100,001 and over | 24 | 12,363,230 |
| <hr/> | | |
| TOTAL ON ISSUE | 464 | 16,425,058 |

421 holders held less than a marketable parcel of options. There are no voting rights in relation to these options.

DISTRIBUTION OF 30 JUNE 2008 OPTIONS (EXERCISE PRICE 25 CENTS)

Numbers of optionholders by size of holding and the total number of options on issue:

| | No. of Holders | No. of Options |
|------------------|-----------------------|-----------------------|
| 1 – 1,000 | 195 | 86,393 |
| 1,001 – 5,000 | 87 | 202,451 |
| 5,001 – 10,000 | 26 | 204,834 |
| 10,001 – 100,000 | 132 | 3,868,150 |
| 100,001 and over | 17 | 10,913,230 |
| <hr/> | | |
| TOTAL ON ISSUE | 457 | 15,275,058 |

396 holders held less than a marketable parcel of options. There are no voting rights in relation to these options.

SHAREHOLDER AND OTHER INFORMATION (CONT)**COMPILED AS AT 18 OCTOBER 2004****THE 20 LARGEST HOLDERS OF ORDINARY SHARES**

| Holder | Ordinary Shares | % of Total Issued |
|--|------------------------|--------------------------|
| Ernest Geoffrey Albers | 2,920,699 | 8.42 |
| Great Missenden Holdings Pty Ltd | 2,610,220 | 7.53 |
| Auralandia NL | 1,909,340 | 5.50 |
| The Albers Companies Incorporated Pty | 1,725,836 | 4.89 |
| Bass Strait Group Pty Ltd | 1,580,000 | 4.56 |
| Cue Energy Resources Limited | 1,567,100 | 4.52 |
| Peppercorn Hill Pty Ltd | 1,303,040 | 3.76 |
| Ernest Geoffrey Albers & Pamela Joy Albers | 1,100,000 | 3.17 |
| Great Missenden Group Pty Ltd | 1,060,060 | 3.06 |
| Fugro Multi Client Services Pty Ltd | 1,034,540 | 2.98 |
| Christopher Robert Hart | 804,995 | 2.32 |
| 500 Custodian Pty Ltd | 713,520 | 2.06 |
| Appledore Custodians Ltd | 700,000 | 2.02 |
| Australis Mining Finance Pty Ltd | 680,000 | 1.96 |
| FH Nominees Pty Ltd | 568,505 | 1.64 |
| Evan George Bazzard | 500,000 | 1.44 |
| Seaquest Petroleum Pty Ltd | 499,000 | 1.44 |
| Sacrosanct Pty Ltd | 480,000 | 1.38 |
| Hilversum Holdings Pty Ltd | 400,000 | 1.15 |
| Cue Petroleum Pty Ltd | 386,664 | 1.11 |

The 20 largest shareholders hold 22,543,519 shares representing 65% of the issued share capital.

SHAREHOLDER AND OTHER INFORMATION (CONT)**COMPILED AS AT 18 OCTOBER 2004****THE 20 LARGEST HOLDERS OF OPTIONS**

| Holder | 31 March 2005 Options | % of Total Issued | 30 June 2008 Options | % of Total Issued |
|---|----------------------------------|------------------------------|---------------------------------|------------------------------|
| Great Missenden Holdings Pty Ltd | 4,000,000 | 24.88 | 4,000,000 | 26.19 |
| Bass Strait Group Pty Ltd | 1,580,000 | 9.83 | 1,580,000 | 10.34 |
| Great Missenden Group Pty Ltd | 880,000 | 5.47 | 880,000 | 5.76 |
| Ernest Geoffrey Albers & Pamela Joy Albers | 600,000 | 3.73 | 600,000 | 3.93 |
| Auralandia NL | 600,000 | 3.73 | 600,000 | 3.93 |
| Ernest Geoffrey Albers & Pamela Joy Albers | 500,000 | 3.11 | 500,000 | 3.27 |
| Sacrosanct Pty Ltd | 480,000 | 2.99 | 480,000 | 3.14 |
| 500 Custodian Pty Ltd | 390,760 | 2.43 | 290,760 | 2.56 |
| Strata Resources NL | 352,500 | 2.19 | 352,500 | 2.31 |
| Cloudbreak Enterprises Ltd | 299,970 | 1.87 | 299,970 | 1.96 |
| James Max Duddingston Willis | 250,000 | 1.56 | 250,000 | 1.64 |
| Christopher Robert Hart | 200,000 | 1.24 | - | - |
| David Bruce Hill | 200,000 | 1.24 | - | - |
| Graeme Alan Menzies | 200,000 | 1.24 | - | - |
| Carol Winifred Putland | 200,000 | 1.24 | 200,000 | 1.31 |
| Andrew Peter Armitage | 200,000 | 1.24 | - | - |
| Oxley Graeme Maley | 200,000 | 1.24 | 200,000 | 1.31 |
| Australis Mining Finance Pty Ltd | 180,000 | 1.12 | 180,000 | 1.18 |
| Great Australia Corporation Pty Ltd | 160,000 | 1.00 | 160,000 | 1.05 |
| Cartron Pty Ltd | 120,000 | 0.75 | 120,000 | 0.79 |
| Peter William Hall | - | - | 120,000 | 0.79 |
| Grekinenny Pty Ltd | - | - | 100,000 | 0.65 |
| Andrew Fred Harris | - | - | 100,000 | 0.65 |
| Christopher Paul Currie & Sherilyn Elva Currie | - | - | 100,000 | 0.65 |