AquaCarotene Limited
ABN 18 074 969 056
Natural Culture

Registered Office:
Level 2, 45 Stirling Highway
Nedlands WA 6009
Postal Address:
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Nedlands WA 6909

Tel: (61 8) 9389 8799
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27 October 2006

AUSTRALIAN STOCK EXCHANGE LIMITED

Dear Sir / Madam

The directors of AquaCarotene Limited wish to confirm that the 2006 Annual Report together with the Notice of Annual General Meeting, Explanatory Memorandum and Proxy Form have been despatched to all shareholders.

Yours faithfully
AQUACAROTENE LIMITED

D McArthur

DAVID McARTHUR
Company Secretary

MP/AQLLTRS.068

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Natural Culture

Annual Report 2006

AQUACAROTENE LIMITED
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AQUACAROTENE LIMITED
ABN 18 074 969 056

COMPANY DETAILS

Board of Directors:	Donald Smith Douglas Wood Daniel Machin
Secretary:	David McArthur
Registered Office:	Level 2, 45 Stirling Highway Nedlands, Western Australia Telephone: (08) 9389 8799 Facsimile: (08) 9389 8327
Auditors:	Stantons International Level 1 1 Havelock Street West Perth, Western Australia
ASX Home Branch:	Australian Stock Exchange Limited 2 The Esplanade Perth, Western Australia
Bankers:	ANZ Banking Group Limited 31 Broadway Nedlands, Western Australia
Share Registry:	Security Transfer Registrars Limited PO Box 535 Applecross, Western Australia Telephone: (08) 9315 0933 Facsimile: (08) 9315 2233
Solicitors:	Steinepreis Paganin Level 4, Next Building 16 Milligan Street Perth, Western Australia
Country of Incorporation:	Australia
Legal form of entity:	Listed public company

Vision to Reality

The Company's long term vision and belief has progressed. Core operation as a producer of Dry Marine Algae/Beta Carotene type products has occurred. Despite this years cyclone season and damage resulting, the Company has the technology to grow, extract, recover and downstream process quantities of our Dry Marine Algae. This is further supported by deliveries to InterClinical Group and our USA client who have now repeat ordered (their 4th delivery). The Company has entered into a Joint Venture value add project incorporating an exclusive supply agreement as a condition; continuing soil extraction from its Mining Lease; a Joint Venture development with the Company's residential land sub-division project, all providing an exciting basis to look forward to over the next few months.

Production Update

With difficulties from this years cyclone affecting our growing facilities in Karratha during February, March and April there has been considerable disruption to production. Efforts to reinstate the facilities are expected to be completed shortly. We will recommission our ponds gradually when ready.

The Company is holding some slurry in stock, fully processed anticipated yielding approximately 5,000 kilos of our Dry Marine Algae. This material is committed for delivery to InterClinical Laboratories.

USA Sales Delivery

Whilst only small quantities of our Dry Marine Algae material, we have received our 4th repeat order from our US customer.

Mining Operations

During this year we have had little requirement for general soil. We have however recently completed a 28,000 tonne delivery. We are expecting other opportunities to supply.

Value-adding Project

The Company refers to previous advice in regards to its Value Adding Program, namely:

- Macular Degeneration
- Photo Aging
- Sunscreen Protection

The Company is pleased to announce that it has entered into a Memorandum of Understanding with InterClinical Laboratories, specifically to undertake a Joint Venture development of two projects involving:

- Photo Aging Formulation; and
- Macular Degeneration

The Value Add Programs are very exciting as the Company believes that the relationship with InterClinical and their marketing, sales and technical background will be provide an excellent basis for a Joint Venture.

A condition of the Joint Venture is that AQL is to contract exclusive supply of all Dry Marine Algae required. Both products are expected to be distributed globally.

For the time being the Sun Screen Protection programme will not be proceeding.

InterClinical are continuing their marketing campaign and promotion of Algotene. InterClinical's Australian Educational Seminars are to commence in October 2006.

Mining Lease/Sub Division- Joint Venture

The Company has announced it has agreed to enter into a Joint Venture agreement for the purpose of undertaking on a reasonable endeavour basis to pursue a residential sub-division approval and residential land sub-division of one of its Mining Leases in Karratha.

GodiniLand (www.godiniland.com) via its subsidiary Godini Consulting Pty Ltd has established with AQL, Godini Mining Resources Pty Ltd, to undertake the Joint Venture program. Godini have substantial land holdings in Kalbarri and Geraldton. Part of their obligation is to initiate development activities and preparation of structure plans to proceed with the initial development application and provide the ongoing management and administration of the Joint Venture.

As recently reported there is potential of up to 500 residential lots possible from the land area. Whilst there are no existing commitments or undertakings given by any Government Department as to whether such approval may or may not be achievable and there have been no representations made to Godiniland in this regard, with the information available to this time, both groups believe it is a worthwhile proposal. Considerable background and information data has been prepared.

AQL has now met all of its obligations to enable the Joint Venture program to commence and has now received an up front payment as consideration.

New Product Release - DunaliellaGold®

InterClinical Groups new product release in September of DunaliellaGold® has been announced. AQL is the exclusive main ingredient supplier of its material described by them as "Natures Superfood".

Summary

The Company has had many issues to deal with over the past few months, particularly with the cyclone conditions effecting production in the early part of the year.

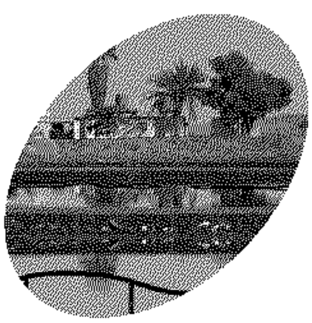
Notwithstanding, the Company has put in place a number of programs to generate opportunity:

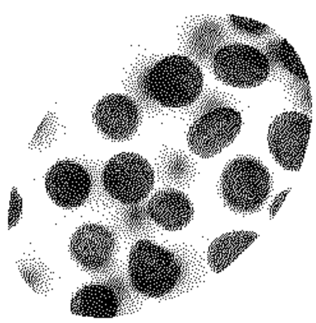
- Production Update
- USA Sales Continues
- Value Adding Joint Venture project with InterClinical Group.
- Godini Consulting Residential Joint Venture Agreement
- InterClinical's Group New Product Release DunaliellaGold® September 2006

We are currently negotiating with a major overseas group to potentially assist the Company in expansion of its ponds operation, the extension of its value adding operations and general assistance with marketing and distribution.

Whilst each year provides management with its various challenges and this year has been no exception, clearly the Company has a number of exciting opportunities to look ahead and forward to. We are keen to continue this journey. Again we also need to acknowledge the on going support and encouragement that comes from our shareholder group along the way.

We do very much appreciate all the input, support and communication that is received from time to time.





AQUACAROTENE LIMITED
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CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

The Board of directors of AquaCarotene Limited has adopted the following set of principles for the corporate governance of the Company. These principles establish the framework of how the Board carries out its duties and obligations on behalf of the shareholders.

ASX BEST PRACTICE RECOMMENDATIONS

The ASX Listing Rules require listed companies to include in their annual report a statement disclosing the extent to which they have complied with the ASX Best Practice Recommendations in the reporting period. These recommendations are guidelines designed to produce an efficiency, quality or integrity outcome. The recommendations are not prescriptive so that if a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to follow it. Where a company has not followed all the recommendations, the annual report must identify which recommendations have not been followed and give reasons for not following them.

Details have been included at the end of this statement setting out the ASX Best Practice Recommendations with which the Company has and has not complied in the reporting period.

Details of the Company's corporate governance practices in the relevant reporting period are set out below.

THE BOARD OF DIRECTORS

Role of the Board

The primary responsibilities of the Board are set out in a written policy and include:

- the establishment of the long term goals of the Company and strategic plans to achieve those goals;
- monitoring the achievement of these goals;
- the review of management accounts and reports to monitor the progress of the Company;
- the review and adoption of budgets for the financial performance of the Company and monitoring the results on a regular basis to assess performance;
- the review and approval of the annual and half-year financial reports;
- nominating and monitoring the external auditor;
- approving all significant business transactions;
- appointing and monitoring senior management;
- all remuneration, development and succession issues; and
- ensuring that the Company has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities.

The Board evaluates this policy on an ongoing basis.

Board composition

The Directors' report contains details of the directors' skill, experience and education. The Board seeks to establish a Board that consists of directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Company's business with excellence. To maintain this, the Company's policy is that executive directors should serve at least 3 years. At the completion of the first 3 years, the position of the director is reviewed to ascertain if circumstances warrant a further term.

The Board comprises an executive director and two non-executive directors. Details of the directors are set out in the Directors' Report.

The Board is primarily responsible for identifying potential new directors but has the option to use an external consulting firm to identify and approach possible new candidates for directorship. The selection of the directors must be approved by the majority of the shareholders.

Retirement and re-election of directors

The Constitution of the Company requires one third of directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting. Retiring directors are eligible for re-election by shareholders.

Independence of directors

The Board has reviewed the position and association of each of the three directors in office at the date of this report and considers that one of the directors is independent. In considering whether a director is independent, the Board has regard to the independence criteria in ASX Best Practice Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of the other directors, as appropriate.

The Board considers that Mr Machin meets the criteria in Principle 2. He has no material business or contractual relationship with the Company, other than as a director, and no conflict of interest which could interfere with the exercise of independent judgement. Accordingly, he is considered to be independent. Mr Smith's directorship is held in an executive capacity and so he is not considered to be independent. Mr Wood is involved with a company who holds a contractual relationship with the Company, and so is not considered to be independent.

Independent professional advice

With the prior approval of the Chairperson, each director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

Board performance review

The performance of all directors is assessed through review by the Board as a whole of a director's attendance at and involvement in Board meetings, his performance and other matters identified by the Board or other directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a director's performance.

The Company has not conducted a performance evaluation of the members of the Board during the reporting period, however the Board conducts a review of the performance of the Company against budgeted targets on an ongoing basis.

Director remuneration

Details of the Company's remuneration policies are included in the "Remuneration Report" in the Directors' Report.

Non-executive directors will be remunerated by cash benefits and will not be provided with retirement benefits (except in exceptional circumstances). Non-executive directors may receive equity based performance incentives. Executive directors may be remunerated by both fixed remuneration and equity performance based remuneration and no termination payments will be agreed other than a reasonable period of notice of termination as detailed in the executive's employment contract.

MANAGING BUSINESS RISK

The Company maintains policies and practices designed to identify and manage significant business risks, including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Company's business plan;
- corporate strategy guidelines and procedures to review and approve the Company's strategic plans; and
- insurance and risk management programmes which are reviewed by the Board.

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings. The Company's risk profile is reviewed annually. The Board may consult with the Company's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

The Board receives regular reports about the financial condition and operating results of the consolidated group. The Managing Director and Chief Financial Officer annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

- the Company's financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Company's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

Internal controls

Procedures have been established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To achieve this, the executive directors perform the following procedures:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

AUDIT COMMITTEE

Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board, however meetings are held throughout the year between the Managing Director and the Company's auditors to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

The Board has not formalised any procedures for the selection, appointment or rotation of its external auditor but reviews this matter on an ongoing basis and implements changes as required.

ETHICAL STANDARDS

In pursuit of the highest ethical standards, the Company has adopted a Code of Conduct which establishes the standards of behaviour required of directors and employees in the conduct of the Company's affairs. This Code is provided to all directors and employees. The Board monitors implementation of this Code. Unethical behaviour is to be reported to the Company's Managing Director as soon as practicable.

The Code of Conduct is based on respect for the law, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

TRADING IN THE COMPANY'S SECURITIES BY DIRECTORS AND EMPLOYEES

The Board has adopted a policy in relation to dealings in the securities of the Company which applies to all directors and employees. Under the policy, directors are prohibited from short term or "active" trading in the Company's securities and directors and employees are prohibited from dealing in the Company's securities whilst in possession of price sensitive information. The Company's Managing Director (or in his place the Chairperson) must also be notified of any proposed transaction.

This policy is provided to all directors and employees. Compliance with it is reviewed on an ongoing basis in accordance with the Company's risk management systems.

CONTINUOUS DISCLOSURE

The Company has in place a continuous disclosure policy, a copy of which is provided to all Company officers and employees who may from time to time be in the possession of undisclosed information that may be material to the price or value of the Company's securities.

The continuous disclosure policy aims to ensure timely compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 (Cth) and ASX Listing Rules and ensure officers and employees of the Company understand these obligations.

The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairperson, who in consultation with the Board (where practicable) and any other appropriate personnel, will consider the information and whether disclosure is required and prepare an appropriate announcement.

At least once in every 12 month period, the Board will review the Company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

SHAREHOLDERS

The Board aims to ensure that shareholders are kept informed of all major developments affecting the Company. Information is communicated to shareholders as follows:

- as the Company is a disclosing entity, regular announcements are made to the Australian Stock Exchange in accordance with the Company's continuous disclosure policy, including quarterly cash flow reports, half-year audit reviewed accounts, year end audited accounts and an annual report;
- the Board ensures the annual report includes relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments;
- shareholders are advised in writing of key issues affecting the Company by effective use of the Company's share registry;
- any proposed major changes in the Company's affairs are submitted to a vote of shareholders, as required by the Corporations Act 2001;
- the Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Company's strategies and goals. All shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Company; and
- the external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

The Board reviews this policy and compliance with it on an ongoing basis.

ASX BEST PRACTICE RECOMMENDATIONS

Pursuant to the ASX Listing Rules, the Company advises that based upon the information set out above, it does comply with the following Best Practice Recommendations, issued by the ASX Corporate Governance Council.

Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to management.
The Board has a statement of its primary responsibilities as set out above, which reflects the policies that were in place during the reporting year.

Recommendation 2.1: A majority of the board should be independent directors.
As set out above, the Board considers that one of its three members is an independent director.

Recommendation 2.3: The roles of the chairperson and chief executive officer should not be exercised by the same individual
The role of the chairperson has been fulfilled by Mr Wood and the effective role of Chief Executive Officer has been fulfilled by Mr Smith.

Recommendation 3.1: Establish a code of conduct to guide directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:
- *3.1.1 the practices necessary to maintain confidence in the company's integrity*
- *3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

As set out above, the Company has a Code of Conduct, which reflects policies that were in place during the reporting year.

Recommendation 3.2: Disclose the policy concerning trading in company securities by directors, officers and employees.
As set out above, the Company has a trading policy.

Recommendation 3.3: Provide the information indicated in "Guide to Reporting on Principle 3".
The Company has made available a summary of its Code of Conduct and trading policy in this statement, but has not otherwise made this information publicly available.

Recommendation 4.1: Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.
As set out above, the Company complies with this requirement.

Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.
As set out above, the Company has a continuous disclosure policy, which reflects policies that were in place during the reporting year.

Recommendation 5.2: Provide the information indicated in "Guide to Reporting on Principle 5".
The Company has provided a summary of its continuous disclosure policy in this Statement.

Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.
As set out above, the Company has a communications policy, which reflects policies that were in place during the reporting year.

Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.
As set out above, the Company requests its auditor to attend the annual general meeting.

Recommendation 7.1: The board or appropriate committee should establish policies on risk oversight and management.
As set out above, the Board has established policies on risk oversight and management.

Recommendation 7.2: The chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state to the board in writing that:

7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

As set out above, the Company complies with this requirement.

Recommendation 7.3: Provide the information indicated in "Guide to Reporting on Principle 7".

The Company has provided relevant information in this Statement upon recognising and managing risk, but has not otherwise made a description of its risk management policy and internal compliance and control system publicly available.

Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

The Company's processes for performance evaluation are set out above.

Recommendation 9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.

The Company's remuneration policies are referred to above.

Recommendation 9.3: Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

The distinction between non-executive and executive remuneration detailed above.

Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

As set out in the Company's remuneration policies, the Company complies with this requirement.

Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

As set out above, the Company has a Code of Conduct setting standards of behaviour and compliance with obligations to stakeholders, which reflects policies in place during the reporting year.

Pursuant to the ASX Listing Rules, the Company advises that it does not comply with the following Best Practice Recommendations, issued by the ASX Corporate Governance Council. Reasons for the Company's non-compliance are detailed below.

Recommendation 2.2: The Chairperson should be an independent director.

As set out above, the Company's chairperson, Mr Wood is not considered to be an independent director, as he is involved in a contractual relationship with the Company.

Recommendation 2.4: The Board should establish a Nomination Committee.

The functions to be performed by a nomination committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 2.5: Provide the information indicated in "Guide to reporting on Principle 2".
One of the matters to be included in the corporate governance section of the annual report pursuant to the *Guide to reporting on Principle 2* is "*the names of members of the nomination committee and their attendance at meetings of the committee*". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish a nomination committee and therefore this information has not been included in the annual report or otherwise made publicly available. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 2* by the inclusion of information in this Statement, but has not otherwise made the information publicly available.

Recommendation 4.2: The Board should establish an Audit Committee.

Recommendation 4.3: Structure of the Audit Committee so that it consists of:

- *only Non-Executive Directors;*
- *a majority of Independent Directors;*
- *an independent Chairperson, who is not chairperson of the Board;*
- *at least three members.*

Recommendation 4.4: The Audit Committee should have a formal charter.
The functions to be performed by an audit committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board, however meetings are held between senior management and the auditors throughout the year to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto. In doing so, the Board also adheres to the Company's Code of Conduct and procedures to ensure independent judgement in decision making, as set out in relation to ASX Best Practice Recommendation 2.1. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 4.5: Provide the information indicated in "Guide to reporting on Principle 4".
The *Guide to reporting on Principle 4* requires that the corporate governance section of the annual report include "*details of the names and qualifications of those appointed to the audit committee*". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish an audit committee and therefore this information has not been included in the annual report. However as the Board fulfils the role of the audit committee, details of the Company's directors and their attendance at Board meetings are set out in the Company's annual report. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 4.*

Recommendation 9.2: The Board should establish a Remuneration Committee.
The functions to be performed by a remuneration committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 9.5: Provide the information indicated in "Guide to reporting on Principle 9".
One of the matters to be included in the corporate governance section of the annual report pursuant to the *Guide to reporting on Principle 9* is "*the names of members of the remuneration committee and their attendance at meetings of the committee*". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish a remuneration committee and therefore this information has not been included in the annual report. However as the Board fulfils the role of the remuneration committee, details of the Company's directors and their attendance at Board meetings are set out in the Company's annual report. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 9.*

AQUACAROTENE LIMITED
ABN 18 074 969 056

DIRECTORS' REPORT

The directors of AquaCarotene Limited submit herewith the annual financial report for the financial year ended 30 June 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names and particulars of the directors of the Company during or since the end of the financial year are:

Donald J Smith, *Executive Director*

Mr Smith was appointed to the board in 1996. Mr Smith has over 37 years' corporate and commercial experience in finance and property development. He has been actively involved in the development of AquaCarotene from its inception, and continues to provide his personal time and secretariat services to the Company at no cost.

Douglas T Wood, CA FTIA CD, *Non-Executive Chairman*

Mr Wood is a Chartered Accountant, a Fellow of the Taxation Institute of Australia and is also a Commissioner for Declarations. He was appointed to the board in 2002. He has over 32 years' experience in the accounting profession and has been involved in the management of public companies for many years fulfilling the roles of chairman and managing director.

Daniel Machin, *Independent Non-Executive Director*

Mr Machin was appointed to the board on 30 June 2005. He has 15 years experience in aquaculture industry development. Over this time he has held both senior and middle management positions in aquaculture businesses (Ireland and Greece) and in government, and has provided him with a strong technical knowledge. Dan has BSc. (zoology and botany); Diploma in Business, MSC. in Aquaculture.

All directors held their positions as a director throughout the entire financial year and up to the date of this report unless otherwise indicated.

DIRECTORSHIPS OF OTHER LISTED COMPANIES

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
Douglas Wood	Ellendale Resources NL	2001 – current
	AFT Corporation Limited	2004 – current

COMPANY SECRETARY

David McArthur is a chartered accountant and was appointed in 2003. Mr McArthur has 26 years experience in the corporate management of public companies.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the financial year were to further the Project for the growth, harvesting, refinement, promotion and sale of natural marine algae related materials.

The Company has several value-adding opportunities while continuing to sell soil and general fill from its Karratha mining leases.

The Company has established a partnership with a major property group to undertake a review of its mining lease for a potential residential development opportunity.

There were no significant changes in the nature of the economic entity's principal activities during the financial year.

OPERATING RESULTS

The consolidated net loss of the economic entity after providing for income tax amounted to $910,660 (profit for year ended 30 June 2005: $230,961), after taking into account the effects of depreciation amounting to $385,515.

REVIEW OF OPERATIONS

During the year the Company continued to generate revenue from the sale of soil and general fill from its mining leases at Karratha.

The Company maintained its concentration on the production and marketing of its Dry Marine Algae product during the year, entering into successful sales and marketing arrangements with Interclinical Laboratories Pty Ltd. On hand at year end, the Company held raw material green algae slurry with a realisable value after processing of $226,800.

During February, March and April there was considerable cyclone damage to the Company's growing facilities in Karratha.

DIVIDENDS

Since the end of the previous financial year no dividends have been paid or declared by the Company, and the directors of the Company recommend that no dividend be provided for the year ended 30 June 2006.

SHARE OPTIONS

As approved at the Annual General Meeting held on 29 November 2005, 9,000,000 options were granted to Mr Wood and Mr Machin that will vest in 3 tranches over 4 years.

The exercise prices and vesting dates are as follows:

Exercise price	Vesting date
3,000,000 options at 7 cents	1 year after approval date
3,000,000 options at 9 cents	2 years after approval date
3,000,000 options at 11 cents	3 years after approval date

The expiry date of these options is 31 December 2008. As at the date of this report, all 9,000,000 options remained unvested and therefore, unexercised.

The value of these options at the date of shareholders approval was $16,140. Of this amount, $7,026 has been expensed to the income statement during the year.

On 4 April 2006, 6,000,000 unlisted employee options were issued at the following exercise prices:

Exercise price	Vesting date
2,000,000 at 5 cents	4 April 2006
2,000,000 at 7 cents	4 April 2006
2,000,000 at 9 cents	4 April 2006

The expiry date of these options is 28 February 2011. As at the date of this report, all 6,000,000 options remained unexercised.

The value of these options at grant date was $29,800. This amount has been expensed in full to the income statement during the year.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

SUMMARY OF MATERIAL TRANSACTIONS

There were no transactions of a material nature that occurred during the financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as described elsewhere in this report there were no significant changes in the state of affairs of the Company during the financial year.

EVENTS SUBSEQUENT TO BALANCE DATE

On 7 September 2006, the Company announced that it placed 16,610,000 fully paid ordinary shares at 2.5 cents each to raise $415,250 in working capital.

On 13 September 2006, the Company announced that it had entered into a Memorandum of Understanding with InterClinical Laboratories, specifically to undertake a joint venture development of two projects involving photo aging formulation and macular degeneration.

Also on 13 September 2006, the Company announced it has agreed to enter into a joint venture agreement for the purpose of pursuing a residential sub-division approval and residential sub-division of one of its mining leases in Karratha.

No other events of a material nature have occurred subsequent to year end.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

FUTURE DEVELOPMENTS

The likely developments in the operation of the Company and the expected results of those operations in future financial years are as follows:

A number of ongoing harvests are expected from the Karratha operations to meet growing demand for the Company's Dry Marine Algae product.

Sales of soil and fill are expected to continue.

A value-adding product project will be commencing immediately with Interclinical Laboratories Pty Ltd.

The company has established a joint venture with a major property group to undertake a review of its mining lease for a potential residential development opportunity.

ENVIRONMENTAL ISSUES

The Company currently meets all development and operational conditions associated with the Company's operations, particularly with regard to permits for the material recovered from its mining leases.

DIRECTORS' SHAREHOLDINGS

The directors of the Company hold the following interests, directly and indirectly, in shares and options in the Company as at the date of this report:

Director	Number of ordinary shares	Number of options over ordinary shares
D J Smith	Nil	Nil
D T Wood	1,200,000	6,000,000
D J Machin	Nil	3,000,000

DIRECTORS' MEETINGS

During the financial year there were 14 meetings of directors, including circulating resolutions, pursuant to the Company's Constitution.

The attendances of the directors at these meetings was:

	Board of Directors	
Directors	**Held**	**Attended**
D J Smith	14	14
D T Wood	14	14
D J Machin	14	13

REMUNERATION REPORT

The Company's policy for determining the nature and amount of compensation of key management personnel of the Company is on a case by case basis based on the achievements of the Company in obtaining its short term and long term goals.

The objective of the compensation structure for Executive Officers, including Executive Directors is to reinforce the short and long term goals of the Company and to provide a common interest between management and shareholders, and giving regard to the capacity of the Company to meet such costs in its early days of development. No payments have been made for any of these services at this time, which the Company continues to benefit from.

Details of the nature and amount of each element of the compensation of each key management personnel of the Company are shown below:

		Primary benefits	***Post-employment***		***Share-based payments***	
		Salary & fees $	**Super contributions $**	**Termination benefits $**	**Options $**	**Total $**
D T Wood	**2006**	12,000	1,080	-	4,684	17,764
Non-executive chairman	**2005**	9,999	900	-	-	10,899
D J Smith	**2006**	12,000	-	-	-	12,000
Executive director	**2005**	9,999	900	-	-	10,899
D J Machin (appointed 30 June 2005)	**2006**	12,000	1,080	-	2,342	15,422
Independent non-executive director	**2005**	-	-	-	-	-
A Grant-Smith (resigned 4 March 2005)	**2006**	N/A	N/A	N/A	N/A	N/A
Independent non-executive director	**2005**	6,666	600	-	-	7,266
Totals	**2006**	**36,000**	**2,160**	-	**7,026**	**45,186**
	2005	**26,664**	**2,400**	-	-	**29,064**

None of these payments have been paid at this time.

None of the payments were performance related. Other transactions with directors or director-related entities are disclosed in Note 23 of the financial statements.

INDEMNIFICATION OF OFFICERS

During the year, the Company entered into indemnity and access deeds with each of the directors to insure against all liabilities that may arise from their position as directors of the Company.

AUDITORS' INDEPENDENCE DECLARATION

The auditor's independence declaration is included immediately following this Directors' Report and forms part of the Directors' Report.

NON-AUDIT SERVICES

The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Details of the amounts paid to the auditor for audit and non-audit services provided during the year are set out below:

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$
Audit and review of financial reports	15,561	15,028	15,561	15,028
Other services	3,366	1,520	3,366	1,520
	18,927	16,548	18,927	16,548

DIRECTORS' AUTHORISATION

This report is made in accordance with a resolution of the Board of Directors and is signed by authority for and on behalf of the Directors.

Douglas Wood

DOUGLAS WOOD
Director

Perth, Western Australia
27 September 2006

Stantons International
ABN 41 103 088 697
LEVEL 1, 1 HAVELOCK STREET
WEST PERTH WA 6005, AUSTRALIA
PH: 61 8 9481 3188 • FAX: 61 8 9321 1204
www.stantons.com.au

27 September 2006

Board of Directors
Aquacarotene Limited
Level 2,
45 Stirling Highway
NEDLANDS WA 6009

Dear Directors

RE: AQUACAROTENE LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Aquacarotene Limited.

As Audit Director for the audit of the financial statements of Aquacarotene Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely
STANTONS INTERNATIONAL
(Authorised Audit Company)

John Van Dieren
Director

AQUACAROTENE LIMITED
ABN 18 074 969 056

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

		Consolidated		Company	
		2006	2005	2006	2005
	Notes	$	$	$	$
Revenue	2	140,899	1,120,650	140,899	1,120,650
Other income	2	73,100	161,010	73,100	161,010
Depreciation expense	3	(385,515)	(525,286)	(385,515)	(525,286)
Employee benefits expense	3	(111,864)	(65,495)	(111,864)	(65,495)
Directors' fees		(45,361)	(77,224)	(45,361)	(77,224)
Office administration		(30,893)	(21,288)	(30,893)	(21,288)
Operational expenses		(294,882)	(181,979)	(294,882)	(181,979)
Professional fees		(134,518)	(101,064)	(134,518)	(101,064)
Share based payments		(36,826)	-	(36,826)	-
Share registry and statutory fees		(16,245)	(16,060)	(16,245)	(16,060)
Other expenses	3	(41,954)	(43,252)	(41,954)	(43,252)
(Loss)/profit before financing costs		(884,059)	250,012	(884,059)	250,012
Financing income		841	2,310	841	2,310
Financing expenses		(27,442)	(21,361)	(27,442)	(21,361)
Net financing costs	4	(26,601)	(19,051)	(26,601)	(19,051)
(Loss)/profit before tax		(910,660)	230,961	(910,660)	230,961
Income tax expense	5	-	-	-	-
Net (loss)/profit for the year		(910,660)	230,961	(910,660)	230,961
(Loss)/profit attributable to members of the parent		(910,660)	230,961	(910,660)	230,961
Basic (loss)/earnings per share (cents)	7	(0.82)	0.21		

The income statement is to be read in conjunction with the notes to the financial statements.

AQUACAROTENE LIMITED
ABN 18 074 969 056

BALANCE SHEET
AS AT 30 JUNE 2006

	Notes	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
CURRENT ASSETS					
Cash and cash equivalents	20(a)	1,221	139,481	1,221	139,481
Trade and other receivables	10	23,952	392,028	23,952	392,028
Inventories	9	-	3,744	-	3,744
TOTAL CURRENT ASSETS		25,173	535,253	25,173	535,253
NON-CURRENT ASSETS					
Other financial assets	11	10	-	10	-
Property, plant and equipment	12	455,542	664,953	455,542	664,953
TOTAL NON-CURRENT ASSETS		455,552	664,953	455,552	664,953
TOTAL ASSETS		480,725	1,200,206	480,725	1,200,206
CURRENT LIABILITIES					
Trade and other payables	13	285,253	215,731	285,253	215,731
Interest-bearing liabilities	14	85,252	213,594	85,252	213,594
Provisions	15	18,064	22,719	18,064	22,719
TOTAL CURRENT LIABILITIES		388,569	452,044	388,569	452,044
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	14	217,828	-	217,828	-
TOTAL NON-CURRENT LIABILITIES		217,828	-	217,828	-
TOTAL LIABILITIES		606,397	452,044	606,397	452,044
NET ASSETS		(125,672)	748,162	(125,672)	748,162
EQUITY					
Issued capital	16	27,326,838	27,326,838	27,326,838	27,326,838
Other reserves	17	36,826	-	36,826	-
Accumulated losses	18	(27,489,336)	(26,578,676)	(27,489,336)	(26,578,676)
TOTAL (DEFICIENCY)/EQUITY		(125,672)	748,162	(125,672)	748,162

The balance sheet is to be read in conjunction with the notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	Attributable to equity holders of the parent			
	Issued capital $	Accumulated losses $	Other reserves $	TOTAL $
CONSOLIDATED				
At 1 July 2005	27,326,838	(26,578,676)	-	748,162
Profit/(loss) for the period	-	(910,660)	-	(910,660)
Cost of share-based payment	-	-	36,826	36,826
At 30 June 2006	27,326,838	(27,489,336)	36,826	(125,672)
At 1 July 2004	27,221,446	(26,809,637)	-	411,809
Profit/(loss) for the period	-	230,961	-	230,961
Exercise of options	105,392	-	-	105,392
At 30 June 2005	27,326,838	(26,578,676)	-	748,162
COMPANY				
At 1 July 2005	27,326,838	(26,578,676)	-	748,162
Profit/(loss) for the period	-	(910,660)	-	(910,660)
Cost of share-based payment	-	-	36,826	36,826
At 30 June 2006	27,326,838	(27,489,336)	36,826	(125,672)
At 1 July 2004	27,221,446	(26,809,637)	-	411,809
Profit/(loss) for the period	-	230,961	-	230,961
Exercise of options	105,392	-	-	105,392
At 30 June 2005	27,326,838	(26,578,676)	-	748,162

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

AQUACAROTENE LIMITED
ABN 18 074 969 056

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	Notes	Consolidated 2006 Inflows/ (Outflows) $	Consolidated 2005 Inflows/ (Outflows) $	Company 2006 Inflows/ (Outflows) $	Company 2005 Inflows/ (Outflows) $
Net cash flows from operating activities					
Receipts from customers		582,074	736,038	582,074	736,038
Payments to suppliers & employees		(645,590)	(569,078)	(645,590)	(569,078)
Interest received		841	2,310	841	2,310
Interest paid		(27,442)	(21,361)	(27,442)	(21,361)
Proceeds from DTRS Government funding grant		-	154,710	-	154,710
Net cash (used in)/provided by operating activities	20(b)	(90,117)	302,619	(90,117)	302,619
Cash flows from investing activities					
Payments for plant & equipment		(115,629)	(170,084)	(115,629)	(170,084)
Payments for investments		(10)	-	(10)	-
Net cash used in investing activities		(115,639)	(170,084)	(115,639)	(170,084)
Cash flows from financing activities					
Net proceeds from share issues		-	105,392	-	105,392
Proceeds from interest-bearing liabilities		210,000	-	210,000	-
Repayment of interest-bearing liabilities		(225,493)	-	(225,493)	-
Proceeds from a director-related entity		37,500	-	37,500	-
Repayment of loan from director-related entity		-	(70,000)	-	(70,000)
Net cash provided by financing activities		22,007	35,392	22,007	35,392
Net increase in cash and cash equivalents		(183,749)	167,927	(183,749)	167,927
Cash and cash equivalents at the beginning of the financial year		139,481	(28,446)	139,481	(28,446)
Cash and cash equivalents at the end of the financial year	20(a)	(44,268)	139,481	(44,268)	139,481

The cash flow statement is to be read in conjunction with the notes to the financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

AquaCarotene Limited ("the Company") is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprise the Company and its subsidiary (together referred to as the "consolidated entity").

The financial report was authorised for issue by the directors on 27 September 2006.

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") and the Corporations Act 2001. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

(b) Statement of compliance

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

This is the first financial report prepared based on A-IFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. The Company has adopted the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of A-IFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to A-IFRS are detailed in Note 26.

Except for the revised AASB 119: *Employee Benefits* (issued December 2005), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006:

AQUACAROTENE LIMITED
ABN 18 074 969 056

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
2005-1	AASB 139: *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact	1 Jan 2006	1 Jul 2006
2005-5	AASB 1: *First-time adoption* of A-IFRS, AASB 139: *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact	1 Jan 2006	1 Jul 2006
2005-6	AASB 3: *Business Combinations*	No change to accounting policy required. Therefore no impact	1 Jan 2006	1 Jul 2006
2005-10	AASB 132: *Financial Instruments: Disclosure and Presentation,* AASB 101: *Presentation of Financial Statements,* AASB 114: *Segment Reporting,* AASB 117: *Leases,* AASB 133: *Earnings per Share,* AASB 139: *Financial Instruments: Recognition and Measurement* AASB 1: *First-time adoption of A-IFRS,* AASB 4: *Insurance Contracts,* AASB 1023: *General Insurance Contracts* and AASB 1038: *Life Insurance Contracts*	No change to accounting policy required. Therefore no impact	1 Jan 2007	1 Jul 2007
New standard	AASB 7: *Financial Instruments: Disclosures*	No change to accounting policy required. Therefore no impact	1 Jan 2007	1 Jul 2007

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

The following amendments are not applicable to the Group and therefore have no impact:

AASB Amendment	Affected Standard(s)
2005-2	AASB 1023: *General Insurance Contracts*
2005-4	AASB 139: *Financial Instruments: Recognition and Measurement,* AASB 132: *Financial Instruments: Disclosure and Presentation,* AASB 1: *First-time adoption of A-IFRS,* AASB 1023: *General Insurance Contracts* and AASB 1028: *Life Insurance Contracts*
2005-9	AASB 4: *Insurance Contracts,* AASB 1023: *General Insurance Contracts,* AASB 139: *Financial Instruments: Recognition and Measurement* and AASB 132: *Financial Instruments: Disclosure and Presentation*
2005-12	AASB 1038: *Life Insurance Contracts* and AASB 1023: *General Insurance Contracts*
2005-13	AAS 25: *Financial Reporting by Superannuation Plans*

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

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

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening A-IFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – A-IFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity.

AQUACAROTENE LIMITED
ABN 18 074 969 056

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Going concern policies

The financial report has been prepared on a going concern basis. The directors continue to monitor the on-going funding requirements of the Company and will seek further equity funding where necessary. In addition the Company is currently receiving income from the sale of sand and gravel on the ground held by the Company under mining lease in Karratha.

(d) Principles of consolidation

The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standards AASB 127 "Consolidated and Separate Financial Statements". Consistent accounting policies have been employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

The consolidated financial statements include the information and results of each controlled entity from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of any outstanding bank overdrafts.

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are recognised inclusive of GST.

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Taxation

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

AQUACAROTENE LIMITED
ABN 18 074 969 056

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Taxation (continued)

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when then asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Receivables

Trade and other receivables are recorded at amounts due less any allowance for doubtful debts.

(j) Payables

Trade and other payables are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(k) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss
Financial assets held for trading purposes are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Available-for-sale financial assets
Certain shares held by the consolidated entity are classified as being available-for-sale and are stated at fair value less impairment. Fair value is determined with reference to quoted market prices. Gains and losses arising from changes in fair value are recognised directly in the revaluation reserve until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the revaluation reserve is included in profit or loss for the period.

Loans and receivables
Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

(l) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

AQUACAROTENE LIMITED
ABN 18 074 969 056

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Provisions (continued)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(m) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(n) Revenue recognition

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Property, plant and equipment

Plant and equipment, land and buildings, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net costs or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual report period.

The following depreciation rates are used in the calculation of depreciation:

- Buildings 20%
- Leasehold improvements 20%
- Plant and equipment 20%
- Equipment under finance lease 20%

(p) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Consolidated entity as lessee
Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on finance costs.

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1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Leased assets (continued)

Consolidated entity as lessee (continued)
Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(q) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probably that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

(r) Share based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on managements best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $

2. REVENUE

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
Revenue				
Sales – soil and general fill	67,432	1,120,650	67,432	1,120,650
Sales – natural betacarotene	73,467	-	73,467	-
	140,899	1,120,650	140,899	1,120,650
Other income				
Insurance recoveries	69,500	-	69,500	-
Rent received	3,600	6,300	3,600	6,300
DTRS Government funding grant	-	154,710	-	154,710
	73,100	161,010	73,100	161,010

3. EXPENSES

Depreciation expense included in the income statement:

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
Depreciation of property, plant and equipment	385,515	525,286	385,515	525,286
Employee benefits expense				
Salaries and wages	87,968	59,767	87,968	59,767
Workers' compensation costs	8,124	5,568	8,124	5,568
Superannuation	14,895	160	14,895	160
Training	877	-	877	-
	111,864	65,495	111,864	65,495
Other expenses				
Travelling and accommodation	258	2,215	258	2,215
Advertising and publicity	287	919	287	919
Communication and information services	15,090	15,169	15,090	15,169
Motor vehicle expenses	7,153	4,972	7,153	4,972
Bank charges	3,873	1,357	3,873	1,357
Bad debts	-	1,000	-	1,000
Write-off capitalised development expenditure	-	16,577	-	16,577
Other sundry expenses	15,293	1,043	15,293	1,043
	41,954	43,252	41,954	43,252

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	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$
4. NET FINANCING COSTS				
Interest income	841	2,310	841	2,310
Total financial income	841	2,310	841	2,310
Interest expenses	(27,442)	(21,361)	(27,442)	(21,361)
Total financial expenses	(27,442)	(21,361)	(27,442)	(21,361)
Net financing costs	(26,601)	(19,051)	(26,601)	(19,051)

5. INCOME TAX

(a) A reconciliation between income tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate as follows:

Accounting profit/(loss) before income tax	(910,660)	230,961	(910,660)	230,961
At the Group's statutory income tax rate of 30% (2005: 30%)	(273,198)	69,288	(273,198)	69,288
Expenditure not allowable for income tax purposes	1,396	6,815	1,396	6,815
Unrecognised/(recognised) tax losses	271,802	(76,103)	271,802	(76,103)
Income tax expense reported in the income statement	-	-	-	-

(b) At 30 June 2006, the Company has carry forward tax losses of approximately $8.6 million not brought to account (2005 - $7.7 million), available to offset against future taxable income. The deferred tax asset which may be derived from these tax losses, has not been carried forward as an asset in the balance sheet and will only be obtained if:

(i) the Company and the economic entity derives assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;

(ii) the Company and economic entity continues to comply with the conditions for deductibility imposed by law; and

(iii) no changes in tax legislation adversely affect the Company and the economic entity in realising the benefit from the deductions for the losses.

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$

5. INCOME TAX (continued)

(c) Deferred income tax

Deferred income tax expense at 30 June relates to the following:

Origination and reversal of temporary differences:				
- Accruals	1,122	750	1,122	750
- Provisions	(1,397)	6,816	(1,397)	6,816
Total deferred income tax benefit/(expense)	(275)	7,566	(275)	7,566

Deferred assets and liabilities at 30 June relates to the following:

Assets				
- Accruals	3,372	2,250	3,372	2,250
- Provisions	5,419	6,816	5,419	6,816
- Share capital costs	1,884	2,826	1,884	2,826
- Tax losses	2,580,000	2,310,000	2,580,000	2,310,000
Total deferred tax assets	2,590,675	2,321,892	2590,675	2,321,892

The consolidated entity has not recognised the deferred income tax and deferred tax assets in the financial statements as it is not probable that sufficient taxable amounts will be available in future periods in which to be offset.

6. AUDITORS' REMUNERATION

Audit and review of financial reports	15,561	15,028	15,561	15,028
Other services				
- tax compliance	3,366	1,520	3,366	1,520
	18,927	16,548	18,927	16,548

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NOTES TO THE FINANCIAL STATEMENTS
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7. EARNINGS PER SHARE

Classification of securities as ordinary shares
The Company has only one category of ordinary shares included in basic earnings per share.

Classification of securities as potential ordinary shares
There are currently no securities to be classified as potential ordinary shares which are dilutive and therefore no diluted earnings per share has been shown.

	Consolidated 2006	Consolidated 2005
	$	$
(Loss)/profit for the period	(910,660)	230,961
	Number	**Number**
Weighted average number of ordinary shares for basic earnings per share	110,733,454	108,632,908

8. SEGMENT INFORMATION

Segment revenues

	External sales 2006	External sales 2005	Other 2006	Other 2005	Total 2006	Total 2005
	$	$	$	$	$	$
Supply of soil and general fill	67,432	1,120,650	-	-	67,432	1,120,650
Natural BetaCarotene	73,467	-	69,500	154,710	142,967	154,710
Total of all segments					210,399	1,275,360
Eliminations					-	-
Non-segment revenues					4,441	8,610
Total consolidated revenue					214,840	1,283,970

8. SEGMENT INFORMATION (continued)

Segment results

	2006 $	2005 $
Supply of soil and general fill	67,432	1,120,650
Natural BetaCarotene	(982,533)	(898,299)
Total of all segments	(915,101)	222,351
Eliminations	-	-
Non-segment results	4,441	8,610
(Loss)/profit before income tax expense	(910,660)	230,961
Income tax expense	-	-
(Loss)/profit for the year	(910,660)	230,961

Segment assets and liabilities

	Assets		Liabilities	
	2006 $	2005 $	2006 $	2005 $
Supply of soil and general fill	16,805	391,780	-	-
Natural BetaCarotene	455,542	668,945	606,397	452,044
Total of all segments	472,347	1,060,725	606,397	452,044
Eliminations	-	-	-	-
Non-segment	8,378	139,481	-	-
Consolidated	480,725	1,200,206	606,397	452,044

Other segment information

	Soil and general fill		Natural BetaCarotene	
	2006 $	2005 $	2006 $	2005 $
Acquisition of segment assets	-	-	176,104	170,084
Depreciation and amortisation of segment assets	-	-	385,515	525,286
Other non-cash expenses	-	-	36,826	1,000

Products and services within each business segment

For management purposes, the consolidated entity is organised into two major operating divisions – supply of soil and general fill and natural betacarotene. These divisions are the basis on which the consolidated entity reports its primary segment information.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

8. SEGMENT INFORMATION (continued)

Information on geographical segments

	Revenue from external customers		Segment assets		Acquisition of segment assets	
	2006	2005	2006	2005	2006	2005
	$	$	$	$	$	$
Australia	140,899	1,120,650	480,725	1,200,206	176,104	170,084

The consolidated entity's two divisions operate in one principal geographical area - Australia.

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$
9. INVENTORIES				
Packaging	-	3,744	-	3,744
10. TRADE AND OTHER RECEIVABLES				
Current				
Trade receivables	16,805	391,780	16,805	391,780
GST receivables	7,147	-	7,147	-
Other receivables	-	248	-	248
	23,952	392,028	23,952	392,028
11. OTHER FINANCIAL ASSETS				
Unlisted investment at cost	10	-	10	-

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are included in the accounts, at cost, on the following basis:

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$
Plant and equipment				
Cost	3,117,500	2,966,396	3,117,500	2,966,396
Accumulated depreciation	(2,766,135)	(2,544,754)	(2,766,135)	(2,544,754)
	351,365	421,642	351,365	421,642
Land				
Cost	55,000	55,000	55,000	55,000
Leasehold improvements				
Cost	292,047	292,047	292,047	292,047
Accumulated depreciation	(291,829)	(253,599)	(291,829)	(253,599)
	218	38,448	218	38,448
Buildings				
Cost	532,151	532,151	532,151	532,151
Accumulated depreciation	(483,192)	(382,288)	(483,192)	(382,288)
	48,959	149,863	48,959	149,863
Total property, plant and equipment	455,542	664,953	455,542	664,953

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NOTES TO THE FINANCIAL STATEMENTS
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12. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$
Plant and equipment				
Opening written down value	421,642	614,367	421,642	614,367
Additions	176,104	170,084	176,104	170,084
Depreciation	(246,381)	(362,809)	(246,381)	(362,809)
Closing written down value	351,365	421,642	351,365	421,642
Land				
Opening written down value	55,000	55,000	55,000	55,000
Closing written down value	55,000	55,000	55000	55,000
Leasehold improvements				
Opening written down value	38,448	95,803	38,448	95,803
Depreciation	(38,230)	(57,355)	(38,230)	(57,355)
Closing written down value	218	38,448	218	38,448
Buildings				
Opening written down value	149,863	254,985	149,863	254,985
Depreciation	(100,904)	(105,122)	(100,904)	(105,122)
Closing written down value	48,959	149,863	48,959	149,863
Total property, plant and equipment	455,542	664,953	455,542	664,953

13. TRADE AND OTHER PAYABLES

Current				
Trade payables	142,764	133,257	142,764	133,257
Accruals	76,304	36,564	76,304	36,564
Amounts payable to director-related entities	59,167	21,667	59,167	21,667
Other payables	7,018	24,243	7,018	24,243
	285,253	215,731	285,253	215,731

		Consolidated		Company	
		2006	2005	2006	2005
	Notes	$	$	$	$
14. INTEREST-BEARING LIABILITIES					
Current					
Corporate credit card		2,609	3,594	2,609	3,594
Bank overdraft	20(a)	45,489	-	45,489	-
Secured bank loan (i)		25,160	-	25,160	-
Secured mortgage (ii)		-	210,000	-	210,000
Lease liability		11,994	-	11,994	-
Total		85,252	213,594	85,252	213,594
Non-current					
Secured bank loan (i)		179,175	-	179,175	-
Lease liability		38,653	-	38,653	-
Total		217,828	-	217,828	-

(i) The bank loan of $204,335 is secured by a first registered standard mortgage over certain freehold property.

(ii) The mortgage loan of $210,000 is secured by a registered first mortgage over certain freehold property and has been guaranteed by Mr Smith. This loan was repaid in full during the year.

15. PROVISIONS

	2006	2005	2006	2005
Current				
Employee entitlements	18,064	22,719	18,064	22,719
	Number	**Number**	**Number**	**Number**
Employees at year end	5	4	5	4

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$

16. ISSUED CAPITAL

Issued share capital				
110,733,454 (2005: 110,733,454) ordinary shares, fully paid	27,326,838	27,326,838	27,326,838	27,326,838
	Number	**Number**	**$**	**$**
Movements in share capital				
Balance at beginning of financial year	110,733,454	108,625,626	27,326,838	27,221,446
Conversion of options expiring 30 June 2005 at 5 cents each	-	2,107,828	-	105,392
Balance at end of financial year	110,733,454	110,733,454	27,326,838	27,326,838

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

	Option Classes		
	Unlisted	Unlisted	Unlisted
Options over ordinary shares			
Exercise price	$0.09	$0.07	$0.05
Expiration date	28 Feb 2011	28 Feb 2011	28 Feb 2011
	Number	**Number**	**Number**
On issue at beginning of year	-	-	-
Issued during the year	2,000,000	2,000,000	2,000,000
Exercised during the year	-	-	-
Expired during the year	-	-	-
Outstanding at end of year	2,000,000	2,000,000	2,000,000

	Consolidated		Company	
	2006	2005	2006	2005
	$	$	$	$

17. OTHER RESERVES

Employee equity-settled benefits reserve	36,826	-	36,826	-

Movements in other reserves:

Employee equity-settled benefits reserve				
Balance at beginning of the financial year	-	-	-	-
Cost of share-based payment	36,826	-	36,826	-
Balance at end of the financial year	36,826	-	36,826	-

This reserve is used to record the value of equity benefits provided to employee and directors as part of their remuneration. Refer to Note 21 for further details of these plans.

18. ACCUMULATED LOSSES

Opening balance at the beginning of the financial year	(26,578,676)	(26,809,637)	(26,578,676)	(26,809,637)
Net (loss)/profit for the year	(910,660)	230,961	(910,660)	230,961
Closing balance at the end of the financial year	(27,489,336)	(26,578,676)	(27,489,336)	(26,578,676)

19. FINANCIAL INSTRUMENTS

(a) Derivative financial instruments

The Company does not currently employ any derivative financial instruments. The Directors have adopted a policy for sales contracts to be quoted in Australian dollars ($A) in order to shift the foreign exchange risk from the Company to the consumer. The Directors will review this policy from time to time.

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19. FINANCIAL INSTRUMENTS (continued)

(b) Interest rate risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. The Company adopts a policy to manage its interest cost using a mix of fixed and variable rate debt. The effective weighted average interest rates on classes of financial assets and financial liabilities, is presented in the table below.

	Weighted average interest rate %	Variable interest rate $	Fixed interest rate maturing 1 year or less $	Fixed interest rate maturing 2-5 years $	Non-interest bearing $	Total $
2006						
Financial assets						
Cash and cash equivalents	2.90	1,221	-	-	-	1,221
Trade and other receivables	-	-	-	-	23,952	23,952
		1,221	-	-	23,952	25,173
Financial liabilities						
Bank overdraft	8.95	45,489	-	-	-	45,489
Corporate credit card - Karratha	16.75	2,609	-	-	-	2,609
Trade payables and accruals	-	-	-	-	219,068	219,068
Amounts payable to director-related entities	-	-	-	-	59,167	59,167
Other payables	-	-	-	-	7,018	7,018
Bank loan	8.20	-	25,160	* 179,175	-	204,335
Lease liability	8.80	-	11,994	38,653	-	50,647
		48,098	37,154	217,828	285,253	588,333
2005						
Financial assets						
Cash and cash equivalents	3.50	138,716	-	-	765	139,481
Trade and other receivables	-	-	-	-	392,028	392,028
		138,716	-	-	392,793	531,509
Financial liabilities						
Corporate credit card - Karratha	16.75	3,594	-	-	-	3,594
Trade payables and accruals	-	-	-	-	169,821	169,821
Amounts payable to director-related entities	-	-	-	-	21,667	21,667
Other payables	-	-	-	-	24,243	24,243
Secured mortgage	9.00	-	210,000	-	-	210,000
		3,594	210,000	-	215,731	429,325

* Of this amount, $174,982 will bear interest at a variable rate from September 2007.

19. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security at balance date to be recognised as financial assets is the carrying amount as disclosed in the balance sheet and notes to the financial statements. The Company does not have material credit risk exposure to any single trade debtor or group of trade debtors, as the level of trade debtors is insignificant compared with the total assets of the Company.

(d) Fair values

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their respective fair values.

20. NOTES TO THE CASH FLOW STATEMENT

(a) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and deposits at call, net of outstanding bank overdrafts.

Cash and cash equivalents at the end of the year as shown in the cash flow statement is reconciled to the related item in the balance sheet as follows:

		Consolidated		Company	
		2006	2005	2006	2005
	Notes	$	$	$	$
Cash at bank		1,221	139,481	1,221	139,481
Bank overdraft	14	(45,489)	-	(45,489)	-
		(44,268)	139,481	(44,268)	139,481

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NOTES TO THE FINANCIAL STATEMENTS
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20. NOTES TO THE CASH FLOW STATEMENT (continued)

(b) Reconciliation of net (loss)/profit for the period to cash flows provided by operating activities

	Consolidated		Company	
	2006 $	2005 $	2006 $	2005 $
Net (loss)/profit for the period	(910,660)	230,961	(910,660)	230,961
Non-cash flows in (loss)/profit				
Depreciation	385,515	525,286	385,515	525,286
Write offs	-	16,577	-	16,577
Bad debts	-	1,000	-	1,000
Employee equity-settled benefits	36,826	-	36,826	-
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	368,076	(381,893)	368,076	(381,893)
(Increase)/decrease in inventories	3,744	(3,744)	3,744	(3,744)
(Increase)/decrease in prepayments	-	212	-	212
(Increase)/decrease in capitalised expenditure	-	(16,577)	-	(16,577)
Increase/(decrease) in trade and other payables	31,037	(91,922)	31,037	(91,922)
Increase/(decrease) in provisions	(4,655)	22,719	(4,655)	22,719
Net cash (used in)/provided by operating activities	(90,117)	302,619	(90,117)	302,619

(c) Non cash financing assets

During the year the Company acquired certain assets on finance leases. The capitalised cost of these assets amount to $60,475.

21. SHARE BASED PAYMENT PLANS

Employee Share Option Plan

On 29 November 2005, shareholders approved the implementation of an Employee Share Option Plan. The Board in its absolute discretion may determine that an eligible person may participate in the Plan.

Eligible persons includes the following:

- an eligible employee, who is a person in full or part time employment of the Group and includes an executive director;
- the spouse of an eligible employee;

21. SHARE BASED PAYMENT PLANS (continued)

Employee Share Option Plan (continued)

- the body corporate in which an eligible employee holds and beneficially owns not less than 50% of the issued voting share capital;
- a trustee of a trust in which an eligible employee is a beneficiary or object; or
- the trustee of a superannuation fund of which an eligible employee is a member.

On 4 April 2006, 6,000,000 unlisted options were issued pursuant to the Employee Share Option Plan. These shares were issued to Professor Marc Cohen in respect of his services as a consultant to the Company.

The options have been granted on the following terms and conditions:

Number	Exercise Price	Expiry Date	Vesting Date
2,000,000	5 cents	28 February 2011	4 April 2006
2,000,000	7 cents	28 February 2011	4 April 2006
2,000,000	9 cents	28 February 2011	4 April 2006

The fair value of the equity-settled share options is estimated at the date of grant using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted.

The following information has been used as the inputs in the pricing model:

Expected volatility	50%	50%	50%
Risk-free interest rate	5.41%	5.41%	5.41%
Life of option	4.9 years	4.9 years	4.9 years
Exercise price	5 cents	7 cents	9 cents

Based on these inputs, the options were valued at $29,800 at the date of grant. This amount has been fully expensed to the income statement in share based payments.

All options remain unexercised at 30 June 2006.

21. SHARE BASED PAYMENT PLANS (continued)

Options Granted as Incentives

On 29 November 2005, shareholders approved the issue of 9,000,000 options to non-executive directors of the Company. 3,000,000 options were granted to Mr Machin and 6,000,000 options were granted to Mr Wood. These options will vest in 3 tranches over 4 years.

The options will be granted on the following terms and conditions:

Number	Option Class	Exercise Price	Expiry Date	Vesting Date
3,000,000	Class A	7 cents	31 December 2008	After 1 year
3,000,000	Class B	9 cents	31 December 2008	After 2 years
3,000,000	Class C	11 cents	31 December 2008	After 3 years

Mr Machin will receive 1,000,000 Class A, Class B and Class C options.

Mr Wood will receive 2,00,000 Class A, Class B and Class C options.

No consideration was payable by Mr Machin and Mr Wood in respect of the grant of these options.

The fair value of the equity-settled share options is estimated at the date of grant using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted.

The following information has been used as the inputs in the pricing model.

	Class A	Class B	Class C
Expected volatility	35%	35%	35%
Risk-free interest rate	5.21%	5.21%	5.21%
Life of option	3 years	3 years	3 years
Exercise price	7 cents	9 cents	11 cents

Based on these inputs, the options were valued at $16,140 at the date of shareholders approval. Of this amount $7,026 has been expensed to the income statement during the year in share based payments.

21. SHARE BASED PAYMENT PLANS (continued)

Options Granted as Incentives (continued)

The following table illustrates the number and weighted average exercise prices ("WAEP") of and movements in share options issued during the year:

	Number of options 2006	WAEP $ 2006	Number of options 2005	WAEP $ 2005
Outstanding at the beginning of the year	-	-	7,427,819	0.049
Granted during the year	15,000,000	0.082	-	-
Exercised during the year	-	-	(2,107,828)	0.020
Expired during the year	-	-	(5,319,991)	-
Outstanding at the end of the year	15,000,000	0.082	-	-
Exercisable at the end of the year	6,000,000	0.028	-	-

The outstanding balance as at 30 June 2006 is represented by:

- 3,000,000 options over ordinary shares with an exercise price of 7 cents, exercisable upon meeting the above conditions and until 31 December 2008;
- 3,000,000 options over ordinary shares with an exercise price of 9 cents, exercisable upon meeting the above conditions and until 31 December 2008;
- 3,000,000 options over ordinary shares with an exercise price of 11 cents, exercisable upon meeting the above conditions and until 31 December 2008;
- 2,000,000 options over ordinary shares with an exercise price of 5 cents, exercisable upon meeting the above conditions and until 28 February 2011;
- 2,000,000 options over ordinary shares with an exercise price of 7 cents, exercisable upon meeting the above conditions and until 28 February 2011;
- 2,000,000 options over ordinary shares with an exercise price of 9 cents, exercisable upon meeting the above conditions and until 28 February 2011.

22. EVENTS SUBSEQUENT TO BALANCE DATE

On 7 September 2006, the Company announced that it had placed 16,610,000 fully paid ordinary shares at 2.5 cents each to raise $415,250 in working capital.

On 13 September 2006, the Company announced that it had entered into a Memorandum of Understanding with InterClinical Laboratories, specifically to undertake a joint venture development of two projects involving photo aging formulation and macular degeneration.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

22. EVENTS SUBSEQUENT TO BALANCE DATE (continued)

Also on 13 September 2006, the Company announced it has agreed to enter into a joint venture agreement for the purpose of pursuing a residential sub-division approval and residential sub-division of one of its mining leases in Karratha.

No other events of a material nature have occurred subsequent to year end.

23. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Remuneration of key management personnel by the consolidated entity

The Company's policy for determining the nature and amount of compensation of key management personnel of the Company is on a case by case basis based on the achievements of the Company in obtaining its short term and long term goals.

The objective of the compensation structure for Executive Officers, including Executive Directors is to reinforce the short and long term goals of the Company and to provide a common interest between management and shareholders, and giving regard to the capacity of the Company to meet such costs in its early days of development.

All services provided by Mr Smith and his secretariat continues to be provided without any cost to the Company. No other form of compensation has been offered.

Details of the nature and amount of each element of the compensation of each key management personnel of the Company are shown below:

		Short-term	*Post-employment*		*Share-based payments*	
		Salary & fees $	**Super contributions $**	**Termination benefits $**	**Options $**	**Total $**
D T Wood	**2006**	12,000	1,080	-	4,684	17,764
Non-executive chairman	**2005**	9,999	900	-	-	10,899
D J Smith	**2006**	12,000	-	-	-	12,000
Executive director	**2005**	9,999	900	-	-	10,899
D J Machin (appointed 30 June 2005)	**2006**	12,000	1,080	-	2,342	15,422
Independent non-executive director	**2005**	-	-	-	-	-
A Grant-Smith (resigned 4 March 2005)	**2006**	N/A	N/A	N/A	N/A	N/A
Independent non-executive director	**2005**	6,666	600	-	-	7,266
Totals	**2006**	**36,000**	**2,160**	-	**7,026**	**45,186**
	2005	**26,664**	**2,400**	-	-	**29,064**

None of the above payments have actually been paid, only accrued.

23. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(a) Remuneration of key management personnel by the consolidated entity (continued)

Options granted as incentives

As approved at the Annual General Meeting held on 29 November 2005, 3,000,000 options were granted to Mr Machin and 6,000,000 options were granted to Mr Wood. These options will vest in 3 tranches over 4 years.

The options have been granted on the following terms and conditions:

Option Class	Exercise Price	Expiry Date	Vesting Date
Class A	7 cents	31 December 2008	After 1 year
Class B	9 cents	31 December 2008	After 2 years
Class C	11 cents	31 December 2008	After 3 years

Mr Machin will receive 1,000,000 Class A, Class B and Class C options. Mr Wood will receive 2,000,000 Class A, Class B and Class C options. No consideration was payable by Mr Machin and Mr Wood in respect of the grant of these options.

See Note 21 for further information.

(b) Equity instruments

Option holdings

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each key management personnel, including their personally-related entities, is as follows:

	Balance at beginning of year	Granted as remun-eration	Options exercised	Net change other	Balance at end of year	Total	Exer-cisable	Not exer-cisable
2006								
D J Smith	-	-	-	-	-	-	-	-
D T Wood	-	6,000,000	-	-	6,000,000	6,000,000	-	6,000,000
D Machin	-	3,000,000	-	-	3,000,000	3,000,000	-	3,000,000
Total	-	9,000,000	-	-	9,000,000	9,000,000	-	9,000,000
2005								
D J Smith	-	-	-	-	-	-	-	-
D T Wood	200,000	-	-	(200,000)	-	-	-	-
D Machin	N/A	-	-	-	-	-	-	-
A Grant-Smith	-	-	-	-	N/A	-	-	-
Total	200,000	-	-	(200,000)	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

23. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Equity instruments (continued)

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each key management personnel, including their personally-related entities, is as follows:

	Balance at beginning of year	Granted as remuneration	On exercise of options	Net change other	Balance at end of year
2006					
D J Smith	-	-	-	-	-
D T Wood	1,200,000	-	-	-	1,200,000
D Machin	-	-	-	-	-
Total	1,200,000	-	-	-	1,200,000
2005					
D J Smith	-	-	-	-	-
D T Wood	1,200,000	-	-	-	1,200,000
D Machin	N/A	-	-	-	-
A Grant-Smith	4,283,895	-	-	-	N/A
Total	5,483,895	-	-	-	1,200,000

(c) Other transactions with key management personnel

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. Transactions with related parties:

During the year ended 30 June 2006, Broadway Management (WA) Pty Ltd, an entity related to Mr Wood, charged the economic entity fees for accounting and administration services amounting to $44,000 (2005: $36,045).

During the year ended 30 June 2006, the economic entity paid fees of Nil (2005: $40,000) to Mr Grant-Smith for the preparation of the Quality Manual Organic Procedures.

24. CONTROLLED ENTITIES

(a) Controlled entities

	Country of formation or incorporation	Percentage owned	
		2006 %	2005 %
Parent Entity			
AquaCarotene Limited	Australia		
Subsidiaries			
Natural BetaCarotene (Australia) Ltd	Australia	100	100

(b) AquaCarotene Limited has guaranteed to support the liabilities and obligations of Natural BetaCarotene (Australia) Ltd. Natural BetaCarotene (Australia) Ltd is a member of the Closed Group.

The subsidiary did not trade during the financial year. All expenses relating to the subsidiary were consolidated with the Company's operations.

The Company has fully provided for its investment in Natural BetaCarotene (Australia) Ltd.

25. CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities existing at balance date.

26. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 July 2005.

An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's balance sheet, income statement and cash flows is set out in the following tables:

AQUACAROTENE LIMITED
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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

26. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Effect of A-IFRS on the Consolidated Balance Sheet as at 1 July 2004

	Consolidated		
	Superseded policies $	Effect of transition to A-IFRS $	A-IFRS $
CURRENT ASSETS			
Cash and cash equivalents	12,465	-	12,465
Trade and other receivables	11,135	-	11,135
Other	212	-	212
TOTAL CURRENT ASSETS	23,812	-	23,812
NON-CURRENT ASSETS			
Property, plant and equipment	1,020,155	-	1,020,155
TOTAL NON-CURRENT ASSETS	1,020,155	-	1,020,155
TOTAL ASSETS	1,043,967	-	1,043,967
CURRENT LIABILITIES			
Trade and other payables	381,247	-	381,247
Borrowings	40,911	-	40,911
TOTAL CURRENT LIABILITIES	422,158	-	422,158
NON-CURRENT LIABILITIES			
Borrowings	210,000	-	210,000
TOTAL NON-CURRENT LIABILITIES	210,000	-	210,000
TOTAL LIABILITIES	632,158	-	632,158
NET ASSETS	411,809	-	411,809
EQUITY			
Share capital	27,221,446	-	27,221,446
Accumulated losses	(26,809,637)	-	(26,809,637)
TOTAL EQUITY	411,809	-	411,809

26. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Effect of A-IFRS on the Consolidated Income Statement for the financial year ended 30 June 2005

	Superseded policies $	Consolidated Effect of transition to A-IFRS $	A-IFRS $
Revenue	1,120,650	-	1,120,650
Other income	163,320	-	163,320
Depreciation expense	(525,286)	-	(525,286)
Borrowing costs	(21,361)	-	(21,361)
Employee benefits expense	(65,495)	-	(65,495)
Directors' fees	(77,224)	-	(77,224)
Office administration	(21,288)	-	(21,288)
Operational expenses	(181,979)	-	(181,979)
Professional fees	(101,064)	-	(101,064)
Share registry and statutory fees	(16,060)	-	(16,060)
Other expenses	(43,252)	-	(43,252)
Profit before income tax expense	230,961	-	230,961
Income tax expense	-	-	-
Net profit for the period	230,961	-	230,961
Profit attributable to members of the parent	230,961	-	230,961

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

26. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Effect of A-IFRS on the Consolidated Balance Sheet as at 30 June 2005

	Superseded policies $	Consolidated Effect of transition to A-IFRS $	A-IFRS $
CURRENT ASSETS			
Cash and cash equivalents	139,481	-	139,481
Trade and other receivables	392,028	-	392,028
Inventories	3,744	-	3,744
TOTAL CURRENT ASSETS	535,253	-	535,253
NON-CURRENT ASSETS			
Property, plant and equipment	664,953	-	664,953
TOTAL NON-CURRENT ASSETS	664,953	-	664,953
TOTAL ASSETS	1,200,206	-	1,200,206
CURRENT LIABILITIES			
Trade and other payables	215,731	-	215,731
Borrowings	213,594	-	213,594
Provisions	22,719	-	22,719
TOTAL CURRENT LIABILITIES	452,044	-	452,044
TOTAL LIABILITIES	452,044	-	452,044
NET ASSETS	748,162	-	748,162
EQUITY			
Share capital	27,326,838	-	27,326,838
Accumulated losses	(26,578,676)	-	(26,578,676)
TOTAL EQUITY	748,162	-	748,162

Effect of A-IFRS on the Consolidated Cash Flow Statement for the financial year ended 30 June 2005

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

26. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Effect of A-IFRS on the Company Balance Sheet as at 1 July 2004

	Superseded policies $	Company Effect of transition to A-IFRS $	A-IFRS $
CURRENT ASSETS			
Cash and cash equivalents	12,465	-	12,465
Trade and other receivables	11,135	-	11,135
Other	212	-	212
TOTAL CURRENT ASSETS	23,812	-	23,812
NON-CURRENT ASSETS			
Property, plant and equipment	1,020,155	-	1,020,155
TOTAL NON-CURRENT ASSETS	1,020,155	-	1,020,155
TOTAL ASSETS	1,043,967	-	1,043,967
CURRENT LIABILITIES			
Trade and other payables	381,247	-	381,247
Borrowings	40,911	-	40,911
TOTAL CURRENT LIABILITIES	422,158	-	422,158
NON-CURRENT LIABILITIES			
Borrowings	210,000	-	210,000
TOTAL NON-CURRENT LIABILITIES	210,000	-	210,000
TOTAL LIABILITIES	632,158	-	632,158
NET ASSETS	411,809	-	411,809
EQUITY			
Share capital	27,221,446	-	27,221,446
Accumulated losses	(26,809,637)	-	(26,809,637)
TOTAL EQUITY	411,809	-	411,809

AQUACAROTENE LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

26. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Effect of A-IFRS on the Company Income Statement for the financial year ended 30 June 2005

	Superseded policies $	Company Effect of transition to A-IFRS $	A-IFRS $
Revenue	1,120,650	-	1,120,650
Other income	163,320	-	163,320
Depreciation expense	(525,286)	-	(525,286)
Borrowing costs	(21,361)	-	(21,361)
Employee benefits expense	(65,495)	-	(65,495)
Directors' fees	(77,224)	-	(77,224)
Office administration	(21,288)	-	(21,288)
Operational expenses	(181,979)	-	(181,979)
Professional fees	(101,064)	-	(101,064)
Share registry and statutory fees	(16,060)	-	(16,060)
Other expenses	(43,252)	-	(43,252)
Profit before income tax expense	230,961	-	230,961
Income tax expense	-	-	-
Net profit for the period	230,961	-	230,961
Profit attributable to members of the parent	230,961	-	230,961

26. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Effect of A-IFRS on the Company Balance Sheet as at 30 June 2005

	Superseded policies $	Company Effect of transition to A-IFRS $	A-IFRS $
CURRENT ASSETS			
Cash and cash equivalents	139,481	-	139,481
Trade and other receivables	392,028	-	392,028
Inventories	3,744	-	3,744
TOTAL CURRENT ASSETS	535,253	-	535,253
NON-CURRENT ASSETS			
Property, plant and equipment	664,953	-	664,953
TOTAL NON-CURRENT ASSETS	664,953	-	664,953
TOTAL ASSETS	1,200,206	-	1,200,206
CURRENT LIABILITIES			
Trade and other payables	215,731	-	215,731
Borrowings	213,594	-	213,594
Provisions	22,719	-	22,719
TOTAL CURRENT LIABILITIES	452,044	-	452,044
TOTAL LIABILITIES	452,044	-	452,044
NET ASSETS	748,162	-	748,162
EQUITY			
Share capital	27,326,838	-	27,326,838
Accumulated losses	(26,578,676)	-	(26,578,676)
TOTAL EQUITY	748,162	-	748,162

Effect of A-IFRS on the Company Cash Flow Statement for the financial year ended 30 June 2005

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

AQUACAROTENE LIMITED

ABN 18 074 969 056

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 20 to 60, are in accordance with the Corporations Act 2001:

   (a) comply with Accounting Standards, and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the Company and economic entity.

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Office and Chief Financial Officer for the financial year ended 30 June 2006.

This declaration is made in accordance with a resolution of the Board of Directors and is signed by authority for and on behalf of the Directors by:

Douglas Wood

DOUGLAS WOOD
Director

Perth, Western Australia
27 September 2006

Stantons International
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LEVEL 1, 1 HAVELOCK STREET
WEST PERTH WA 6005, AUSTRALIA
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INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF
AQUACAROTENE LIMITED

SCOPE

The financial report and directors' responsibility
The financial report comprises the balance sheet, income statement, statement of changes in equity and statement of cash-flows, accompanying notes to the financial statements, and the directors' declaration for Aquacarotene Limited (the Company) and the consolidated entity for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during the 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 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 of their performance as represented by the results of their operations and cash flows.

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

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- 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 Aquacarotene Limited 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 as at 30 June 2006 and of their performance for the year ended on that date; and

   (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

INHERENT UNCERTAINTY REGARDING CONTINUATION AS A GOING CONCERN

Without qualification to the opinion expressed above, attention is drawn to the following matter:

As referred to in note 1 to the financial statements, the financial statements have been prepared on a going concern basis. At 30 June 2006 the consolidated entity had a working capital deficit of $363,396 and cash and cash equivalents of $1,221. The ability of the consolidated entity to continue as a going concern and to meet planned and committed expenditure requirements is subject to the consolidated entity successfully exploiting the technology owned by the consolidated entity, the generation of significant sales of the Dry Marine Algae Product and soil and general fill, and/or the raising of further equity and/or loan capital. In the event that the consolidated entity is not successful in generating significant sales of the Dry Marine Algae Product and general fill, and/or in raising further capital, the consolidated entity may not be able to continue operating and the realisable value of the consolidated entity's non–current assets may be significantly less than their current carrying values. Furthermore, non current liabilities may crystallize into current liabilities.

STANTONS INTERNATIONAL
(Authorised Audit Company)

Stantons International

J P Van Dieren
Director
Perth, Western Australia
27 September 2006

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AUSTRALIAN STOCK EXCHANGE INFORMATION

The following information is provided in accordance with the Listing Rules of Australian Stock Exchange Limited.

1. SHAREHOLDER INFORMATION

(a) Distribution of holders at 29 September 2006

	Fully paid ordinary shares
Number of Holders	960
Distribution is:	
1 - 1,000	12
1,001 - 5,000	213
5,001 - 10,000	110
10,001 - 100,000	405
100,001 and Over	220
	960
Holding less than a marketable parcel	387

(b) Voting rights

There are no restrictions on voting rights attached to the ordinary shares on issue. On a show of hands, every member present in person shall have one vote and upon a poll, every member present in person or by proxy shall have one vote for every share held.

(c) Substantial shareholders

At the date of this report there are no substantial shareholders recorded for the Company.

(d) Shareholders

The twenty largest shareholders hold 33.94% of the total issued ordinary shares in the Company as at 29 September 2006.

(e) Unlisted 28 February 2011 Options

There are 2,000,000 options held by 1 holder on issue and are exercisable at 5 cents on or before 28 February 2011. The option holders do not have any voting rights.

(f) Unlisted 28 February 2011 Options

There are 2,000,000 options held by 1 holder on issue and are exercisable at 7 cents on or before 28 February 2011. The option holders do not have any voting rights.

(g) Unlisted 28 February 2011 Options

There are 2,000,000 options held by 1 holder on issue and are exercisable at 9 cents on or before 28 February 2011. The option holders do not have any voting rights.

2. QUOTATION

Shares in AquaCarotene Limited are listed on Australian Stock Exchange Limited.

3. AUDIT COMMITTEE

As at the date of the directors' report the Company did not have a separate audit committee, however meetings are held between senior management and auditors throughout the year to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

Twenty Largest Fully Paid Ordinary Shareholders

The names of the twenty largest shareholders who hold 33.94% of the fully paid ordinary shares in the Company at 29 September 2006.

	Name	Number of Shares	% of Issued Shares
1.	Ms Mindi Watson	4,948,070	3.92
2.	Mr Russell Charles Wilson	3,350,000	2.65
3.	Tabah Pty Ltd	3,011,476	2.38
4.	Milkay Investments Pty Ltd	2,825,716	2.24
5.	BT & KR Ryan Pty Ltd	2,707,764	2.14
6.	Mr Gary Simpson	2,400,000	1.90
7.	Mr Albert Hampton Charles Tuckwell	2,155,449	1.71
8.	Mr Alan Grant Smith & Mrs Susan Grant Smith	2,100,000	1.66
9.	GC Constructions Pty Ltd	2,000,000	1.58
10.	Enriwa Pty Ltd	2,000,000	1.58
11.	Mr Ted Marchese	2,000,000	1.58
12.	Mrs Lynn Andrea McMullan	1,837,732	1.45
13.	Southern Seasons Pty Ltd	1,792,876	1.42
14.	Talisman Investments Pty Ltd	1,626,832	1.29
15.	Stanley Holdings Pty Ltd	1,625,000	1.29
16.	Mr Allan John Omacini	1,333,339	1.06
17.	Mrs Margot Dawn Epis	1,300,000	1.03
18.	Mr Charles William Parker	1,300,000	1.03
19.	Mr Ian Colin McLean	1,294,273	1.02
20.	Mr Dean Raymond Cooper	1,272,530	1.01
		42,881,057	33.94

AQUACAROTENE LIMITED

ABN 18 074 969 056

NOTICE OF ANNUAL GENERAL MEETING

PROXY FORM

AND

EXPLANATORY MEMORANDUM

Date of Meeting
Tuesday, 28 November 2006

Time of Meeting
2.00pm (WST)

Place of Meeting
Level 2, 45 Stirling Highway
Nedlands, Western Australia

AQUACAROTENE LIMITED
ABN 18 074 969 056

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Shareholders of AquaCarotene Limited will be held at Level 2, 45 Stirling Highway, Nedlands on Tuesday, 28 November 2006 at 2.00pm.

In order to determine voting entitlements, the register of Shareholders will be closed at 2.00pm Friday, 24 November 2006.

An Explanatory Memorandum containing information in relation to each of the resolutions to be put to the meeting accompanies this Notice.

AGENDA
To consider and, if thought fit, to pass the following resolutions.

ORDINARY BUSINESS

2006 Accounts

To receive and consider the Directors' report and income statement for the year ended 30 June 2006, the balance sheet at that date, the Auditors' report and the Directors' declaration on the accounts.

Non-binding Ordinary Resolution 1: Directors' Remuneration Report
To receive and consider the Directors' Remuneration Report for the year ended 30 June 2006.

That pursuant to and in accordance with section 250R (2) of the Corporations Act the Directors' Remuneration Report contained within the Directors' Report be adopted.

Ordinary Resolution 2: Re-election of a Director
That Mr Donald Smith, a director retiring by rotation in accordance with the Company's Constitution, is re-elected a director of the Company.

Information about Mr Smith is set out in the Company's 2006 Annual Report.

Ordinary Resolution 3: Ratification of Share Issue
That, for the purposes of Listing Rule 7.4 of the Listing Rules of Australian Stock Exchange Limited and for all other purposes, the Company ratifies the allotment and issue of 16,610,000 fully paid ordinary shares in the capital of the Company at an issue price of 2.5 cents each on the terms and conditions set out in the Explanatory Memorandum.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who participated in the issue and any associate of those persons.

The Chairman to close the meeting.

By Order of the Board

D McArthur

Company Secretary

Dated: 12 October 2006

AQUACAROTENE LIMITED
ABN 18 074 969 056

EXPLANATORY MEMORANDUM

This Explanatory Memorandum is intended to provide shareholders with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice of Annual General Meeting ("**Notice**") of the Company.

The Directors of the Company ("**Directors**") recommend shareholders read this Explanatory Memorandum in full before making any decision in relation to the resolutions.

The following information should be noted in respect of the various matters contained in the accompanying Notice:

NON-BINDING ORDINARY RESOLUTION 1 – Directors' Remuneration Report

Pursuant to Section 250R (2) of the Corporations Act, a resolution adopting the Directors' Remuneration Report contained within the Directors' Report must be put to the vote.

Shareholders are advised that pursuant to Section 250R (3) of the Corporations Act, this resolution is advisory only and does not bind the Directors or the Company.

The Director's Remuneration Report is set out within the Director's Report. The Report:

- explains the Board's policy for determining the nature and amount of remuneration of executive and non executive Directors and senior executives of the Company;
- sets out remuneration details for each Director and the 4 most highly remunerated senior executives of the Company;
- details and explains any performance conditions applicable to the remuneration of executive Directors and senior executives of the Company; and
- provides an explanation of share based compensation payments for each Director and senior executives of the Company.

A reasonable opportunity will be provided for discussion of the Directors' Remuneration Report at the Meeting.

The Board unanimously recommends that shareholders vote in favour of adopting the Directors' Remuneration Report.

ORDINARY RESOLUTION 2 – Re-election of Mr Smith as a Director of the Company

Article 80 of the Company's Articles of Association provide that at every Annual General Meeting of the Company one-third of the Directors (other than alternate Directors and the Managing Director) shall retire from office. The Directors to retire at an Annual General Meeting are those who have been longest in office since their last election. A retiring Director is eligible for re-election.

Accordingly, Mr Smith, being a Director of the Company, retires by way of rotation and, being eligible, offers himself for re-election as a Director of the Company.

ORDINARY RESOLUTION 3 – Ratification of Prior Issue of Shares

Listing Rule 7.1 sets out the basic prohibition on a listed entity issuing, or agreeing to issue, shares or other securities convertible into shares (such as options or convertible notes) in any 12 month period which amount to more than 15% of its ordinary securities. There are a number of exceptions to the prohibition, including where prior shareholder approval is obtained in general meeting.

Listing Rule 7.4 allows an issue to be subsequently approved by shareholders (and treated as having satisfied the shareholder approval exception in Listing Rule 7.1) in certain circumstances. Subsequent shareholder approval (ie, shareholder ratification) for the issue of securities is now sought pursuant to Listing Rule 7.4 to re-instate the Company's capacity to issue up to 15% of its total ordinary securities, if required, in the next 12 months without the need to obtain the approval of Shareholders.

Listing Rule 7.5 requires that the following information be provided to Shareholders for the purpose of obtaining shareholder approval pursuant to Listing Rule 7.4:

- the 16,610,000 Shares were issued to sophisticated investors at 2.5 cents each on 7 September 2006;

- the Shares were issued to:

Name	Shares
Mindi Watson <Watson Investment Trust>	5,410,000
Ted Marchese	2,000,000
Julman Pty Ltd	1,200,000
Allan Omacini	1,000,000
Allan Omacini <Superannuation Fund>	1,000,000
Brian T Ryan	1,000,000
Charles William Parker	1,000,000
DF Lynton-Brown Pty Ltd <Superannuation A/C>	1,000,000
Husif Nominees Pty Ltd	1,000,000
Mathew Donald Walker <ATF The Phantom Super Fund>	1,000,000
TFT Holdings Pty Ltd <TFT Family Fund A/C>	1,000,000

- the Shares were issued to raise funds for working capital and general administration costs;

- the Shares rank equally in all respects with the Company's existing issued Shares; and

- $415,250 was raised from the issue of the Shares.

PROXY FORM

APPOINTMENT OF PROXY
AQUACAROTENE LIMITED
ABN 18 074 969 056

ANNUAL GENERAL MEETING

I/We ______________________

Address ______________________

being a Member of AquaCarotene Limited entitled to attend and vote at the Meeting, hereby

Appoint ______________________

Name of proxy

or failing the person so named or, if no person is named, the Chairman of the Meeting or the Chairman's nominee, to vote in accordance with the following directions or, if no directions have been given, as the proxy sees fit at the Annual General Meeting to be held at Level 2, 45 Stirling Highway, Nedlands, Western Australia; on Tuesday, 28 November 2006 at 2.00pm (WST) and at any adjournment thereof.

Voting on Business of the Annual General Meeting

		FOR	AGAINST	ABSTAIN
Resolution 1	Directors' Remuneration Report	☐	☐	☐
Resolution 2	Re-election of Mr Smith as a Director	☐	☐	☐
Resolution 3	Ratification of Share Issue	☐	☐	☐

OR

If you do **not** wish to direct your proxy how to vote, please place a mark in this box ☐

By marking this box, if you have selected the Chairman on your proxy, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of the interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the meeting will not cast your votes on these Resolutions and your votes will not be counted in computing the required majority if a poll is called on these Resolutions. The Chairman intends to vote in favour of all of the resolutions.

IF THE CHAIRMAN IS TO BE YOUR PROXY IN RELATION TO THE RESOLUTIONS YOU MUST EITHER MARK THE BOXES DIRECTING YOUR PROXY HOW TO VOTE OR MARK THE BOX INDICATING THAT YOU DO NOT WISH TO DIRECT YOUR PROXY HOW TO VOTE, OTHERWISE THIS APPOINTMENT OF PROXY FORM WILL BE DISREGARDED.

If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and that your shares are not to be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is __________%

Signed this day of 2006

By:

Individuals and joint holders	**Companies (affix common seal if appropriate)**
Signature	Director
Signature	Director/Company Secretary
Signature	Sole Director and Sole Company Secretary

Instructions for Completing 'Appointment of Proxy' Form

1. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies.
2. If a member appoints two proxies, each proxy must be appointed to represent a specified portion or number of the member's voting rights and neither proxy may vote on a show of hands.
3. If a member appoints two proxies, and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half of the votes.
4. A proxy need not be a member of the Company.
5. If a corporate representative is to attend the meeting on behalf of a corporation, a formal notice of appointment must be brought to the meeting.
6. The Proxy Form must be signed by the shareholder or the shareholder's attorney. If the shareholder is a corporation, the Proxy Form should be signed under its common seal, or by two directors (or a director and a company secretary), or if a corporation with a sole director and sole secretary by that director, with the office held printed under each signature. Alternatively, a corporation can sign by its attorney or duty authorised officer.
7. The Proxy Form and any power of attorney or authority under which it is signed must be received at the registered office of the Company not less than 48 hours prior to the appointed time of Meeting. Proxy Forms can be lodged:

   - **in person** at: AquaCarotene Limited
Level 2, 45 Stirling Highway
NEDLANDS WA 6009
   - **by post** to: AquaCarotene Limited
PO Box 985
NEDLANDS WA 6909
   - **by facsimile** on: (61 8) 9389 8327

8. In accordance with Regulation 7.11.37 of the Corporations Regulations 2001, the Directors have set a snapshot date to determine the identity of those entitled to attend and vote at the Meeting. The snapshot date is 2.00pm (WST) on Friday, 24 November 2006.

Please advise of any change of address by completion of the section below:

My new address is ____

____