"Pollution stems from a fundamental failure of markets to incorporate the full cost of economic activities"
G Hardin (1968)

CO2 Group Limited
ABN 50 009 317 846
Level 11 225 St Georges Terrace
Perth Western Australia 6000
PO Box 7312 Cloisters Square
Perth Western Australia 6850
Phone: (08) 9321 4111
Facsimile: (08) 9321 4411
Website: www.co2australia.com.au

Our Ref: CO2 ASX Announce Annual Report 2006 & AGM (130)

ANNOUNCEMENT NUMBER 130

23 October 2006

Company Announcements Office
Australian Stock Exchange
10th Floor
20 Bond Street
SYDNEY NSW 2000

By: ASX Online
Number of pages: 73
(including this page)

Dear Sir

Re: Annual Report for the Year Ended 30 June 2006
Notice Of Annual General Meeting

Enclosed are the following CO2 Group Limited documents which will be sent to shareholders today:

- Annual Report for the year ended 30 June 2006;
- Notice of Annual General Meeting with supporting Explanatory Memorandum; and
- Pro forma Proxy Form and Annual Report Request Form.

The Company's Annual General Meeting will be held on Wednesday 22 November 2006 at 11.00 am.

Yours faithfully
CO2 Group Limited

Harley Whitcombe
Company Secretary

ENC

CO2 Group Limited

ABN 50 009 317 846

NOTICE OF ANNUAL GENERAL MEETING

A PROXY FORM IS ENCLOSED

Please read the Notice and Explanatory Memorandum carefully.

If you are unable to attend the Annual General Meeting please complete and return the enclosed Proxy Form in accordance with the specified directions.

NOTICE OF ANNUAL GENERAL MEETING

CO2 Group Limited (ABN 50 009 317 846)

Time: 11.00 am (WST)

Date: Wednesday, 22 November 2006

Place: QV1 Building
Function Room, Level 2
250 St Georges Terrace, Perth, Western Australia

Notice is given of the 2006 annual general meeting of CO2 Group Limited (**Company**).

This notice of meeting is issued by CO2 Group Limited of Level 11, 225 St George's Terrace, Perth, Western Australia.

BUSINESS

The business of the meeting will consist of the following:

ORDINARY BUSINESS

1 FINANCIAL REPORT

To receive and consider the financial report of the Company for the year ended 30 June 2006, and the directors' and auditors' reports.

2 RE-ELECTION OF DIRECTOR – RESOLUTION 1

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That Ian Norman Trahar retires pursuant to Rule 7.1(d) of the Company's constitution, and being eligible, is re-elected as a director of the Company."

3 RE-ELECTION OF DIRECTOR – RESOLUTION 2

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That Malcolm Brian Hemmerling retires pursuant to Rule 7.1(d) of the Company's constitution, and being eligible, is re-elected as a director of the Company."

4 RE-ELECTION OF DIRECTOR – RESOLUTION 3

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That Andrew William Thorold Grant, having been appointed as a director of the Company by the Directors since the last annual general meeting of the Company, who retires pursuant to Rule 7.1(c) of the Company's constitution and being eligible, is re-elected as a director of the Company. "

5 REMUNERATION REPORT – RESOLUTION 4

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That, for the purposes of Section 250R(2) of the Corporations Act, the Company adopt the Remuneration Report as set out in the Annual Report for the year ended 30 June 2006"

Note: the vote on this resolution is advisory only and does not bind the Directors or the Company.

How do you exercise your right to vote?

All holders of ordinary shares appearing on the CO2 Group Limited share register at 11.00am (Perth time) on Wednesday 22 November 2006 are entitled to attend and vote at the meeting.

Jointly held shares

If your shares are jointly held, only one of the joint holders is entitled to vote. If more than one holder votes in respect of jointly held shares, only the vote of the holder whose name first appears on the register will be counted. You need not exercise all of your votes in the same way, nor need you cast all of your votes.

Corporations voting

In order to vote at the meeting, a corporation, which is a member, may appoint a person to act as its representative. A representative does not have to be a shareholder of CO2 Group Limited. The appointment should comply with section 250D of the Corporations Act. The representative should bring to the meeting evidence of his or her appointment including any authority under which it is signed. Alternatively, you may appoint a proxy to vote on your behalf.

Voting by proxy

If you cannot attend, you may appoint a proxy to attend and vote for you. A proxy does not have to be a shareholder of CO2 Group Limited. To ensure that all shareholders can exercise their right to vote on each proposed resolution, a CO2 Group Limited shareholder proxy form is enclosed with this notice of annual general meeting together with a reply paid envelope.

A shareholder that is entitled to cast 2 or more votes may appoint a maximum of 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, each proxy may exercise half of the shareholder's votes.

Proxy forms must be deposited at CO2 Group Limited's registry, Computershare Investor Services Pty Limited by using the enclosed reply paid envelope or by posting, delivery or facsimile to:

Computershare Investor Services Pty Limited

Mail:	GPO Box D182 Perth, Western Australia 6840
Delivery:	Level 2, Reserve Bank Building, 45 St George's Terrace, Perth, Western Australia, 6000
Facsimile:	+61 8 9323 2033,

to be received not less than 48 hours before the time of the meeting, that is, by 11.00am (Perth time) on Monday 20 November 2006.

The proxy form provides details of what you need to do to appoint a proxy to attend and vote for you.

If you appoint the Chairman of the meeting as your proxy and you do not specifically direct how the Chairman is to vote as your proxy, the Chairman will exercise your votes in favour of the resolutions.

Voting procedure

As ordinary resolutions, resolutions 1, 2, 3 and 4 will be approved if at least 50% of the votes cast by shareholders entitled to vote on the resolution at the meeting are voted in favour.

Under the terms of CO2 Group Limited's constitution, a poll is to be conducted as directed by the Chairman of the meeting.

By Order of the Board

Harley Whitcombe
Company Secretary
CO2 Group Limited

Dated: 17 October 2006

CO2 GROUP LIMITED

(ABN 50 009 317 846)

EXPLANATORY MEMORANDUM TO SHAREHOLDERS

INTRODUCTION

This Explanatory Memorandum has been prepared for the information of shareholders of the Company in connection with the business to be transacted at the annual general meeting of the Company to be held on 22 November 2006.

At that meeting, shareholders will be asked to pass resolutions to:

- Re-elect Ian Norman Trahar, Malcolm Brian Hemmerling and Andrew William Thorold Grant; and
- Adopt the Remuneration Report for the year ended 30 June 2006.

The purpose of this Explanatory Memorandum is to provide information that the Board believes to be material to shareholders in deciding whether or not to pass those resolutions. This Explanatory Memorandum should be read in conjunction with the accompanying notice of annual general meeting.

ORDINARY BUSINESS

RESOLUTION 1 - RE-ELECTION OF DIRECTOR

Ian Norman Trahar B.Ec., MBA

Mr Trahar is currently the executive chairman of the Company. Mr Trahar has a resource and finance background. He is a director and significant shareholder of Avatar Industries Limited, a publicly listed company. Ian is a member of the Australian Institute of Company Directors.

RESOLUTION 2 - RE-ELECTION OF DIRECTOR

Malcolm Brian Hemmerling PhD, BSc(Hons), Dip T (Sec)

Dr Hemmerling is currently a non-executive director of the Company. Dr Hemmerling is the Chief Executive Officer of the Adelaide City Council. He has had extensive experience in leadership and management positions, having been Chief Executive Officer for the Sydney Organising Committee for the Olympic Games, the Australian Formula One Grand Prix in South Australia as well as for Bob Jane T-Marts. Dr Hemmerling is a fellow of the Australian Institute of Company Directors.

RESOLUTION 3 - RE-ELECTION OF DIRECTOR

Andrew William Thorold Grant BSc (Hons), Grad Dip Bus Mg

Mr Grant is currently an executive director of the Company. Mr Grant was the National Head of Ernst and Young's environmental advisory division and was the lead adviser to the New South Wales Government in relation to implementing the New South Wales Greenhouse Gas Abatement Scheme. He has over 20 years experience in broad acre land management and has managed major commercial forestry operations in Victoria. He is a widely recognised authority on climate change and carbon trading. Mr Grant has advised many of the major corporations across Australia on carbon trading and has performed design and audit roles in many carbon trades. He brings significant executive management experience to the role and his unique combination of commercial, carbon trading and natural resource management experience make him ideally suited for these critical roles.

Mr Grant is a Director of the Banksia Environmental Foundation, which runs the Banksia Awards, Australia's leading Environmental Awards.

RESOLUTION 4 – ADOPTION OF THE REMUNERATION REPORT FOR THE YEAR ENDING 30 JUNE 2006

The Annual Report for the year ended 30 June 2006 contains a Remuneration Report which sets out the remuneration policy for the Company and reports the remuneration arrangements in place for Directors and Specified Executives.

Section 250R(2) of the Corporations Act now requires companies to put a resolution to their members that the Remuneration Report be adopted. The vote on the resolution is advisory only and is not binding on the Directors of the Company.

A reasonable opportunity will be allowed to the shareholders for questions and comments on the Remuneration Report.

The Directors recommend that shareholders vote in favour of Resolutions 1 to 4.

CO2 Group Limited

ABN 50 009 317 846

Proxy Form

All correspondence to:
Computershare Investor Services Pty Limited
GPO Box D182 Perth
WA 6840 Australia
Enquiries (within Australia) 1300 557 010
(outside Australia) 61 3 9415 4000
Facsimile 61 8 9323 2033
www.computershare.com

Mark this box with an 'X' if you have made any changes to your address details (see reverse)

000001
000
COZ
MR JOHN SMITH 1
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Securityholder Reference Number (SRN)

I 1234567890 I ND

Appointment of Proxy

I/We being a member/s of CO2 Group Limited and entitled to attend and vote hereby appoint

the Chairman of the Meeting (mark with an 'X') **OR**

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and 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 of CO2 Group Limited to be held at Function Room, Level 2, QV1 Building, 250 St Georges Terrace, Perth, Western Australia on 22 November 2006 at 11.00 am WST and at any adjournment of that meeting.

Voting directions to your proxy - please mark X to indicate your directions

		For	Against	Abstain*
1	Re-election of Mr Ian Norman Trahar as a Director			
2	Re-election of Mr Malcolm Brian Hemmerling as a Director			
3	Re-election of Mr Andrew William Thorold Grant as a Director			
4	Remuneration Report			

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

Appointing a second Proxy

I/We wish to appoint a second proxy

Mark with an 'X' if you wish to appoint a second proxy. **AND** % **OR**

State the percentage of your voting rights or the number of securities for this Proxy Form.

PLEASE SIGN HERE

This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Individual/Sole Director and Sole Company Secretary	Director	Director/Company Secretary

In addition to signing the Proxy form in the above box(es) please provide the information below in case we need to contact you.

Contact Name | Contact Daytime Telephone | Date / /

COZ 1PR

COZ_WIP_102229/000001/000001

How to complete the Proxy Form

1 Your Address

This is your address as it appears on the company's share register. If this information is incorrect, please mark the box and make the correction on the form. Securityholders sponsored by a broker (in which case your reference number overleaf will commence with an 'x') should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the individual or body corporate you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the full name of that individual or body corporate in the space provided. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

3 Votes on Items of Business

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

4 Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form.

To appoint a second proxy you must:

(a) indicate that you wish to appoint a second proxy by marking the box.

(b) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.

(c) return both forms together in the same envelope.

5 Signing Instructions

You must sign this form as follows in the spaces provided:

Individual:	where the holding is in one name, the holder must sign.
Joint Holding:	where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney:	to sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies:	where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of a corporate Securityholder or proxy is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry or at **www.computershare.com.**

Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below no later than 48 hours before the commencement of the meeting at 11.00 am WST on 22 November 2006. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Documents may be lodged using the reply paid envelope or:

IN PERSON	Share Registry - Computershare Investor Services Pty Limited, Level 2, 45 St Georges Terrace, Perth WA 6000 Australia
BY MAIL	Share Registry - Computershare Investor Services Pty Limited, GPO Box D182, Perth WA 6840 Australia
BY FAX	61 8 9323 2033

CO2 Group Limited

ABN 50 009 317 846

Computershare

All correspondence to:

Computershare Investor Services Pty Limited
GPO Box D182 Perth
Western Australia 6840 Australia
Enquiries (within Australia) 1300 557 010
(outside Australia) 61 3 9415 4000
Facsimile 61 8 9323 2033
web.queries@computershare.com.au
www.computershare.com

000001 000 COZ
MR JOHN SMITH 1
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Securityholder Reference Number (SRN)

I 1234567890 I ND

Annual Report

Use a <u>black</u> pen. Where a choice is required, mark the box with an 'X' X

A Annual Report Request

The company will automatically mail you an Annual Report each year unless you elect otherwise.

☐ Please mark this box with an 'X' if you **DO NOT** wish to receive the company's Annual Report.

You will, however, receive all other securityholder mailings including notices of meetings and proxy forms.

AF007

B Annual Report & Company Announcements Available Online

The company wishes to provide the opportunity for securityholders to receive Annual Reports and other company announcements by email.

Do you want to receive your Annual Report and other company announcements electronically?

Register today by visiting the share registry at www.computershare.com and follow these easy steps:

Step 1. Click on 'Securityholders'

Step 2. Click on 'Email Address Update'

Step 3. Enter your personal security information:

- The company code or company name
- Securityholder Reference Number (SRN) or Holder Identification Number (HIN)
- Registered Postcode or country (if outside Australia)

Step 4. Click on 'Submit'

Step 5. Select 'email' as your delivery method

Step 6. Enter your email address

Step 7. Click on 'Submit'

It's as easy as that. Should you have further enquiries contact the Registry on the above number.

How to complete this form

A **Annual Report Request**

We are required to automatically mail you a report each year unless you instruct us otherwise.

By marking the box overleaf you can select not to receive a copy of the company's Annual Report.
However, you will still receive all other securityholder mailings including notices of meetings and proxy forms.

This instruction only applies to the specific holding identified by the SRN/HIN and the name appearing on the front of this form.

AF007

COZ

Please return the completed form in the envelope provided, or to the address opposite:

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne Victoria 3001
Australia

CO2 GROUP LIMITED

FINANCIAL REPORT

For the Year Ended 30 June 2006

ABN 50 009 317 846

CO2 GROUP LIMITED

"Pollution stems from a fundamental failure of markets to incorporate the full cost of economic activities"
G Hardin (1968)

CONTENTS

CORPORATE DIRECTORY

DIRECTORS
Ian Norman Trahar B.Ec., MBA
(Executive Chairman)
James McAuliffe BCom, BSc
(Executive Director)
Harley Ronald Whitcombe B.Bus ASCPA
(Executive Director)
Malcolm Brian Hemmerling PhD, BSc (Hons), Dip T (Sec)
(Non-executive Director)
Christopher David Mitchell PhD, BSc (Hons), GAICD
(Non-executive Director)
Andrew William T Grant BSc (Hons), Grad Dip Bus Mg
(Executive Director)

COMPANY SECRETARY
Harley Ronald Whitcombe B.Bus. ASCPA

AUDITORS
Deloitte Touche Tohmatsu
Chartered Accountants
Woodside Plaza
Level 14
240 St Georges Terrace
Perth, Western Australia 6000

BANKERS
Australia and New Zealand Banking Group Limited
77 St Georges Terrace
Perth, Western Australia 6000

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS
Level 11, 225 St Georges Terrace
Perth, Western Australia 6000
Telephone No: (08) 9321 4111
Facsimile No: (08) 9321 4411
E-mailAddress: postmaster@co2australia.com.au
Web site: www.co2australia.com.au

SHARE REGISTRY
Computershare Investor Services Pty Limited
GPO Box D182
Perth, Western Australia 6000
Telephone No: (08) 9323 2000
Facsimile No: (08) 9323 2033

STOCK EXCHANGE LISTING
The Company is listed on the Australia Stock Exchange
Home Exchange – Perth
ASX Code – COZ

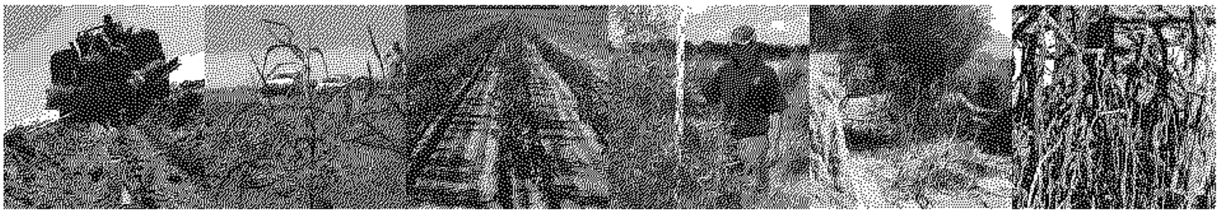
COMPANY NUMBER
ABN 50 009 317 846

CO2 Group Limited is a company incorporated in Australia.

RECYCLED
This document has been printed on recycled paper.

Main cover photograph
9 year old mallee (E. polybractea) plantings incorporated into farmers cropping regime. Rainfall zone 323 mm per annum

CHAIRMAN'S REVIEW



Dear Shareholder

I am pleased to report major progress has been made by the Company in a number of significant areas. This progress has consolidated the Company's position as the Australian market leader in providing low-cost greenhouse gas emission reductions solutions for governments and corporate Australia. Most importantly the Company booked its first significant revenues through the commercialisation of the CO2 AUSTRALIA™ Carbon Sequestration Program. The Company has entered into a landmark 30 year agreement with Eraring Energy, a major NSW Government owned corporation. This agreement represents a voluntary program by Eraring Energy and signifies the growing shift in position by large corporations in addressing their greenhouse gas emission profiles. I understand that the duration of the agreement represents a commercial benchmark in the emerging carbon economy.

Major advances were achieved in the development of the Company's commercial operations. The Company has continued to expand its operational capacity with further recruitment in key areas and enhancement of regional operations. The commitment to an ongoing research and development program continues to enhance and refine the Company's considerable intellectual property in relation to carbon sequestration site selection and the genetic development of our seed orchards.

The Company announced an important agreement with Macquarie Bank Limited to develop financial products relating to the CO2 AUSTRALIA™ Carbon Sequestration Program. The agreement will provide considerable impetus in attracting additional investors into the Program.

The nomination of the Company as a finalist in both the Banksia Environmental Awards and the Australian Corporate Sustainability Awards represents strong recognition of our achievements to date. I congratulate all staff involved in achieving peer recognition by Industry.

The severity of climate change forecasts is alarming to governments, business and the community. As a consequence there is growing concern and momentum in various actions taking place globally to reduce our greenhouse gas emissions footprint. I remain confident of the important contribution that the Company can make to this global challenge and the commercial benefits that will ensue.

Yours sincerely

IAN N TRAHAR
Chairman

Major advances were achieved in the development of the Company's commercial operations.

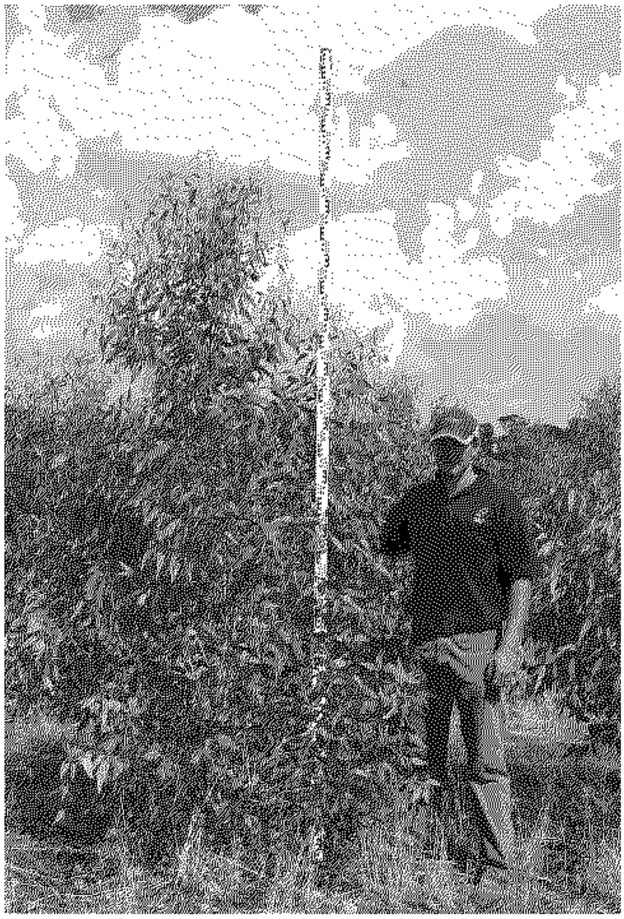
CORPORATE GOVERNANCE STATEMENT

The Board of Directors of CO2 Group Limited is responsible for the corporate governance of the Company. The Board monitors the business affairs of CO2 Group Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

As has been noted in previous financial reports and on the Company's web site the Board of Directors acknowledge the Principals of Good Corporate Governance and Best Practice Recommendations set by the Australian Stock Exchange ("ASX") Corporate Governance Council. The Board, since the last full year Financial Report, has continued to monitor those areas of the Best Practice Recommendations which had not been adopted and have now appointed an Audit Committee and a Remuneration Committee. The Board continues to hold the view that with the Company's current size and extent and nature of operations that full adoption of the best practice recommendations is currently not practical. The Board will continue to work towards full adoption of the recommendations in line with the growth and development of the Company in the years ahead. The Board does actively monitor the ASX corporate governance recommendations as the Company changes in profile and size. A summary of current corporate governance practices adopted by the Board are as follows:

The Roles of the Board and Management

The Company is currently managed by the executive directors and as a consequence there has been no separation of duties.


2006 Biomass measurement program

As previously advised, the Company has appointed two non-executive, independent directors and appointed an Audit Committee and a Remuneration Committee. The Company announced revised charters and committee roles on 15 December 2005.

Composition of the Board

The composition of the Board is determined in accordance with the following principals and guidelines:

- The Board shall comprise at least 3 Directors, increasing where additional expertise is considered desirable in certain areas; and
- Directors may bring characteristics which allow a mix of qualifications, skills and experience.

Potential candidate(s) will be identified by the Board and advice may be obtained from an external consultant. The Board then appoints the most suitable candidate, who shall hold office until the next following Annual General Meeting, where the appointee is required to stand for re-election.

The Board of Directors appointed two independent directors in July 2005 and a further executive director on 27 January 2006. As the activities of the Company increase, the Board will consider the appointment of further independent directors to comply with the principal that the board has a majority of independent directors. The appointment of a further executive director was considered appropriate as Mr Grant has considerable practical expertise in the area of Environmental Services.

The Chairman is not an independent director. The board considers the current scenario where the largest shareholder's representative is also the Chairman is appropriate in the circumstances. The board considers that the best person to develop the Company's short and long term business is the current Chairman.

The Company does not currently have a chief executive officer. The board considers that the size of the current operations does not warrant such an appointment.

The Board has decided that the current size and extent of operations and the size of the board does not justify a nominations committee. The Board retains the role of nominator of future director appointments. The Board will monitor its position on a nomination committee into the future.

All executive directors of the Company have a formal letter of appointment setting out the key terms and conditions of their appointment.

Research and development 2004 trial planting central NSW

The primary responsibilities of the Board include:

- The approval of the annual and half-year financial report;
- The establishment of corporate strategy and to continually monitor strategic development;
- The review and adoption of annual budgets for the financial performance of the Company and monitoring the results on a quarterly basis;
- To establish written policies and procedures to ensure compliance with the ASX Listing Rules regarding continuous disclosure;
- Reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- To access potential investment opportunities for the Company; and
- Overseeing the day to day management of the Company.

Audit Committee

The Board appointed an Audit Committee on 15 December 2005. The members of the Committee are:

Dr Mal Hemmerling (Chairman) – Non-executive director;

Dr Chris Mitchell – Non-executive director; and

Mr Ian Trahar – Executive director.

The Committee's structure does not meet the recommendations of the ASX Corporate Governance Council because the board has insufficient independent directors to meet the recommended structure; however the Board was of the view that an Audit Committee, whilst not compliant, should be appointed to ensure the integrity of financial reports.

The Committee's role includes considering the following matters:

- Ensuring that an effective internal control framework exists within the Company;
- Review the annual and half-year reports, financial statements and other information distributed externally;
- Reviewing audit reports and letters to the Board from the external auditors;
- Liaising with external auditors and ensuring the annual audit and half year review are conducted in an effective manner;
- Nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual audit and half year review; and
- Monitoring compliance with the Corporations Act 2001, ASX Listing Rules, and other matters outstanding with other regulatory and financial authorities.

Remuneration Committee

The Board appointed a Remuneration Committee on 15 December 2005. The members of the Committee are:

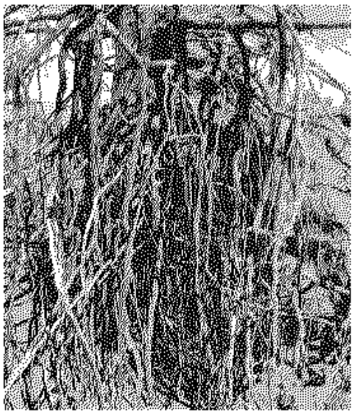
Dr Chris Mitchell (Chairman) - Non-executive director;

Dr Mal Hemmerling - Non-executive director; and

Mr Ian Trahar - Executive director.

The Committee's role includes:

- Setting the long term remuneration policy for the Company;
- Review the remuneration packages and policies applicable to the Executive Directors, on an annual basis; and
- Where necessary obtain independent advice on the appropriateness of remuneration packages.



Extensive lignotube of 10 year old Mallee tree

The Board will continue to determine the fees to be paid to non-executive directors. There is no current consideration for non-executive directors to receive any retirement benefits other than statutory superannuation. Any equity based remuneration will be subject to shareholder approval as and when it may occur.

Full details of remuneration for the five highest paid employees and directors is included in the Directors' Report.

Communication to Shareholders

The Board of Directors aims to ensure that the shareholders are informed of all information necessary to assess the performance of the Directors. Information is communicated to the shareholders through:

- The company's web site, www.co2australia.com.au;
- The annual report which is distributed to all shareholders;
- The annual and half-yearly report lodged with the ASX;
- The annual general meeting and other meetings so called to obtain approval for board action as appropriate; and
- Quarterly reports and other announcements made by the Company to the ASX under continuous disclosure requirements.

Ethical Standards

The Board acknowledges the need for and continued maintenance of a high standard of corporate governance practice and ethical conduct by all Directors and employees.

Independent Professional Advice

The Directors have the right, in connection with their duties and responsibilities as Directors, to seek independent professional advice at the company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld.

Risk Management

The Board is responsible for the company's system of internal controls.

The Board is responsible for establishing and implementing policies on risk management. Specific areas of risk which are identified will be regularly considered at Board Meetings including foreign currency and commodity price fluctuations, industry trends, performance of activities, human resources, the environment and continuous disclosure obligations.

DIRECTORS' REPORT

The directors of CO2 Group Limited submit herewith the annual financial report of the company 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:

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

Ian Norman Trahar B.Ec, MBA Appointed: 12 November 2001	Chairman. Mr Trahar has a resource and finance background. He is a director and significant shareholder of Avatar Industries Limited, a publicly listed company. Ian is a member of the Australian Institute of Company Directors.
James McAuliffe BCom, BSc Appointed: 12 November 2001	Executive Director. Mr McAuliffe has over 10 years' experience in the resource and finance industries. He holds Bachelor of Commerce and Science (Geology) degrees from the University of Western Australia.
Harley Ronald Whitcombe B.Bus, CPA Appointed: 12 November 2001	Executive Director. Mr Whitcombe has had many years' commercial and finance experience, providing company secretarial services to publicly-listed companies. He is a member of the Australian Institute of Company Directors.
Dr Malcolm Brian Hemmerling PhD, BSc (Hons), Dip T (Sec) Appointed: 4 July 2005	Non-executive Director. Dr Hemmerling is the Chief Executive Officer of the Adelaide City Council and is Chairman of the National Basketball League. He has had extensive experience in leadership and management positions, having been Chief Executive Officer for The Sydney Organising Committee for the Olympic Games, the Australian Formula One Grand Prix in South Australia as well as for Bob Jane T-Marts. Dr Hemmerling is a fellow of the Australian Institute of Company Directors.
Dr Christopher David Mitchell PhD, BSc (Hons) Appointed: 27 July 2005	Non-executive Director. Dr Mitchell has had a 20 year involvement in Australian and International climate research and currently leads Climate, Weather and Ocean Prediction research at CSIRO. Dr Mitchell has consulted to major international petroleum companies and has been extensively published in the area of climate change.
Andrew William Thorold Grant BSc (Hons), Grad Dip Bus Mg Appointed: 27 January 2006	Executive Director. Mr Grant was the National Head of Ernst and Young's environmental advisory division and was the lead adviser to the New South Wales Government in relation to implementing the New South Wales Greenhouse Gas Abatement Scheme. He has over 20 years experience in broad acre land management and has managed major commercial forestry operations in Victoria. He is a widely recognised authority on climate change and carbon trading. Andrew has advised many of the major corporations across Australia on carbon trading and has performed design and audit roles in many carbon trades. He brings significant executive management experience to the role and his unique combination of commercial, carbon trading and natural resource management experience make him ideally suited for these critical roles. Mr Grant is an Independent Director of the Cooperative Research Centre for Greenhouse Accounting. The CRC has been at the leading edge of carbon sequestration modelling and research. He is also a Director of the Banksia Environmental Foundation, which runs the Banksia Awards, Australia's leading Environmental Awards.

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
Mr I N Trahar	Avatar Industries Limited	29 January 1993 to date
Dr M B Hemmerling	Avatar Industries Limited	6 February 2003 to date

Company Secretary

Mr H R Whitcombe	Mr Whitcombe was appointed company secretary on 12 November 2001. He has held similar positions with a number of other publicly listed companies. Mr Whitcombe has been a member of CPA Australia for over 25 years.

Principal activities

The consolidated entity's principal activity in the course of the financial year has been the provision of environmental services primarily carbon sequestration i.e. the establishment of carbon sinks.

Review of Operations

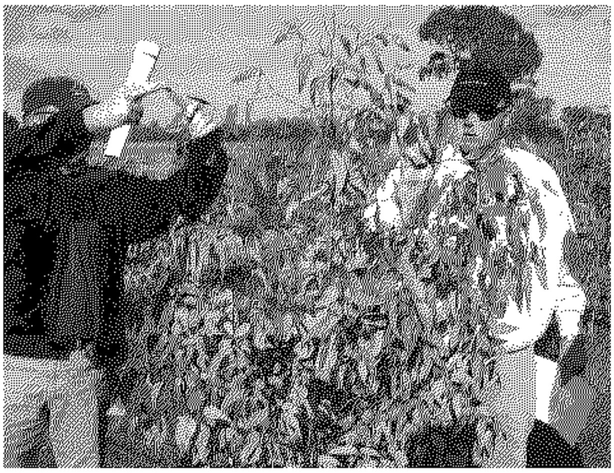
Overview

The 2005/2006 financial year has been a year whereby the Company (and its related entities) has consolidated its position as the Australian market leader in providing greenhouse gas offsets via its CO2 AUSTRALIA™ Carbon Sequestration Program (Program). This has involved the implementation and further commercial advancement of its Program, particularly in NSW. This has only occurred via the important milestones achieved during the second half of last financial year, including gaining accreditation as a carbon credit supplier under the NSW Greenhouse Gas Abatement Scheme, the finalising of two carbon credit off take agreements with major Australian owned companies as well as establishing a major regional operational head office in Wagga Wagga.

NSW Operations

During the year, the Company (and its related entities) successfully completed its first environmental plantings for Origin Energy Limited. Besides the Company's major regional operational office at Wagga Wagga, an additional regional office has also been established in Condobolin in central NSW.

On ground operations for the current planting season for Eraring Energy were well advanced with land and seedling acquisitions nearing completion by the end of the financial year.



Inspection of 2005 NSW plantings by CO2 Australia's representatives

Demand and interest in the Program remains strong.

During the year, the Company was successful in finalising a new carbon credit contact with Eraring Energy, a major NSW Government owned power utility. The agreement involves the establishment of a minimum 1,000 hectare mallee eucalypt environmental planting to provide greenhouse gas offsets. Eraring Energy has been granted a series of options over a three year period for an additional maximum 15,000 hectares of environmental plantings.

Other key features of the Eraring Energy agreement are that all plantings are fully funded by Eraring Energy, with the CO2 Group providing the design, establishment and management over a 30 year contracted period. The Eraring Energy contact also signifies the first voluntary program that the CO2 Group has successfully negotiated.

Given the growing interest by both major Australian and international companies with significant operations in Australia, the Company remains confident of securing further contracts, including mallee eucalypt environmental plantings in states other than New South Wales. A number of advanced negotiations were ongoing at the end of the financial year.

Strong recognition of Program continues

Strong recognition for the Program continued during the year. The Program was nominated as a finalist in both the Banksia Environmental and Australian Corporate Sustainability Awards. In the previous year, the Company was invited to present at the annual Kyoto Protocol's Conference of the Parties (COP9) Conference in Milan. Strong NSW Government endorsement of the Program was also achieved during the year.

The CO2 Group director Andrew Grant continues to be invited to present at industry forums as well as climate change conferences both domestically and internationally.

Enhancement of Intellectual Property and Scalability

During the financial year, the Company (and its related entities) have significantly enhanced its intellectual property (IP) in relation to the carbon sequestration characteristics of mallee eucalypts as well as other related areas. All IP research and development programs were undertaken by third parties. Further IP research and development programs are scheduled during the current financial year.

Considerable funding has been applied in further advancing the short term scalability of the Program, the benefits of which will be realised in the years to come.

Joint Product Development Deed

During the year, the Company successfully negotiated an agreement with Macquarie Bank Limited (Macquarie) to jointly develop financial products relating to the CO2 AUSTRALIA™ Carbon Sequestration Program. The agreement sets out the terms under which the Company and Macquarie would develop product proposals and the process and respective obligations of both parties for a product offering.

2005 NSW Plantings

Disposal of Exploration interests.

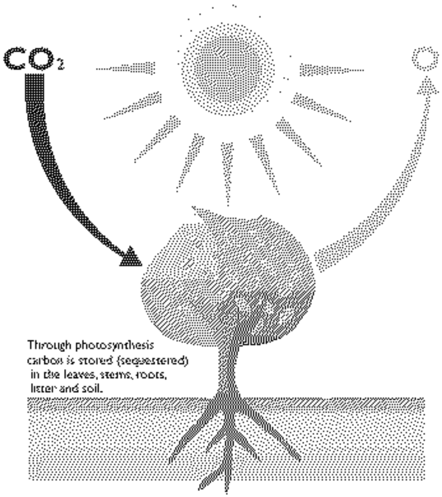
As highlighted during the year, the Company successfully disposed of all of its mineral exploration interests to Western Australian Resources Limited (WAR), which was strongly supported by the Company's existing shareholder base via a pro-rata capital raising by WAR. This sale has completed the transformation of the Company from a mineral exploration company to an exclusively environmental services company specialising in the rapidly emerging carbon constrained economy via its Program as well as achieving the Company's corporate goal of creating a leading socially responsible investment company.

Brief Overview of Project

CO2 Group's CO2 AUSTRALIA™ Carbon Sequestration Program is unique and offers a low cost solution to meeting the challenges associated with mitigating the effects of climate change.

The CO2 AUSTRALIA™ Carbon Sequestration Program involves the production of carbon credits from long-term Mallee Eucalypt plantings. The carbon dioxide absorbed by the growing of trees is permanently removed from the atmosphere and converted into the biomass of the tree (roots, stems, foliage) through a process known as "carbon sequestration", with such forestry projects commonly referred to as carbon sinks. The amount of carbon sequestered can be measured to generate carbon credits that can be sold to large corporations or government utilities under existing voluntary and mandatory greenhouse gas emission reduction programs or potential new programs.

Biological Carbon Sequestration



Mallee Eucalypts are a tree species indigenous to southern Australia. They are long lived, have a large lignotuber (underground stem), and rapidly regenerate if the above ground stem is damaged, for example by fire. Mallees can also survive long periods of drought and are a proven plantation species that thrive in poor soils and low rainfall areas such as the wheat belt regions of southern Australia where reforestation is required to address one of Australia's greatest environmental threats - dry land salinity.

Australia faces an increasing impact on its agricultural productivity, water quality and environmental health as a result of dry land salinity.

The Federal Government has stated that salinity and water conservation are considered to be "two of the most serious resource management issues threatening Australia's rural industries, regional communities and our unique environment"[1]. The Council of Australian Governments has stated that the total cost of land and water degradation is approximately A$3.5 billion per annum[2]. The National Land and Water Resources Audit estimates that the area of land in Australia with shallow water tables, that is at risk of being salt affected, is currently 5.7 million hectares and will exceed 17 million hectares by 2050 if no action is taken now.

Much of the effort to date to address these significant environmental problems has been by the Federal and State Governments funding the reintroduction of deep rooted perennial vegetation systems back into rural landscapes which have been extensively cleared for agriculture. Funding commitments in these areas total A$5.4 billion.

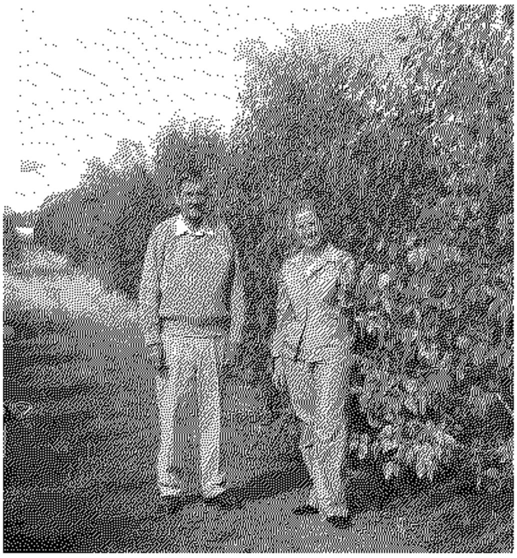
[1] Commonwealth Environment Expenditure 2003-04
[2] COAG Communiqué, 3 November 2003

Company Performance

As noted earlier in this Report, the Group has implemented and further commercialised its CO2 AUSTRALIA™ Carbon Sequestration Program in NSW. Revenue generated during the reporting period was interest received on cash deposits as well as agency fees generated in relation to on-ground operations required for the current Eraring Energy planting being established.

The Company's share price has fluctuated during the year as various announcements have been made with respect to new contracts, other matters of significance and general market volatility. The directors have during the year continued to develop the Group's interest in carbon sinks and expect that the coming financial year may well see revenue from further operations being generated.

The directors do not believe that they are able to provide any further comment or provide any predictions on the Group's future performance without potentially misleading shareholders and the general investment community.



Representative Leanne Anderson CO2 Australia and landowner site inspection of 2004 plantings

Review of Financial Conditions

The Company is well funded for its current operations with $4.6 million in cash reserves and the current planting for the Eraring Energy contract is a fully funded by Eraring Energy.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

Subsequent events

There has not been any matter or circumstances, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in further financial years.

Future developments

The Company has continued with the commercial development of its CO2 AUSTRALIA™ Carbon Sequestration Program, with the commencement of its second planting program in NSW as contracted with Eraring Energy. On-ground operations for this planting were well advanced at the end of the financial year. The Company will continue to look for new opportunities for its Program as well as investigating other commercial opportunities in the environmental services industry.

Dividends

The Directors of CO2 Group Limited do not recommend the payment of a dividend and no dividends have been paid or declared since the commencement of the year.

Share options

Share options granted to directors and key management personnel

During and since the end of the financial year an aggregate of 4,500,000 share options were granted to the following directors and key management personnel of the company:

Directors and Key management Personnel	Number of options granted	Issuing entity	Number of ordinary shares under option
Directors			
MB Hemmerling	1,500,000	CO2 Group Limited	1,500,000
CD Mitchell	1,000,000	CO2 Group Limited	1,000,000
Other Key Management Personnel			
A Shilkin	2,000,000	CO2 Group Limited	2,000,000

Share options on issue at year end or exercised during the year

Details of unissued shares or interests under option are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
CO2 Group Limited	147,734,412	Ordinary	$0.12	12/11/2011
CO2 Group Limited	2,500,000	Ordinary	$0.32	16/11/2009
CO2 Group Limited	2,000,000	Ordinary	$0.33	16/11/2009

Details of shares or interests issued during the financial year as a result of exercise of an option are:

Issuing entity issued	Number of shares	Class of shares	Amount paid for shares	Amount unpaid on shares
CO2 Group Limited	2,250,000	Ordinary	450,000	-

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary, Mr H R Whitcombe, and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each director. During the financial year 10 board meetings, 1 remuneration committee meeting and 1 audit committee meeting were held.

	Board of directors		Remuneration committee		Audit Committee	
Directors	Held	Attended	Held	Attended	Held	Attended
I N Trahar	10	10	1	1	1	1
J McAuliffe	10	8	-	-	-	-
H R Whitcombe	10	10	-	-	-	-
M Hemmerling	9	9	1	1	1	1
C Mitchell	8	8	1	1	1	1
A W T Grant	4	4	-	-	-	-

Directors' shareholdings

The following table sets out each director's relevant interest in shares, converting preference shares or options in shares of the company as at the date of this report.

Directors	Fully paid ordinary shares	Partly paid ordinary shares	Fully paid convertible preference shares	Share options	Convertible Notes
I N Trahar	67,737,796	-	50,000,000	67,737,796	-
J McAuliffe	1,666,668	-	1,666,668	1,666,668	-
H R Whitcombe	4,352,070	-	5,555,557	4,485,157	-
M B Hemmerling	60,000	-	-	1,500,000	-
C D Mitchell	-	-	-	1,000,000	-
A W T Grant	-	-	-	6,416,408	-

Remuneration report

Remuneration policy for directors and executives

The long term performance of the CO2 Group depends on quality directors and executives appointed to the Group. The Group is gradually moving from development mode to operations. The directors had been of the view that to set firm policies on remuneration during the development phase would be inappropriate, as a consequence remuneration has been determined on a case by case basis. As the Group moves to operations a Remuneration Committee has been appointed and is currently developing a Remuneration Policy for the Group as a whole. The Policy is likely to consider base salary levels, performance based salaries and linking rewards to shareholder value. More detail will be provided on the Group's web site once completed.

Remuneration Committee

With the Group moving into operations and with an increasing work force along with the appointment of two non-executive, independent directors, the Board has appointed a Remuneration Committee. The members of the Committee are:

Dr Chris Mitchell (Chairman) – Non-executive director;
Dr Mal Hemmerling – Non-executive director; and
Mr Ian Trahar – Executive director.

The Remuneration Committee will determine the remuneration of current and future directors and executive employees.

Non-Executive Director Remuneration

The shareholders of CO2 Group Limited on 26 October 2001 approved, for the purposes of the ASX Listing Rules and CO2 Group's Constitution, maximum aggregate directors' fees of $250,000, with such fees to be allocated to the directors as the board of directors may determine.

The Board determined the remuneration payable to the two recently appointed non-executive directors. The remuneration covers the non-executive directors for both their work as a director and as a member of any committees. The board recommended to shareholders at the last Annual General Meeting that options be issued to the two non-executive directors as part of their remuneration package in lieu of higher cash remuneration in order to preserve the consolidated entity's cash resources and reduce ongoing costs.

The Board at the time of appointing the two non-executive directors assessed the remuneration packages payable to its non-executive directors with those paid to non-executive directors with comparable expertise, experience and duties in companies of comparable size and stage of development as the consolidated entity. Based on this assessment, it was the Board's view that the remuneration package, including the number of options to be issued to Dr Hemmerling and Dr Mitchell, is appropriate and within acceptable remuneration levels for non-executive directors.

The Board considered at the time that whilst in development phase it was, and continues to be, focused on preserving its cash flows. The decision to issue the options to Dr Hemmerling and Dr Mitchell in lieu of a higher cash director's fee is consistent with this objective.

To retain persons of the quality and experience of Dr Hemmerling and Dr Mitchell, the Board believes that it was appropriate to issue the options.

The options were issued at an exercise price which represents a significant premium to the market price at the time of issue. Accordingly to benefit from the options, the company's share price must exceed the exercise price before the options expire. The options are not transferable without Board approval and so it is unlikely any value can be obtained by the holders of the options without exercising the options.

The Remuneration Committee will determine the remuneration of future non-executive directors.

Details of key management personnel

The key management personnel of CO2 Group Limited during the year were:

- I N Trahar (Executive Chairman)
- H R Whitcombe (Director)
- J McAuliffe (Director)
- A W T Grant (Managing Director of CO2 Australia Limited and appointed a Director of CO2 Group Limited on 27 January 2006)
- Dr M B Hemmerling (Non-Executive Director), appointed 4 July 2005
- Dr C D Mitchell (Non-Executive Director), appointed 27 July 2005
- Aaron Soanes (General Manager Operations, CO2 Australia Limited)
- Ashley Shilkin (Chief Financial Officer, CO2 Australia Limited), appointed 1 March 2006

Key management personnel compensation policy

Remuneration has been determined after the Remuneration Committee, for executive directors, and the board, for group executives, has investigated current market terms and conditions. The board has been considering an Executive Bonus Scheme. The Remuneration Committee will develop to conclusion and then implement such a Scheme. This Scheme will be put to shareholders for approval.

As at the date of this Report there is no formal performance condition included in any key management personnel's remuneration package.

Key management personnel compensation

The aggregate compensation of the key management personnel of the consolidated entity and the company is set out below.

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Short-term employee benefits	1,053,086	916,789	854,984	813,578
Post-employment benefits	104,430	89,240	86,382	79,951
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payment	1,175,207	1,167,082	814,215	1,001,353
	2,332,723	2,173,111	1,755,581	1,894,882

The compensation of each member of the key management personnel of the consolidated entity is set out below.

	Short-term employee benefits				Post-employment benefits		Share-based payment				Total
2006	Salary & fees	Bonus	Non-monetary	Other	Super-annuation	Other	Equity- settled		Cash Settled	Other	
							Shares & Units	Options & rights			
	$	$	$	$	$	$	$	$	$	$	$
Directors											
J Trahar	237,900	-	-	-	23,529	-	-	-	-	-	261,429
H Whitcombe	179,141	-	-	-	18,837	-	-	-	-	-	197,978
J McAuliffe	179,141	-	-	-	18,837	-	-	-	-	-	197,978
A Grant (i)	184,579	-	-	8,963	19,307	-	-	566,715	-	-	779,563
M Hemmerling(ii)	34,567	-	-	-	3,111	-	-	148,500	-	-	186,178
C Mitchell (ii)	30,694	-	-	-	2,762	-	-	99,000	-	-	132,456
Other Key Management Personnel											
A Soanes (i)(iv)	163,637	10,000	-	-	15,846	-	-	173,792	-	-	363,275
A Shilkin (iii)	24,465	-	-	-	2,202	-	-	187,200	-	-	213,867
Total	1,034,124	10,000	-	8,963	104,430	-	-	1,175,207	-	-	2,332,723

	Short-term employee benefits				Post-employment benefits		Share-based payment				Total
2005	Salary & fees	Bonus	Non-monetary	Other	Super-annuation	Other	Equity- settled		Cash Settled	Other	
							Shares & Units	Options & rights			
	$	$	$	$	$	$	$	$	$	$	$
Directors											
J Trahar	235,200	-	-	-	23,266	-	-	-	-	-	258,466
H Whitcombe(v)	174,039	20,000	-	-	19,019	-	-	-	-	-	213,059
J McAuliffe(v)	174,039	20,000	-	-	19,019	-	-	-	-	-	213,059
Other Key Management Personnel											
A Grant (i)(v)	170,299	20,000	-	-	18,646	-	-	1,001,353	-	-	1,210,298
A Soanes (i)	103,211	-	-	-	9,289	-	-	165,729	-	-	278,229
Total	856,789	60,000	-	-	89,240	-	-	1,167,082	-	-	2,173,111

(i) Listed Options exercisable at $0.12, expiring on 12 November 2011:

- Mr Grant was granted a one-off issue of 7,400,000 listed options exercisable at $0.12 subject to the following escrow provisions:
  - 2,450,000 escrowed to 3 September 2005
  - 2,450,000 escrowed to 19 January 2006; and
  - 2,500,000 escrowed to 19 January 2007.
- The listed options granted to Mr Soanes are issued as follows:
  - 340,000 on 15 November 2005
  - 340,000 on 15 November 2006; and
  - 320,000 on 15 November 2007.

(ii) Unlisted Options exercisable at $0.32, expiring on 17 November 2009.

- Dr Hemmerling and Mr Mitchell were granted 1,500,000 and 1,000,000 shares respectively pursuant to a resolution of shareholders at the 2005 Annual General Meeting.

(iii) Unlisted Options exercisable at $0.33, expiring on 28 February 2010.

- Dr Shilkin was granted 2,000,000 share options pursuant to his employment contract when he commenced employment on 1 March 2006.

(iv) Mr Soanes was awarded a $10,000 bonus on 14 December 2006 for successful completion of the first planting.

(v) H R Whitcombe, J McAuliffe, and A W T Grant were each awarded a $20,000 bonus in January 2005 in recognition of the group obtaining accreditation under the New South Wales Greenhouse Gas Abatement Scheme and the signing of the group's first carbon credit contract.

Contracts for services of key management personnel

Remuneration has been determined after the Remuneration Committee, for executive directors, and the board, for group executives, has investigated current market terms and conditions. The board has been considering an Executive Bonus Scheme. The Remuneration Committee will develop to conclusion and then implement such a Scheme. This Scheme will be put to shareholders for approval.

As at the date of this Report there is no formal performance condition included in any directors' or executives' remuneration package. Service Agreements have been entered into by all executive directors and certain specified executives. Summarised below are the major terms of those agreements:

IN Trahar, J McAuliffe and HR Whitcombe (Executive directors)

- Term of agreement – no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer may terminate employment on giving twelve months notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to 70% of base salary for the unexpired period of notice however if termination is post 5 July 2006 then the unexpired benefit will be 100% of base salary. The employee may terminate on giving three months notice.

AWT Grant (Managing director of subsidiary CO2 Australia Limited and executive director of CO2 Group Limited)

- Term of agreement – no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer may terminate employment on giving six months notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to six months of base salary for the unexpired period of notice;
- In the event of redundancy, six months base salary is to be paid plus payment equivalent to three weeks of base salary for each completed year of service;
- One-off issue of 7,400,000 options exercisable at $0.12, as approved by shareholders, escrowed as noted above;
- From 1 February 2006 all running costs relating to Mr Grant's motor vehicle are paid by the company, including the monthly hire purchase payments on the vehicle.

AJ Soanes (Manager of Operations, CO2 Australia Limited)

- Term of agreement – no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer or employee may terminate employment on giving one months notice;
- In the event of redundancy, six months base salary is to be paid plus payment equivalent to three weeks of base salary for each completed year of service;
- Issue of 1,000,000 options exercisable at $0.12, expiring 12 November 2011 and issued as noted above.

A Shilkin (Chief Financial Officer, CO2 Australia Limited)

- Term of agreement – no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer or employee may terminate employment on giving one months notice;
- In the event of redundancy, six months base salary is to be paid plus payment equivalent to three weeks of base salary for each completed year of service;
- Issue of 2,000,000 options exercisable at $0.33, expiring 28 February 2010 and issued upon commencement of employment. The issue of these options is not performance based.
- The options were issued at an exercise price which represents a significant premium to the market price at the time of issue. Accordingly to benefit from the options, the company's share price must exceed the exercise price before the options expire. The options are not transferable without Board approval and so it is unlikely any value can be obtained by the holders of the options without exercising the options.

Options issued to Messrs Grant and Soanes are not broadly based performance orientated. Both are experts in the field in which they operate and the board took the view that the best way to encourage these experts was to provide them with an opportunity to participate in the growth of the consolidated entity which will be generated directly from their endeavours. All shareholders will benefit from the results which will be achieved through these two executives' efforts. This is a growing business and quality people are required to grow the business.

On 14 January 2005 bonuses were paid to two directors J McAuliffe and HR Whitcombe and specified executive AWT Grant in recognition of the Group gaining accreditation under the New South Wales Greenhouse Gas Abatement Scheme and the signing of the Group's first Carbon Credit contract. On 14 December 2005 Mr Soanes was paid a bonus of $10,000 for successful completion of the first planting season.

The Remuneration Committee will revise the remuneration practices and develop policy for future appointments and determine performance based salary increases and bonuses, bearing in mind the size of the Group and the need to ensure quality staff are employed and retained.

Value of options issued to directors and key management personnel

The following table discloses the value of options granted, exercised or lapsed during the year:

	Options Granted Value at grant date $	Options Exercised Value at exercise date $	Options Lapsed Value at time of lapse $	Total value of options granted exercised and lapsed $	Value of options included in remuneration $	Percentage of total remuneration for the year that consists of options %
Directors						
M B Hemmerling	148,500	-	-	148,500	148,500	80%
C D Mitchell	99,000	-	-	99,000	99,000	75%
Key Management Personnel						
A Shilkin	187,200	-	-	187,200	187,200	88%

Value of options - basis of calculation

(1) No options were exercised during the year.

(2) The total value of options granted, exercised and lapsed is calculated based on the following:

- Fair value of the option at grant date multiplied by the number of options granted during the year; plus
- Fair value of the option at the time it is exercised multiplied by the number of options exercised during the year; plus
- Fair value of the option at the time of lapse multiplied by the number of options lapsed during the year.

(3) The value of the options granted during the period is recognized in compensation over the vesting period of the grant in accordance with Australian Accounting Standards. This requires that the value of the options is determined at grant date, and are included in compensation on a proportionate basis over the vesting period. Where the options immediately vest, the full value of the option is recognised in compensation in the current year.

Non-audit services

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 6 to the financial statements.

Auditor's independence declaration

The auditor's independence declaration is included on page 16 of the financial report.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Director

Perth, 29 September 2006

Deloitte.

Deloitte Touche Tohmatsu
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Board of Directors
CO2 Group Limited
Level 11
225 St Georges Terrace
PERTH WA 6000

29 September 2006

Dear Board Members

CO2 Group 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 CO2 Group Limited.

As lead audit partner for the audit of the consolidated financial statements of CO2 Group Limited for the financial 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

Deloitte Touche Tohmatsu

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Peter Rupp
Partner
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Independent audit report to the members of CO2 Group Limited

Scope

The financial report, compensation disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both CO2 Group Limited (the company) and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 19 to 57. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" on pages 9 to 15 of the directors' report, and not in the financial report.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the preparation and presentation of the compensation disclosures contained in the directors' report in accordance with the *Corporations Regulations 2001*.

Audit approach

We have conducted an independent audit of the financial report and compensation disclosures in order to express an opinion on them to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the compensation disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, 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 form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the *Corporations Act 2001* so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows and whether the compensation disclosures comply with AASB 124.

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Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the compensation disclosures in the directors' report, and the evaluation of accounting policies and 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.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion:

(1) the financial report of CO2 Group Limited is in accordance with 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

(2) the compensation disclosures that are contained on pages 9 to 15 under the heading "remuneration report" of the directors' report comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter Rupp
Partner
Chartered Accountants
Perth, 29 September 2006

DIRECTORS' DECLARATION

The directors declare that:

(a) 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;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

(c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

H R Whitcombe

Director

Perth, 29 September 2006

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	Note	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	COMPANY 2006 $	COMPANY 2005 $
Revenue	2	3,100,000	-	-	-
Other Income	2	793,509	598,356	1,093,605	907,076
Employee benefits expense		(3,266,873)	(2,679,046)	(1,994,050)	(2,040,351)
Depreciation and amortisation expense		(74,122)	(19,644)	(6,342)	(4,570)
Consulting expenses		(139,184)	(130,539)	(34,748)	(13,122)
Finance costs		(17,796)	(1,772)	-	-
Legal fees		(557,579)	(1,391,002)	(130,371)	(661,406)
Travel		(273,859)	(174,841)	(141,402)	(93,386)
Insurance		(88,208)	(52,818)	(47,859)	(48,063)
Rent		(180,088)	(33,416)	(110,642)	(82,894)
Research & development		(83,144)	(384,404)	-	-
Other expenses		(631,521)	(652,088)	(208,562)	(349,487)
Loss before income tax	2	(1,418,865)	(4,921,214)	(1,580,371)	(2,386,203)
Income tax (expense)/benefit	3	20,404	912,035	227,285	229,347
Loss for the period attributable to members of the parent entity		(1,398,461)	(4,009,179)	(1,353,086)	(2,156,856)
Earnings per share:					
Basic (cents per share)	22	(0.709)	(2.077)		
Diluted (cents per share)	22	(0.709)	(2.077)		

Notes to the financial statements are included on pages 24 to 58.

BALANCE SHEET AS AT 30 JUNE 2006

		CONSOLIDATED		COMPANY	
	Note	2006	2005	2006	2005
		$	$	$	$
Current assets					
Cash and cash equivalents		4,664,254	9,068,488	4,056,212	3,692,508
Trade and other receivables	7	874,713	21,227	81,277	-
Other financial assets	8	773	5,681	773	4,132
Other	9	1,151,016	44,489	34,177	37,461
Total current assets		6,690,756	9,139,885	4,172,439	3,734,101
Non-current assets					
Other financial assets - investments	10	1,048,242	668,745	11,802,365	11,889,266
Property, plant and equipment	11	4,606,893	2,220,117	40,439	41,005
Intangible assets	12	408,380	603,086	-	-
Deferred tax assets	3	1,290,072	1,269,668	408,802	795,819
Inventory	13	291,847	153,569	-	-
Other	14	24,000	24,000	24,000	24,000
Total non-current assets		7,669,434	4,939,185	12,275,606	12,750,090
Total assets		14,360,190	14,079,070	16,448,045	16,484,191
Current liabilities					
Trade and other payables	15	580,242	766,921	123,718	117,667
Borrowings	16	54,908	14,188	-	-
Provisions	17	179,556	117,376	149,388	102,714
Total current liabilities		814,706	898,485	273,106	220,381
Non-current liabilities					
Borrowings	18	220,547	63,586	-	-
Total non-current liabilities		220,547	63,586	-	-
Total liabilities		1,035,253	962,071	273,106	220,381
Net assets		13,324,937	13,116,999	16,174,939	16,263,810
Equity					
Issued capital	19	22,751,006	22,301,006	22,751,006	22,301,006
Reserves	20	4,514,661	3,358,262	3,946,273	3,132,058
Accumulated losses	21	(13,940,730)	(12,542,269)	(10,522,340)	(9,169,254)
Total Equity		13,324,937	13,116,999	16,174,939	16,263,810

Notes to the financial statements are included on pages 24 to 58.

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

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
SHARE CAPITAL				
Balance at start of period	22,301,006	19,967,434	22,301,006	19,967,434
Issues of share capital	450,000	2,333,572	450,000	2,333,572
Total share capital	22,751,006	22,301,006	22,751,006	22,301,006
ACCUMULATED LOSSES				
Balance at start of period	(12,542,269)	(8,533,090)	(9,169,254)	(7,012,398)
Loss for the period	(1,398,461)	(4,009,179)	(1,353,086)	(2,156,856)
Total income and expense for the year	(1,398,461)	(4,009,179)	(1,353,086)	(2,156,856)
Balance at end of period	(13,940,730)	(12,542,269)	(10,522,340)	(9,169,254)
OPTION PREMIUM RESERVE				
Balance at start of period	1,670,705	1,670,705	1,670,705	1,670,705
Balance at end of period	1,670,705	1,670,705	1,670,705	1,670,705
EQUITY SETTLED BENEFITS RESERVE				
Balance at start of period	1,687,557	460,000	1,461,353	460,000
Share-based payments	1,156,399	1,227,557	814,215	1,001,353
Balance at end of period	2,843,956	1,687,557	2,275,568	1,461,353

Notes to the financial statements are included on pages 24 to 58.

CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

		CONSOLIDATED		COMPANY	
	Note	2006	2005	2006	2005
		$	$	$	$
Cash flows from operating activities					
Receipts from customers		3,130,186	-	-	-
Interest and other costs of finance paid		(17,796)	(1,772)	-	-
Payments to suppliers and employees		(6,126,740)	(3,642,527)	(1,878,690)	(1,832,448)
Net cash used in operating activities	28(b)	(3,014,350)	(3,644,299)	(1,878,690)	(1,832,448)
Cash flows from investing activities					
Interest received		361,034	579,078	174,757	436,835
Proceeds from repayment of inter-company loans		-	-	1,565,778	-
Payment for property, plant and equipment		(2,200,918)	(2,190,336)	(5,775)	(33,470)
Payment for intangible assets		-	(553,750)	-	(9,756,204)
Receipts from related parties		-	-	57,634	-
Cash paid for exploration costs		-	(1,147)	-	(1,147)
Net cash provided by/(used in) investing activities		(1,839,884)	(2,166,155)	1,792,394	(9,353,986)
Cash flows from financing activities					
Proceeds from issues of equity securities		450,000	2,333,572	450,000	2,333,572
Net cash flows provided by financing activities		450,000	2,333,572	450,000	2,333,572
Net (decrease)/increase in cash and cash equivalents		(4,404,234)	(3,476,880)	363,704	(8,852,862)
Cash and cash equivalents at the beginning of the year		9,068,488	12,545,370	3,692,508	12,545,370
Cash and cash equivalents at the end of the year	28(a)	4,664,254	9,068,488	4,056,212	3,692,508

Notes to the financial statements are included on pages 24 to 58.

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

1. SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instrument: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

The financial statements were authorised for issue by the directors on 29 September 2006.

Basis of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

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

Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with 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. An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is discussed in note 30.

The directors have also elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 119 'Employee Benefits' (December 2004), even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2006.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006 and the comparative information presented in these financial statements for the year ended 30 June 2005 and in the preparation of the opening AIFRS Balance Sheet at 1 July 2004 (as disclosed in note 30), the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments. The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information are consistent with those adopted and disclosed in the lodged 2005 annual financial report. The impact of changes in these accounting policies on 1 July 2005, the date of transition for financial instruments, is discussed further in note 1 (r).

The directors have prepared the financial statements on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the extinguishment of liabilities in the ordinary course of business.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method. Borrowing costs are expensed when they are incurred.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(c) Employee benefits

The directors have elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 119 'Employee Benefits' and the consequential amendments effected by AASB 2004-3 'Amendments to Australian Accounting Standards', even though these Standards are not required to be applied until annual reporting periods beginning on or after 1 January 2006.

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 probable 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.

The company does not offer pension benefits to its employees.

(d) 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.

Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements.

Other financial assets are classified into the following specified categories: '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.

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 in the manner described in note 29. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale 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 available-for-sale 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.

(e) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(g) Impairment of assets

At each reporting date, and wherever there is an indication that the asset may be impaired, 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.

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 to the extent that there is a previous revaluation reserve to absorb the decrease (refer note 1(n)).

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 an 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 (refer note 1(n)).

(h) Income tax

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).

1. SUMMARY OF ACCOUNTING POLICIES (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 affect neither taxable income nor accounting profit.

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 those 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 arising from tax losses carried forward are only recognised if it is probable there will be future taxable profit to utilise them.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the 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.

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. CO2 Group Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'group allocation' approach.

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, CO2 Group Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

(i) Assets held for sale

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

Such assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continued use. This condition is regarded as met only when a sale is highly probable, the asset or disposal group is available for immediate sale in its present condition and when management is committed to the sale which is expected to qualify for recognition as a completed sale within one year from date of classification.

(j) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

  This intangible asset will be amortised on a straight line basis over its useful economic life commencing on the date that the asset is available for use.

NGAC Accreditation

This intangible asset will be amortised on a straight line basis over its useful economic life of 30 years commencing on the date the asset is available for use.

An intangible asset arising from NGAC Accreditation is recognised if, and only if, all of the following are demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset.

(k) 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.

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.

Finance lease 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.

(l) Payables

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

(m) Principles of consolidation

The consolidated financial statements are 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 Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary 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.

(n) Property, plant and equipment

Plant and equipment, 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 cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- Leasehold improvements 30 years
- Plant and equipment 2 -15 years
- Equipment under finance lease 5 years

Forestry rights and plantation project

These assets are stated at cost less accumulated amortisation and impairment and will be amortised over their useful economic lives of 30 years commencing on the date revenues are generated from the specific projects, being the date the assets will be available for use.

(o) 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.

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 cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

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.

(p) Revenue recognition

Sale of goods

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.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Rendering of services

Revenue from a contract to provide services including planting is recognised by reference to the stage of completion of the contract.

Dividend and interest revenue

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

(q) 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 in the case of unlisted options. The expected life used in the model has been adjusted, based on management's 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.

(r) Comparative information – financial instruments

The consolidated entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement', as permitted on the first-time adoption of A-IFRS.

The accounting policies applied to accounting for financial instruments in the current financial year are detailed above. The following accounting policies were applied to accounting for financial instruments in the comparative financial year:

(a) Accounts payable

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

(b) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments.

(c) Borrowings

Bills of exchange are recorded at an amount equal to the net proceeds received, with the premium or discount amortised over the period until maturity. Interest expense is recognised on an effective yield basis.

Debentures, bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis.

Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(d) Investments

Investments other than investments in subsidiaries, associates and joint venture entities are recorded at cost.

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

(e) Receivables

Trade receivables and other receivables are recorded at amounts due less any allowance for doubtful debts. Bills of exchange are recorded at amortised cost, with revenue recognised on an effective yield basis.

The effect of changes in the accounting policies for financial instruments on the balance sheet as at 1 July 2005 is NIL.

(s) Comparative information

Where necessary, comparative information has been adjusted to ensure consistent disclosure with the current year.

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
2. PROFIT FROM OPERATIONS	$	$	$	$
(a) Revenue				
Revenue from planting	3,100,000	-	-	-
(b) Other income				
Interest revenue:				
Bank deposits	356,127	594,931	171,398	439,146
Other:				
Sale of tenements	379,747	-	379,747	-
Office services	57,635	-	-	-
Expense recovery	-	-	484,825	467,930
	793,509	594,931	1,035,970	907,076
(c) Loss before income tax				
Loss before income tax has been arrived at after charging the following expenses.				
Finance costs:				
Interest on loans	17,796	1,772	-	-
Depreciation of non-current assets	74,122	19,644	6,342	4,570
Legal Fees	557,579	1,391,002	130,371	637,365
Employee benefits expense:				
Equity settled share-based payments	1,156,399	1,227,557	814,215	1,001,353
Other employee benefits	2,110,474	1,451,489	1,179,835	1,038,998
Insurance	88,208	52,818	47,859	48,063
Listing & shareholder expenses	56,925	172,365	56,925	172,365
Operating lease rental expenses	180,088	33,416	110,642	82,894
Recruitment & relocation	62,097	39,700	-	-
Research & development	83,144	384,404	-	-
Telephone	46,758	35,318	15,950	22,485
Travel	273,859	174,841	141,402	93,386

3. INCOME TAXES

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
(a) Income tax recognised in profit or loss				
Tax expense/(benefit) comprises:				
Current tax expense/(benefit)	-	-	-	-
Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences	88,472	(23,517)	93,105	(5,213)
Benefit of tax losses recognised	(108,876)	(888,518)	(320,390)	(224,134)
Total tax benefit	(20,404)	(912,035)	(227,285)	(229,347)
The prima facie income tax expense /(benefit) on pre-tax accounting loss from operations reconciles to the income tax expense/(benefit) in the financial statements as follows:				
Loss before tax	(1,418,865)	(4,921,214)	(1,580,371)	(2,386,203)
Income tax benefit calculated at 30%	(425,660)	(1,476,364)	(474,111)	(715,861)
Non deductible expenses	(76)	219,507	2,561	186,108
Share based payments	346,920	368,267	244,265	300,406
Legal Fees	58,412	-	-	-
Tax losses not recognised	(23,445)	-	-	-
Income tax benefit	(20,404)	(912,035)	(227,285)	(229,347)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

3. INCOME TAXES (CONTINUED)

Taxable and deductible temporary differences arise from the following:

2006	Consolidated Opening balance $	Charged to income $	Charged to equity $	Closing balance $
Gross deferred tax assets:				
Accrued Income	(1,704)	1,472	-	(232)
Property, plant and equipment	(23,193)	(59,312)	-	(82,505)
Exploration Costs	113,924	(113,924)	-	-
Accruals	1,906	5,334	-	7,240
Provisions	35,401	18,654	-	54,055
Interest Bearing Liabilities	23,333	59,304	-	82,636
Tax value of loss carry forwards utilised	1,120,001	108,876	-	1,228,877
	1,269,668	20,404	-	1,290,072

2005	Consolidated Opening balance $	Charged to income $	Charged to equity $	Closing balance $
Gross deferred tax assets:				
Accrued Income	-	(1,704)	-	(1,704)
Property, plant and equipment	310	(23,503)	-	(23,193)
Investments	81,949	(81,949)	-	-
Exploration Costs	113,924	-	-	113,924
Intangibles	(95,348)	95,348	-	-
Accruals	-	1,906	-	1,906
Provisions	25,315	10,086	-	35,401
Interest Bearing Liabilities	-	23,333	-	23,333
Tax value of loss carry forwards utilised	231,483	888,518	-	1,120,001
	357,633	912,035	-	1,269,668

2006	Company Opening balance $	Charged to income $	Charged to equity $	Closing balance $
Gross deferred tax assets:				
Accrued Income	(1,240)	1,008	-	(232)
Property Plant & Equipment	145	(145)	-	-
Exploration Costs	113,924	(113,924)	-	-
Accruals	(494)	6,856	-	6,362
Superannuation	188	(188)	-	-
Provisions	31,529	13,288	-	44,817
Tax value of loss carry forwards utilised	651,767	320,390	(614,302)	357,855
	795,819	227,285	(614,302)	408,802

3. INCOME TAXES (CONTINUED)

	Company			
	Opening balance	Charged to income	Tax losses transferred from members of the consolidated group	Closing balance
2005	$	$	$	$
Gross deferred tax assets:				
Accrued Income	-	(1,240)	-	(1,240)
Property Plant & Equipment	161	(16)	-	145
Exploration Costs	113,924	-	-	113,924
Accruals	-	(494)	-	(494)
Superannuation	-	188	-	188
Provisions	24,754	6,775	-	31,529
Tax value of loss carry forwards utilised	224,525	224,134	203,108	651,767
	363,364	229,347	203,108	795,819

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Consolidated					
	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
	$	$	$	$	$	$
Accrued Income	232	1,704	-	-	(232)	(1,704)
Property, plant and equipment	82,505	23,193	-	-	(82,505)	(23,193)
Exploration Costs	-	(113,924)	-	-	-	113,924
Accruals	(7,240)	(1,906)	-	-	7,240	1,906
Provisions	(54,055)	(35,401)	-	-	54,055	35,401
Interest Bearing Liabilities	(82,636)	(23,333)	-	-	82,636	23,333
Tax value of loss carry forwards	(1,228,877)	(1,120,001)	-	-	1,228,877	1,120,001
Tax (assets) / liabilities	(1,290,072)	(1,269,668)	-	-	1,290,072	1,269,668
Set off of tax	-	-	-	-	-	-
Net tax (assets) / liabilities	(1,290,072)	(1,269,668)	-	-	1,290,072	1,269,668

	Company					
	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
	$	$	$	$	$	$
Accrued Income	232	1,240	-	-	(232)	(1,240)
Property Plant & Equipment	-	(145)	-	-	-	145
Exploration Costs	-	(113,924)	-	-	-	113,924
Accruals	(6,362)	494	-	-	6,362	(494)
Superannuation	-	(188)	-	-	-	188
Provisions	(44,817)	(31,529)	-	-	44,817	31,529
Tax value of loss carry forwards	(357,855)	(651,767)	-	-	357,855	651,767
Tax (assets) / liabilities	(408,802)	(795,819)	-	-	408,802	795,819
Set off of tax	-	-	-	-	-	-
Net tax (assets) / liabilities	(408,802)	(795,819)	-	-	408,802	795,819

3. INCOME TAXES (CONTINUED)

Tax Consolidation

Relevance of tax consolidation to the consolidated entity

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is CO2 Group Limited. The members of the tax-consolidated group are identified at note 25.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, CO2 Group Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

4. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation policy

Remuneration has been determined after the Remuneration Committee, for executive directors, and the board, for group executives, has investigated current market terms and conditions. The board has been considering an Executive Bonus Scheme. The Remuneration Committee will develop to conclusion and then implement such a Scheme. This Scheme will be put to shareholders for approval.

As at the date of this Report there is no formal performance condition included in any key management personnel's remuneration package.

Key management personnel compensation

The aggregate compensation of the key management personnel of the consolidated entity and the company is set out on the following page:

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Short-term employee benefits	1,053,086	916,789	854,984	813,578
Post-employment benefits	104,430	89,240	86,382	79,951
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payment	1,175,207	1,167,082	814,215	1,001,353
	2,332,723	2,173,111	1,755,581	1,894,882

For details of key management personnel compensation, please refer to the remuneration report section of the Directors' Report.

5. EXECUTIVE SHARE OPTION PLAN

Shareholders approved the issue of options and shares under the CO2 Group Limited Employee Share Option Plan at the Annual General Meeting held on 19 November 2004. To date, no shares or options have been issued pursuant to this plan.

As detailed in the Directors' Report, key management personnel have been issued with share options as part of their contracts of employment.

The following share-based payments were in existence during the period:

Options series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
	$	$	$	$	$
Andrew Grant (i)	7,400,000	3/09/2004	12/11/2011	0.12	0.23
K Phillips (i)(ii)	500,000	15/09/2004	12/11/2011	0.12	0.25
Aaron Soanes (i)	1,000,000	15/11/2004	12/11/2011	0.12	0.43
B Hemmerling (iii)	1,500,000	16/11/2005	16/11/2009	0.32	0.10
C Mitchell (iii)	1,000,000	16/11/2005	16/11/2009	0.32	0.10
A Shilkin (iii)	2,000,000	8/03/2006	28/02/2010	0.33	0.09

(i) Listed options subject to escrow and vesting conditions relying on continued employment with the consolidated entity.

(ii) Ms Phillips left the consolidated entity on 2 June 2006. At that date 166,667 of the share options had vested. No further share options will vest, consequently 333,333 of the share options have been forfeited.

(iii) Unlisted options vesting on grant date.

The weighted average fair value of the unlisted share options granted during the financial year is $0.0966 (2005: not applicable). Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past 5 years. Due to the terms and conditions of the options it is unlikely that the options will be exercised early.

	Options series		
Inputs into the model	B Hemmerling	D Mitchell	A Shilkin
Grant date share price	$0.22	$0.22	$0.22
Exercise price	$0.32	$0.32	$0.33
Expected volatility	64%	64%	64%
Option life	4 years	4 years	4 years
Risk-free interest rate	5.31%	5.31%	5.31%

5. EXECUTIVE SHARE OPTION PLAN (CONTINUED)

The following reconciles the outstanding share options granted to executives at the beginning and the end of the financial year:

	2006				2005			
	Unlisted		Listed		Unlisted		Listed	
	Number of options $	Weighted average exercise price $	Number of options $	Weighted average exercise price $	Number of options price $	Weighted average exercise $	Number of options price $	Weighted average exercise $
Balance at beginning of the financial year	-	-	8,900,000	0.12	-	-	-	-
Granted during the financial year	4,500,000	0.32	-	-	-	-	8,900,000	0.12
Forfeited during the financial year	-	-	(333,333)	0.12	-	-	-	-
Exercised during the financial year	-	-	-	-	-	-	-	-
Expired during the financial year	-	-	-	-	-	-	-	-
Balance at end of the financial year	4,500,000	0.32	8,566,667	0.12	-	-	8,900,000	0.12
Exercisable at end of the financial year	4,500,000	0.32	8,566,667	0.12	-	-	8,900,000	0.12

The unlisted share options outstanding at the end of the financial year had an exercise price of $0.32 and a weighted average remaining contractual life of 1,235 days. The listed share options outstanding at the end of the financial year had an exercise price of $0.12 and a weighted average remaining contractual life of 1,961 days.

6. REMUNERATION OF AUDITORS

	CONSOLIDATED		COMPANY	
	2006 $	**2005** $	**2006** $	**2005** $
Auditor of the parent entity				
Audit or review of the financial report	42,568	18,000	42,568	18,000
Other non-audit services: A-IFRS transition	-	22,500	-	22,500
	42,568	40,500	42,568	40,500

The auditor of CO2 Group Limited is Deloitte Touche Tohmatsu.

7. CURRENT TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		COMPANY	
	2006 $	**2005** $	**2006** $	**2005** $
Trade receivables	743,750	21,227	-	-
Goods and Services tax (GST) recoverable	130,963	-	81,277	-
	874,713	21,227	81,277	-

8. OTHER CURRENT FINANCIAL ASSETS

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
At amortised cost (2005: cost)				
Accrued interest	773	5,681	773	4,132
	773	5,681	773	4,132

9. OTHER CURRENT ASSETS

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Prepayments	69,969	44,489	34,177	37,461
Assets Held for Sale				
Land	1,052,082	-	-	-
Forestry right	28,965	-	-	-
	1,151,016	44,489	34,177	37,461

The Assets Held for Sale were purchased shortly before the end of the financial year to facilitate the provision of forestry rights to Eraring Energy. Once the forestry rights have been created the land will be sold. It is anticipated that the transactions will be completed before 31 December 2006.

10. OTHER NON-CURRENT FINANCIAL ASSETS - INVESTMENTS

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Shares in controlled entities	-	-	5	4
At fair value (2005: cost):				
Available-for-sale				
Shares (i), (ii)	1,048,242	668,745	1,048,243	668,495
At amortised cost (2005: cost):				
Loans advanced to:				
Subsidiaries (iii)	-	-	10,754,117	11,220,767
	1,048,242	668,745	11,802,365	11,889,266

(i) The consolidated entity holds 29% (2005: 29%) of the ordinary share capital of The Oil Mallee Company of Australia Limited (OMC), a company involved in the cultivation of Oil Mallee trees. The directors of the consolidated entity do not believe that the consolidated entity is able to exert significant influence over OMC nor can the consolidated entity exert any management control over OMC.

(ii) The consolidated entity holds 1,898,735 fully paid ordinary shares and 1 converting performance share in Western Australian Resources Limited. The consideration paid for these shares was the consolidated entity's interest in mineral tenements. The investment represents an 11% (2005: NIL%) shareholding in that company.

(iii) The loans advanced to subsidiaries are non-interest bearing and there are no repayment terms.

11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated				
	Plantations & Forestry Rights	Leasehold improvements at cost	Plant and equipment at cost	Equipment under finance lease at cost	Total
	$	$	$	$	$
Gross carrying amount					
Balance at 1 July 2004	-	-	46,576	-	46,576
Additions	2,024,996	22,620	90,861	81,597	2,220,074
Disposals	-	-	(23,148)	-	(23,148)
Balance at 1 July 2005	2,024,996	22,620	114,289	81,597	2,243,502
Additions	2,133,484	-	88,947	238,467	2,460,898
Balance at 30 June 2006	4,158,480	22,620	203,236	320,064	4,704,400
Accumulated depreciation/ amortisation and impairment					
Balance at 1 July 2004	-	-	(9,913)	-	(9,913)
Disposals	-	-	6,172	-	6,172
Depreciation expense	-	(23)	(15,333)	(4,288)	(19,644)
Balance at 1 July 2005	-	(23)	(19,074)	(4,288)	(23,385)
Depreciation expense	-	(566)	(27,890)	(45,666)	(74,122)
Balance at 30 June 2006	-	(589)	(46,964)	(49,954)	(97,507)
Net book value					
As at 30 June 2005	2,024,996	22,597	95,215	77,309	2,220,117
As at 30 June 2006	4,158,480	22,031	156,272	270,110	4,606,893

	Company		
	Leasehold improvements at cost	Plant and equipment at cost	Total
	$	$	$
Gross carrying amount			
Balance at 1 July 2004	-	19,929	19,929
Additions	22,620	10,850	33,470
Balance at 1 July 2005	22,620	30,779	53,399
Additions	-	5,776	5,776
Balance at 30 June 2006	22,620	36,555	59,175
Accumulated depreciation/ amortisation and impairment			
Balance at 1 July 2004	-	(7,824)	(7,824)
Depreciation expense	(23)	(4,547)	(4,570)
Balance at 1 July 2005	(23)	(12,371)	(12,394)
Depreciation expense	(566)	(5,776)	(6,342)
Balance at 30 June 2006	(589)	(18,147)	(18,736)
Net book value			
As at 30 June 2005	22,597	18,408	41,005
As at 30 June 2006	22,031	18,408	40,439

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:				
Leasehold improvements	566	23	566	23
Plant and equipment	27,890	15,333	5,776	4,547
Equipment under finance lease	45,666	4,288	-	-
	74,122	19,644	6,342	4,570

12. INTANGIBLE ASSETS

	Consolidated		
	NGAC accreditation	CO2 Project	Total
	$	$	$
Gross carrying amount			
Balance at 1 July 2004	-	121,593	121,593
Additions	408,380	73,113	481,493
Balance at 1 July 2005	408,380	194,706	603,086
Balance at 30 June 2006	408,380	194,706	603,086
Accumulated amortisation and impairment			
Balance at 1 July 2004	-	-	-
Balance at 1 July 2005	-	-	-
Impairment losses charged to profit	-	(194,706)	(194,706)
Balance at 30 June 2006	-	(194,706)	(194,706)
Net book value			
As at 30 June 2005	408,380	194,706	603,086
As at 30 June 2006	408,380	-	408,380

13. NON-CURRENT INVENTORY

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Seed	291,847	153,569	-	-
	291,847	153,569	-	-

14. OTHER NON-CURRENT ASSETS

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Related party loans (Note 27(c))	24,000	24,000	24,000	24,000
	24,000	24,000	24,000	24,000

15. CURRENT TRADE AND OTHER PAYABLES

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Trade payables	427,126	738,581	91,055	112,560
PAYG payable	104,478	27,710	32,663	5,107
Goods and services tax (GST) payable	48,638	-	-	-
	580,242	766,921	123,718	117,667

16. CURRENT BORROWINGS

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Secured				
At amortised cost (2005: cost):				
Finance lease liabilities (note 23)	54,908	14,188	-	-
	54,908	14,188	-	-

17. CURRENT PROVISIONS

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Employee benefits	179,556	117,376	149,388	102,714
	179,556	117,376	149,388	102,714

18. NON-CURRENT BORROWINGS

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Secured				
At amortised cost (2005: cost):				
Finance lease liabilities (note 23)	220,547	63,586	-	-
	220,547	63,586	-	-

19. ISSUED CAPITAL

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
198,083,509 fully paid ordinary shares (2005:195,833,509)	22,750,017	22,300,017	22,750,017	22,300,017
98,888,889 convertible preference shares (2005: 98,888,889)	989	989	989	989
	22,751,006	22,301,006	22,751,006	22,301,006

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2006		2005	
	No.	$	No.	$
Fully paid ordinary shares				
Balance at beginning of financial year	195,833,509	22,300,017	189,120,139	19,966,436
Issue of shares taken up on conversion of share options	2,250,000	450,000	-	-
Conversion of Preference shares	-	-	888,889	57,778
Share issue	-	-	5,824,481	2,275,803
Balance at end of financial year	198,083,509	22,750,017	195,833,509	22,300,017

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	2006		2005	
	No.	$	No.	$
Convertible preference shares				
Balance at beginning of financial year	98,888,889	989	99,777,778	998
Converted to fully paid shares during the year	-	-	(888,889)	(9)
Balance at end of financial year	98,888,889	989	98,888,889	989

The convertible preference shares were issued at $0.00001. To convert to fully paid ordinary shares each holder is required to pay $0.06499. Conversion can occur at any time at the election of the holders.

The convertible preference shares have limited voting rights as described in ASX Listing Rule 6.3 and are entitled to the payment of a dividend equal to one hundred thousandth of any dividends declared.

Share options

As at 30 June 2005, executives had options over 82,550,629 ordinary shares, in aggregate. All of those options expire on 12 November 2011. As at 30 June 2006, executives have options over 86,597,296 ordinary shares (of which 2,884,341 are unvested), in aggregate, with 82,430,629 of those options expiring on 12 November 2011, and the remainder expiring on 16 November 2009.

Executive share options carry no rights to dividends and no voting rights. Further details of the executive share option plan are contained in note 5 to the financial statements.

20. RESERVES

	CONSOLIDATED		COMPANY	
	2006 $	2005 $	2006 $	2005 $
Option premium	1,670,705	1,670,705	1,670,705	1,670,705
Equity-settled benefits	2,843,956	1,687,557	2,275,568	1,461,353
Balance at end of financial year	4,514,661	3,358,262	3,946,273	3,132,058

The option premium represents the fair value of 47,734,412 CO2 Group Limited options issued as part consideration for the Ranger takeover bid in relation to unconditional acceptances received by the consolidated entity pursuant to the acceptances received under the Ranger takeover offer.

The equity-settled benefits reserve arises on the grant of share options to executives and employees. Amounts will be transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 5 to the financial statements.

21. ACCUMULATED LOSSES

	CONSOLIDATED		COMPANY	
	2006 $	2005 $	2006 $	2005 $
Balance at beginning of financial year	(12,542,269)	(8,533,090)	(9,169,254)	(7,012,398)
Loss attributable to members of parent entity	(1,398,461)	(4,009,179)	(1,353,086)	(2,156,856)
Balance at end of financial year	(13,940,730)	(12,542,269)	(10,522,340)	(9,169,254)

22. EARNINGS PER SHARE

	CONSOLIDATED	
	2006 Cents per share	2005 Cents per share
Basic earnings per share:		
From continuing operations	(0.709)	(2.077)
Total basic earnings per share	(0.709)	(2.077)
Diluted earnings per share:		
From continuing operations	(0.709)	(2.077)
Total diluted earnings per share	(0.709)	(2.077)

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows on the next page:

22. EARNINGS PER SHARE (CONTINUED)

	2006 $	2005 $
Earnings (a)	(1,398,461)	(4,009,179)

	2006 No.	2005 No.
Weighted average number of ordinary shares for the purposes of basic earnings	197,220,495	193,056,457

(a) Earnings used in the calculation of total basic earnings per share and basic earnings per share reconciles to net profit in the income statement as follows:

	CONSOLIDATED	
	2006 $	2005 $
Net loss	(1,398,461)	(4,009,179)
Earnings used in the calculation of basic EPS	(1,398,461)	(4,009,179)

Diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

	2006 $	2005 $
Earnings (a)	(1,398,461)	(4,009,179)

	2006 No.	2005 No.
Weighted average number of ordinary shares for the purpose of diluted earnings per share (b), (c)	197,220,495	193,056,457

(a) Earnings used in the calculation of total diluted earnings per share and diluted earnings per share reconciles to net profit in the income statement as follows:

	2006 $	2005 $
Net loss	(1,398,461)	(4,009,179)
Earnings used in the calculation of diluted EPS	(1,398,461)	(4,009,179)

(b) The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	CONSOLIDATED	
	2006 No.	2005 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	197,220,495	193,056,457

22. EARNINGS PER SHARE (CONTINUED)

(c) The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

	2006 No.	2005 No.
Share options	152,234,412	151,484,412
Convertible preference shares	98,888,889	98,888,889
	251,123,301	250,373,301

23. LEASES

Finance leases

Leasing arrangements

Finance leases relate to motor vehicles with lease terms of 3 years. The consolidated entity has options to purchase the motor vehicles for a nominal amount at the conclusion of the lease arrangement.

Finance lease liabilities

	Minimum future lease payments				Present value of minimum future lease payments			
	Consolidated		Company		Consolidated		Company	
	2006 $	2005 $	2006 $	2005 $	2006 $	2005 $	2006 $	2005 $
No later than 1 year	76,635	19,755	-	-	54,908	14,188	-	-
Later than 1 year and not later than 5 years	239,164	70,418	-	-	220,547	63,586	-	-
Later than 5 years	-	-	-	-	-	-	-	-
Minimum lease payments*	315,799	90,173	-	-	275,455	77,774	-	-
Less future finance charges	40,344	12,399	-	-	-	-	-	-
Present value of minimum lease payments	275,455	77,774	-	-	275,455	77,774	-	-
Included in the financial statements as:								
Current borrowings (note 16)					54,908	14,188	-	-
Non-current borrowings (note 18)					220,547	63,586	-	-
					275,455	77,774	-	-

* Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

Operating leases

Leasing arrangements

Operating leases relate to office facilities with a lease term of 3 years, with an option to extend for a further 3 years, and office facilities with a lease term of 1 year with two options to extend for a further year. The operating lease contracts contain market review clauses in the event that the company/consolidated entity exercises its option to renew. There are also fixed increase dates annually. The company/consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

23. LEASES (CONTINUED)

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
Non-cancellable operating leases				
Not longer than 1 year	97,455	77,290	86,205	64,653
Longer than 1 year and not longer than 5 years	86,204	172,409	86,204	172,409
Longer than 5 years	-	-	-	-
	183,659	249,699	172,409	237,062

24. ECONOMIC DEPENDENCY

A significant volume of the consolidated entity's sales are made to Eraring Energy, a state-owned energy provider.

25. SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest	
		2006	2005
		%	%
Parent entity			
CO2 Group Limited			
Controlled entities			
CO2 Australia Limited	Australia	100	100
Carbon Banc Limited	Australia	100	100
Carbon Estate Pty Ltd	Australia	100	100
Australian Carbon Sinks Limited	Australia	100	100
Mallee Land Company Pty Ltd	Australia	100	100
Mallee Carbon Limited	Australia	100	-
Carbon Sinks Services Pty Ltd	Australia	94	90

CO2 Group Limited is the head entity within the tax-consolidated group. All of the 100% controlled entities are members of the tax-consolidated group.

26. SEGMENT INFORMATION

The company/consolidated entity's operations are located solely within Australia as follows:

- Planting operations are located in New South Wales.
- Head Office is located in Western Australia. The Head Office funds the operations of the other geographical segments and there is only one business segment.
- The offices of the company which has been granted accreditation under the New South Wales Greenhouse Gas Abatement Scheme are located in Victoria.

27. RELATED PARTY DISCLOSURES

(a) Equity interest in related parties

Equity interest in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 25 to the financial statements.

27. RELATED PARTY DISCLOSURES (CONTINUED)

Equity interests in associates and joint ventures

CO2 Group Limited does not have interests in joint ventures or associates.

Equity interests in other related parties

CO2 Group Limited does not hold equity interests in other related parties.

(b) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 4 to the financial statements.

(c) Loans to key management personnel

The following loan balances are in respect of loans made to key management personnel of the consolidated entity and their related entities. These balances do not include loans that are in-substance options and are non-recourse to the consolidated entity.

Loans to key management personel	Balance at beginning $	Interest charged $	Interest not charged $	Write-off $	Balance at end $	Number in group $
2006	24,000	-	1,260	-	24,000	1
2005	24,000	-	1,260	-	24,000	1

Mr Andrew Grant was granted a loan of $24,000 upon commencement of his employment with the company. Mr Grant became a director of the company on 27 January 2006. No interest is charged on the loan, which is repayable on demand. The balance of the loan has remained at $24,000 since it was granted.

(d) Key management personnel equity holdings

Fully paid ordinary shares of CO2 Group Limited

2006	Balance at 1 July 2005 No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June 2006 No.	Balance held nominally No.
I N Trahar	67,737,796	-	-	-	67,737,796	-
J McAuliffe	1,666,668	-	-	-	1,666,668	-
H R Whitcombe	4,652,070	-	-	(300,000)	4,352,070	-
M B Hemmerling	60,000	-	-	-	60,000	-

2005	Balance at 1 July 2004 No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June 2005 No.	Balance held nominally No.
I N Trahar	67,737,796	-	-	-	67,737,796	-
J McAuliffe	1,666,668	-	-	-	1,666,668	-
H R Whitcombe	4,740,000	-	-	(87,930)	4,652,070	-

Converting preference shares of CO2 Group Limited

2006	Balance at 1 July 2005 No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June 2006 No.	Balance held nominally No.
I N Trahar	50,000,000	-	-	-	50,000,000	-
J McAuliffe	1,666,668	-	-	-	1,666,668	-
H R Whitcombe	5,555,557	-	-	-	5,555,557	-

27. RELATED PARTY DISCLOSURES (CONTINUED)

2005	Balance at 1 July 2004 No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June 2005 No.	Balance held nominally No.
I N Trahar	50,000,000	-	-	-	50,000,000	-
J McAuliffe	1,666,668	-	-	-	1,666,668	-
H R Whitcombe	5,555,557	-	-	-	5,555,557	-

Options issued by CO2 Group Limited

2006	Balance at 1 July 2005 No.	Granted as compen-sation No.	Exercised No. No.	Net other change No.	Balance at 30 June 2006 No.	Bal vested at 30 June 2006 No.	Vested but not exercisable No.	Vested and exercisable No.	Options vested during the year No.
I N Trahar	65,737,796	-	-	2,000,000	67,737,796	67,737,796	-	67,737,796	-
J McAuliffe	1,666,668	-	-	-	1,666,668	1,666,668	-	1,666,668	-
H R Whitcombe	4,855,157	-	-	(120,000)	4,735,157	4,735,157	-	4,735,157	-
A W T Grant	8,791,008	-	-	(2,000,000)	6,791,008	4,900,000	-	4,900,000	4,900,000
A J Soanes	1,000,000	-	-	-	1,000,000	340,000	-	340,000	340,000
K Phillips	500,000	-	-	(333,333)	166,667	166,667	-	166,667	166,667
M B Hemmerling	-	1,500,000	-	-	1,500,000	1,500,000	-	1,500,000	1,500,000
C D Mitchell	-	1,000,000	-	-	1,000,000	1,000,000	-	1,000,000	1,000,000
A Shilkin	-	2,000,000	-	-	2,000,000	2,000,000	-	2,000,000	2,000,000

2005	Balance at 1 July 2004 No.	Granted as compen-sation No.	Exercised No. No.	Net other change No.	Balance at 30 June 2005 No.	Bal vested at 30 June 2005 No.	Vested but not exercisable No.	Vested and exercisable No.	Options vested during the year No.
I N Trahar	67,737,796	-	-	(2,000,000)	65,737,796	65,737,796	-	65,737,796	-
J McAuliffe	1,666,668	-	-	-	1,666,668	1,666,668	-	1,666,668	-
H R Whitcombe	5,005,557	-	-	(150,400)	4,855,157	4,855,157	-	4,855,157	-
A W T Grant	-	7,400,000	-	1,391,008	8,791,008	-	-	-	-
A J Soanes	-	1,000,000	-	-	1,000,000	-	-	-	-
K Phillips	-	500,000	-	-	500,000	-	-	-	-

During the financial year, NIL options (2005: NIL) were exercised by key management personnel.

Further details of the share options granted during the 2006 and 2005 financial years are contained in notes 4 and 5 to the financial statements.

27. RELATED PARTY DISCLOSURES (CONTINUED)

	CONSOLIDATED	
	2006 $	2005 $
(e) Other transactions with key management Personnel (and their related parties) of CO2 Group Limited The loss from operations includes the following items of revenue and expense that resulted from transactions, other than compensation, loans or equity holdings, with key management personnel or their related entities:		
Other – Office & administration services	57,635	-
Total recognised as income	57,635	-
Other – Office & administration services	-	82,894
Total recognised as expenses	-	82,894

During the financial year the consolidated entity received payments from Avatar Industries Limited, a company of which Mr Ian Trahar is Chairman, in respect of staff and occupancy costs at the consolidated entity's head office.

During the previous financial year the consolidated entity made payments to Gabor Holdings Pty Ltd in respect of staff and occupancy costs at premises leased by Gabor Holdings Pty Ltd. Mr Trahar is a major shareholder in Gabor Holdings Pty Ltd.

(f) Parent entities

The parent entity, ultimate parent entity, and ultimate Australian parent entity in the consolidated entity is CO2 Group Limited.

28. NOTES TO THE CASH FLOW STATEMENT

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	$	$	$	$
(a) Reconciliation of cash and cash equivalents				
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	4,664,254	9,068,488	4,056,212	3,692,508
(b) Reconciliation of profit for the period to net cash flows from operating activities				
Loss for the period	(1,398,461)	(4,009,179)	(1,353,086)	(2,156,856)
Depreciation and amortisation of non-current assets	74,122	19,644	6,342	4,570
Gain on sale of tenements	(379,497)	-	(379,497)	-
Write off of non-current assets	194,706	(232,478)		-
Equity settled share-based payment	1,156,399	1,687,557	814,215	1,461,353
Interest income received and receivable	(356,127)	(579,078)	(174,757)	(436,835)
Increase/(decrease) in deferred tax balances	(20,404)	(912,035)	(227,285)	(229,347)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	(853,485)	(21,227)	(81,277)	-
Other current assets	(25,479)	3,822	3,284	7,850
Current assets held for re-sale	(1,081,047)	-	-	-
Other non-current assets	(200,578)	(91,269)	-	-
Increase/(decrease) in liabilities:				
Current payables & borrowings	(186,679)	455,672	6,051	(186,453)
Current provisions	62,180	34,272	46,674	21,481
Loans	-	-	(539,354)	(318,211)
Net cash used by operating activities	(3,014,350)	(3,644,299)	(1,878,690)	(1,832,448)

29. FINANCIAL INSTRUMENTS

Financial risk management objectives

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated entity's policies approved by the board of directors, which provide written principles on the use of financial derivatives.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Maturity profile of financial instruments

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2006:

2006	Weighted average effective	Variable interest rate	Fixed interest rate maturity Less than 1 year	1-5 years	More than 5 years	Non interest bearing	Total
	%	$	$	$	$	$	$
Financial assets:							
Cash		-	-	-	-	439,955	439,955
Bank Bills	5.25	-	4,224,299	-	-	-	4,224,299
Trade accounts receivable		-	-	-	-	742,500	742,500
Accrued interest		-	-	-	-	773	773
		-	4,224,299	-	-	1,183,228	5,407,527
Financial liabilities:							
Trade payables		-	-	-	-	425,724	425,724
Finance lease liabilities	7.8	-	54,908	220,547	-	-	275,455
Provisions		-	-	-	-	179,556	179,556
		-	54,908	220,547	-	605,280	880,735

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2005:

2005	Weighted average effective	Variable interest rate	Fixed interest rate maturity Less than 1 year	1-5 years	More than 5 years	Non interest bearing	Total
	%	$	$	$	$	$	$
Financial assets:							
Cash		-	-	-	-	413,722	413,722
Bank Bills	5.25	-	8,654,766	-	-	-	8,654,766
Accrued interest		-	-	-	-	5,680	5,680
		-	8,654,766	-	-	419,402	9,074,168
Financial liabilities:							
Trade payables		-	-	-	-	738,581	738,581
Finance lease liabilities	7.8	-	14,188	63,586	-	-	77,774
Provisions		-	-	-	-	119,755	119,755
		-	14,188	63,586	-	858,336	936,110

29. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, a means of mitigating the risk of financial loss from defaults. The consolidated entity exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the audit committee annually. The consolidated entity measures credit risk on a fair value basis.

Trade accounts receivable currently consist of a single state-owned customer, backed by the New South Wales Treasury. The large contracts entered into by this company must first have been approved by the New South Wales Treasury. In this way, adequate assurance of payment is guaranteed.

Apart from the above, the consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(b) Fair value of financial instruments

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2005: net fair value).

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.
- The fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

Transaction costs are included in the determination of net fair value.

(c) Liquidity risk management

The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitory forecast and actual cash flows and matching the maturity profits of financial assets and liabilities.

30. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated equity 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 (refer note 1(r)).

An explanation of how the transition from superseded policies to A-IFRS has affected the company and consolidated entity's financial position, financial performance and cash flows is set out in the following tables and notes that accompany the tables.

30. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Effect of A-IFRS on the balance sheet as at 1 July 2004

		Consolidated			Company		
	Note	Superceded policies* $	Effect of transition to A-IFRS $	A-IFRS $	Superceded policies* $	Effect of transition to A-IFRS $	A-IFRS $
Current Assets							
Cash and cash equivalents		12,545,370	-	12,545,370	12,545,370	-	12,545,370
Other financial assets		1,821	-	1,821	1,821	-	1,821
Other	g	45,311	3,000	48,311	45,311	-	45,311
Total current assets		12,592,502	3,000	12,595,502	12,592,502	-	12,592,502
Non-current assets							
Investments accounted for under the equity method	g	218,134	(218,134)	-	-	-	-
Other financial assets	a	968,495	(853,500)	114,995	2,086,350	(67,227)	2,019,123
Property, plant and equipment	g	35,451	1,212	36,663	12,105	-	12,105
Deferred tax assets	e	-	357,633	357,633	-	363,364	363,364
Other intangible assets	a	-	370,608	370,608	-	-	-
Other	a,b	378,600	(354,600)	24,000	378,600	(354,600)	24,000
Total non-current assets		1,600,680	(696,781)	903,899	2,477,055	(58,463)	2,418,592
Total assets		14,193,182	(693,781)	13,499,401	15,069,557	(58,463)	15,011,094
Current liabilities							
Trade and other payables	g	304,445	6,804	311,249	304,120	-	304,120
Provisions	c	84,383	(1,279)	83,104	82,512	(1,279)	81,233
Total current liabilities		388,828	5,525	394,353	386,632	(1,279)	385,353
Total liabilities		388,828	5,525	394,353	386,632	(1,279)	385,353
Net assets		13,804,354	(699,306)	13,105,049	14,682,925	(57,184)	14,625,741
Equity							
Share capital	d	21,638,139	(1,670,705)	19,967,434	21,638,139	(1,670,705)	19,967,434
Reserves	d	-	1,670,705	1,670,705	-	1,670,705	1,670,705
Retained earnings	f	(7,833,785)	(699,306)	(8,533,090)	(6,955,214)	(57,184)	(7,012,398)
Total Equity		13,804,354	(699,306)	13,105,049	14,682,925	(57,184)	14,625,741

*Reported financial position for the financial year ended 30 June 2004.

30. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Effect of A-IFRS on the income statement for the financial year ended 30 June 2005

		Consolidated			Company		
	Note	Superceded policies*	Effect of transition to A-IFRS	A-IFRS	Superceded policies*	Effect of transition to A-IFRS	A-IFRS
		$	$	$	$	$	$
Other Income		598,356	-	598,356	907,076	-	907,076
Share of loss of jointly controlled entities accounted for using the equity method	g	(1,131,775)	1,131,775	-	-	-	-
Employee benefits expense	e	(1,097,933)	(1,581,113)	(2,679,046)	(1,038,998)	(1,001,353)	(2,040,351)
Depreciation and amortisation expense	g	(6,748)	(12,896)	(19,644)	(4,570)	-	(4,570)
Consulting expenses	g	(130,013)	(526)	(130,539)	(13,122)	-	(13,122)
Disposal of interest in Carbon Sinks Services	g	(47,602)	47,602	-	-	-	-
Finance costs		(1,772)	-	(1,772)	-	-	-
Legal fees	a	(296,001)	(1,095,001)	(1,391,002)	(50,479)	(610,927)	(661,406)
Travel	g	(157,023)	(17,818)	(174,841)	(93,386)	-	(93,386)
Insurance	g	(43,157)	(9,661)	(52,818)	(48,063)	-	(48,063)
Rent	g	(7,915)	(25,501)	(33,416)	(82,894)	-	(82,894)
Research & development	g	-	(384,404)	(384,404)	-	-	-
Other expenses	g	(318,325)	(333,763)	(652,088)	(349,486)	-	(349,486)
Loss before income tax expense		(2,639,908)	(2,281,306)	(4,921,214)	(773,923)	(1,612,280)	(2,386,203)
Income tax benefit	e	-	912,035	912,035	-	229,347	229,347
Loss from continuing operations		(2,639,908)	(1,369,271)	(4,009,179)	(773,923)	(1,382,933)	(2,156,856)
Loss from discontinued operations		-	-	-	-	-	-
Loss for the period		(2,639,908)	(1,369,271)	(4,009,179)	(773,923)	(1,382,933)	(2,156,856)
Loss attributable to members of the parent entity		(2,639,908)	(1,369,271)	(4,009,179)	(773,923)	(1,382,933)	(2,156,856)

* Reported financial results for the year ended 30 June 2005.

30. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Effect of A-IFRS on the balance sheet as at 30 June 2005

	Note	Consolidated			Company		
		Super-ceded policies*	Effect of transition to A-IFRS	A-IFRS	Super-ceded policies*	Effect of transition to A-IFRS	A-IFRS
		$	$	$	$	$	$
Current Assets							
Cash and cash equivalents	g	9,031,133	37,355	9,068,488	3,692,508	-	3,692,508
Trade and other receivables	g	-	21,227	21,227	-	-	-
Other financial assets		5,680	1	5,681	4,132	-	4,132
Other	g	39,767	4,722	44,489	37,461	-	37,461
Total current assets		9,076,580	63,304	9,139,885	3,734,101	-	3,734,101
Non-current assets							
Investments accounted for using the equity method	g	2,007,774	(2,007,774)	-	-	-	-
Property, plant and equipment	g	131,707	2,088,410	2,220,117	41,005	-	41,005
Deferred tax assets	e	-	1,269,668	1,269,668	-	795,819	795,819
Investments	a,d	2,320,283	(1,651,538)	668,745	12,310,484	(421,218)	11,889,266
Other intangible assets	a	-	603,086	603,086	-	-	-
Other non-current assets	a	-	177,569	177,569	-	24,000	24,000
Mineral exploration costs	b	379,747	(379,747)	-	379,747	(379,747)	-
Total non-current assets		4,839,511	99,674	4,939,185	12,731,236	18,854	12,750,090
Total assets		13,916,091	162,978	14,079,070	16,465,337	18,854	16,484,191
Current liabilities							
Trade and other payables	g	223,466	543,455	766,921	117,667	-	117,667
Interest-bearing liabilities		14,188	-	14,188	-	-	-
Provisions	c	116,833	543	117,376	105,096	(2,382)	102,714
Total current liabilities		354,487	543,998	898,485	222,763	(2,382)	220,381
Non-current liabilities							
Interest-bearing liabilities		63,586	-	63,586	-	-	-
Total non-current liabilities		63,586	-	63,586	-	-	-
Total liabilities		418,073	543,998	962,071	222,763	(2,382)	220,381
Net assets		13,498,018	(381,020)	13,116,999	16,242,574	21,236	16,263,810
Equity							
Share capital	d	23,971,711	(1,670,705)	22,301,006	23,971,711	(1,670,705)	22,301,006
Reserves	d	-	3,358,262	3,358,262	-	3,132,058	3,132,058
Retained earnings	f	(10,473,693)	(2,068,576)	(12,542,269)	(7,729,137)	(1,440,117)	(9,169,254)
Total equity		13,498,018	(381,020)	13,116,999	16,242,574	21,236	16,263,810

*Reported financial position for the financial year ended 30 June 2005.

30. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Effect of A-IFRS on the 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.

Notes to the reconciliations of income and equity

(a) Other financial assets - investments

Under AASB 138 research costs are expensed when incurred. The impact of the adoption of A-IFRS on the financial position as at 30 June 2005 was the write-off to reserves of $1,679,408 which had been capitalised under AGAAP (company: $654,108).

$24,000 was reclassified to Other Assets at 30 June 2005 (company: $24,000).

$408,380 of capitalised development costs meeting the requirements of AASB 138 has been reclassified as Intangible Assets at 30 June 2005 (company: $NIL)

Under AASB 138, the impact of the adoption of A-IFRS on the financial performance for the year ended 30 June 2005 was to increase legal fees by $975,599 being research costs incurred during the year (company: $610,927).

(b) Mineral Exploration Costs

Under AASB 6 exploration and evaluation of mineral assets can be measured at cost and assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount, or they can be expensed when incurred. The consolidated entity has changed its accounting policy in line with AASB 6 and has written off the balance of $379,747 to reserves at 30 June 2005 (company: $379,747).

(c) Provisions

AASB 119 "Employee Benefits" requires liabilities for short term employee benefits to be measured at present value. The impact on the Financial Statements at 30 June 2005 is an adjustment of $2,380 required by AASB 119 to reflect the present value of the liability (company: $2,380).

(d) Share Capital & Reserves

For the financial year ended 30 June 2005, share-based payments of $1,227,557 (company: $1,001,353) (included in 'employee benefit expenses') which were not recognised under the superseded policies were recognised under A-IFRS, with a corresponding increase in the equity-settled benefits reserve. Additionally, $460,000 of share options (company: $460,000) were granted as part of the initial purchase of share capital of The Oil Mallee Company of Australia Limited and have been recognised under A-IFRS in the fair value of the investment. The share option premium, previously held in share capital, was transferred to reserves.

These adjustments had no material tax or deferred tax consequence.

(e) Income Tax

Under superseded policies, the consolidated equity adopted tax-effect accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items were included or allowed for income tax purposes in a period different to that for accounting were recognised at current taxation rates as deferred tax assets and deferred tax liabilities, as applicable.

Under A-IFRS, deferred tax is determined using the 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 their corresponding tax bases. Deferred tax assets arising from tax losses carried forward are only recognised if it is probable that there will be future taxable income to utilise them.

The effect of the above adjustments has been to increase the deferred tax balance at 30 June 2005 by $1,269,668 (company: $795,819).

The effect on consolidated profit for the financial year ended 30 June 2005 was to create an income tax benefit of $912,035 (company: $229,347).

The effects of the above adjustments on the deferred tax balances are as follows:

30. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

	CONSOLIDATED		COMPANY	
	1-July-04 $	30-June-05 $	1-July-04 $	30-June-05 $
Deferred tax not recognised under previous GAAP	357,633	1,269,668	363,364	795,819
Net increase/(decrease) in deferred tax balances	357,633	1,269,668	363,364	795,819

(f) Retained earnings

The effect of the above adjustments on retained earnings is as follows:

		CONSOLIDATED		COMPANY	
	Note	1-July-04 $	30-June-05 $	1-July-04 $	30-June-05 $
Expensing share-based payments	d	-	(1,227,557)	-	(1,001,353)
Adjustments to tax balances	e	357,633	1,269,668	363,364	795,819
Expensing projects	a	(703,855)	(1,679,408)	(43,227)	(857,216)
Expensing mineral exploration	a	(378,600)	(379,747)	(378,600)	(379,747)
Adjustments to provisions	c	1,279	2,380	1,279	2,380
Consolidation of Carbon Sink Services	g	24,237	(53,912)	-	-
Total adjustment to retained earnings		(699,306)	(2,068,576)	(57,184)	(1,440,117)

(g) Consolidation of Carbon Sink Services Pty Ltd

These adjustments reflect the consolidation of Carbon Sink Services Pty Limited in accordance with the requirements of AASB127, Consolidated and Separate Financial Statements. Previously, under superseded accounting policies this had been accounted for as a joint venture using the equity method of accounting. The impact on reported retained earnings is set out in (f) above.

ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 31 AUGUST 2006

Number of holders of equity securities

Ordinary share capital

- 195,833,509 fully paid ordinary shares are held by 952 individual shareholders.

All issued ordinary shares carry one vote per share.

Preference share capital

- 98,888,889 converting preference shares are held by 21 individual shareholders.

Options

- 156,142,746 options are held by 155 individual optionholders.
- 3,750,000 options are unlisted, held by 3 individual optionholders.

Options do not carry a right to vote.

ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 31 AUGUST 2006

Distribution of holders of equity securities

	Ordinary shares	Holders	Options	Holders
1 - 1,000	16,723	28	560	2
1,001 - 5,000	617,063	187	3,880	1
5,001 - 10,000	1,213,594	142	83,214	11
10,001 - 100,000	16,533,987	416	3,824,679	70
100,001 and over	179,702,142	156	153,070,412	77
	198,083,509	929	156,982,745	161
Holding less than a marketable parcel		58		3

Substantial shareholders

Ordinary shareholders	Fully paid Number	Fully paid Percentage
Gabor Holdings Pty Ltd (The Tricorp A/C)	55,560,000	28.37%
Crestpark Investments Pty Ltd	22,222,222	11.35%
	77,782,222	39.72%

Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully paid Number	Fully paid Percentage
Gabor Holdings Pty Ltd (The Tricorp A/C)	55,560,000	28.05%
Crestpark Investments Pty Ltd	22,222,222	11.22%
Susan Wallwork	9,300,000	4.69%
Gabor Holdings Pty Ltd	8,122,204	4.10%
Favcor Pty Ltd	3,841,983	1.94%
City Lane Pty Ltd (Whitcombe Family A/C)	3,314,670	1.67%
Sonsam Pty Limited	3,185,592	1.61%
MRC Services Pty Ltd (Cooper Family Fund A/C)	2,968,993	1.50%
Troy (Qld) Pty Ltd (RCG Super Fund)	2,700,000	1.36%
David Michaels	2,600,000	1.31%
Nefco Nominees Pty Ltd	2,590,000	1.31%
Denis Ivan Rakich (The Rakich Retirement Fund)	2,207,775	1.11%
Mrs Susan Hadley	2,000,000	1.01%
Mr Frank Albert Moore	2,000,000	1.01%
Colbern Fiduciary Nominees Pty Ltd	1,892,700	0.96%
Lopez Enterprises Pty Ltd (McAuliffe Super)	1,666,668	0.84%
Ms Leslie Ann Tilly	1,578,750	0.80%
Ms Jacqueline Mesure	1,348,757	0.68%
Mr Harry Carter & Mrs Judith Carter	1,315,000	0.66%
Mr Graeme Lynton Gardner (Leisure Homes)	1,225,000	0.62%
	131,640,314	66.46%

ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 31 AUGUST 2006

Option Holders	Number	Percentage
Gabor Holdings Pty Ltd (The Tricorp A/C)	55,560,000	35.39%
Crestpark Investments Pty Ltd	22,222,222	14.16%
Susan Wallwork	9,300,000	5.92%
Gabor Holdings Pty Ltd	8,122,204	5.17%
Andrew William Thorold Grant	6,416,408	4.09%
City Lane Pty Ltd (Whitcombe Family A/C)	4,485,157	2.86%
Westpac Custodian Nominees Limited	3,957,016	2.52%
Mr Denis Ivan Rakich	3,648,632	2.32%
Favcor Pty Ltd	3,333,333	2.12%
MRC Services Pty Ltd (Cooper Family Fund A/C)	3,233,333	2.06%
Sonsam Pty Limited	3,185,592	2.03%
Elstree Nominees Pty Ltd	2,200,000	1.40%
Nefco Nominees Pty Ltd	1,900,000	1.21%
Lopez Enterprises Pty Ltd (McAuliffe Super)	1,666,668	1.06%
Moorwell Holdings P/L (Marsec Super)	1,225,000	0.78%
Pinnacle Superannuation Fund Pty Ltd	1,200,000	0.76%
Mr Alan R & Mrs Clara E Haldane	1,015,000	0.65%
Susan Kay Trahar	921,748	0.59%
Berenes Nominees Pty Ltd	900,000	0.57%
Troy (Qld) Pty Ltd	850,000	0.54%
	135,342,313	86.21%

Unquoted equity securities shareholdings

Largest Convertible preference shareholders	Number
Gabor Holdings Pty Ltd	50,000,000
Crestpark Investments Pty Ltd	22,222,222

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