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

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Our Ref: CO2 ASX Announce Appendix 4C – 30 June 2007 (183)

ANNOUNCEMENT NUMBER 183

30 July 2007

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

By: ASX Online
Number of pages: 16
(including this page)

Dear Sir

QUARTERLY REPORT – PERIOD ENDING 30 JUNE 2007

Please find attached the Quarterly Report for the activities of CO2 Group Limited for the period ending 30 June 2007 as required under Listing Rule 4.7B.

Yours faithfully
CO2 Group Limited

Harley Whitcombe
Company Secretary

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“Pollution stems from a fundamental failure of markets to incorporate the full cost of economic activities”

G Hardin (1968)

CO2 GROUP LIMITED QUARTERLY REPORT – PERIOD ENDING 30 JUNE 2007

CO2 Group Limited is a Company that specialises in the commercialisation of business opportunities within the environmental sciences sector.

The Company's CO2 AUSTRALIA™ Carbon Sequestration Program (Program) specialises in offering a low cost solution to meeting the challenges of mitigating the effects of global warming and increasing government regulatory actions targeted at the rapidly emerging carbon constrained global economy.

CO2 Australia remains the only Australian company that has gained accreditation as a carbon sink offset provider under both the NSW Government Greenhouse Gas Abatement Scheme and the Federal Government's Greenhouse Friendly™ Program and remains the only carbon sink provider that has gained accreditation under the Greenhouse Friendly™ Program. CO2 Australia was the first Australian company to secure membership as an Associate Member and Participant Member of the largest carbon voluntary scheme in the US, the Chicago Climate Exchange (CCX). As a Participant Member of CCX, CO2 Australia intends to act as an offset provider thus enabling CO2 Australia to be a supplier of carbon credit offsets into the North American carbon market.

The Company's Program has received numerous Australian and International environmental and sustainability awards.

For a brief overview of the Company's Program please refer to Attachment 1.

HIGHLIGHTS FOR THE QUARTER

Operations

- Planting operations for the 2007 planting season commenced during the quarter. A large part of this year's planting is being undertaken with Macquarie Bank.
- Planning to significantly scale up operations for the 2008 planting season has commenced.
- A number of new carbon business opportunities advanced during the quarter.

Corporate

- Mr Andrew Grant appointed new CO2 Group Chief Executive Officer as at 18th July 2007.
- The Company received further Eraring agency fees during the quarter. Management fees will be generated for an additional 29 years.
- The Company was successful in securing further carbon offset programs during the quarter, including being selected as the Australian offset provider for Portfolio Partners and City of Sydney.
- Cash reserves reported at the end of the quarter are $3.3m. A number of converting preference shareholders and option holders have converted their holdings into fully paid shares post 30 June. This coupled with the sale of non-core assets post 30 June has generated an additional $0.71 million of funds.
- Further investments made in core intellectual property covering carbon inventory, modelling and genetics which assist in strengthening barriers to entry.
- CO2 Australia nominated as a finalist in the United Nations Association of Australia World Environment Day.
- CO2 Group's CEO Mr Andrew Grant continues to be invited to present at industry and climate change conferences.

New Regulatory Environment for Carbon Sink Providers

- During the quarter, CO2 Australia experienced a dramatic increase in interest from corporate Australia, small businesses and other parties in its CO2 AUSTRALIA™ Carbon Sequestration Program. This dramatic increase in demand can be attributed to a number of significant events that have occurred over the last few months.

  These significant events have endorsed CO2 Group's carbon business strategy placing the company in a favourable regulatory/political environment to capitalise on the growing demand for carbon solutions. These significant events are summarised below:

  1) The Federal Government, the Prime Ministerial Task Group on Emission

Trading and United Nations (UNFCCC) have acknowledged the role of carbon sinks as a 'low cost' or 'least cost' short to medium term abatement opportunity available today, while new potential low carbon technologies are advanced in the longer term.

2) Both Federal political parties have now committed to a national emissions trading scheme. Short to medium term greenhouse emission reduction targets will be announced in 2008, with Labor reconfirming its long term target of a 60% reduction in emissions by 2050.

3) Both Federal political parties, the Prime Ministerial Task Group and the National Trading Scheme being developed by the State and Territory Governments have endorsed the use of carbon sinks as offsets under the various proposed emission trading schemes.

4) The emerging Australia emissions trading market could see an annual turnover of between A$4 billion and A$9 billion per year with total annual emissions valued at between $11 billion to $28 billion, according to Mr Ziggy Switkowski, head of the Australian Nuclear Science and Technology Organisation.

   Mr Switkowski has stated that nuclear and renewable energy in the country would be economically viable with carbon prices of A$20-A$50 per tonne.

5) Both Federal political parties, the Prime Ministerial Task Group and the State and Territory Governments have recognised the importance of the accreditation process for carbon sinks. Accreditation processes under the Greenhouse Friendly™ Program and the NSW Greenhouse Gas Abatement Scheme have been identified as appropriate accreditation mechanisms.

6) The Federal Government's May Budget introduced a 100% tax deduction for 'qualifying' carbon sink developments and has removed the uncertainty surrounding this issue. This uncertainty had caused consternation particularly for corporate Australia.

7) The Prime Minister adopts the recommendations of the Prime Ministerial Task Group on Emission Trading.

   The Task Group has recommended that:

   o it is in Australia's interest to "maximise the potential of carbon sinks to the abatement task",

   o carbon credits generated by carbon sink "could be created and banked" ahead of the commencement of permit trading. This would provide further immediate incentives to this area, building on changes in tax treatment announced in 2007-2008 Budget", and

   o "early development of carbon sink forests would also provide a means to assist firms to building familiarity with offset credit mechanisms and assist in achieving least cost abatement".

8) As stated at the Labor party National Conference ratification of the Kyoto Protocol remains Federal Labor's policy position.

9) The State and Territory Governments have reconfirmed their commitment to a national emission trading scheme by 2010, should Federal action on this issue be missing. Further, the taskforce is expected to report back to the State and Territory Governments in the second half of the year.

New Business Opportunities

- Political regulatory environment in Australia concerning climate change plus CO2 Australia's multiple accreditations and awards has led to increasing interest in the Company's CO2 AUSTRALIA™ Carbon Sequestration Program from corporate Australia and offshore multinational corporations.
- A number of advanced negotiations were ongoing during the quarter. A number of new negotiations have commenced with corporate Australia involving potentially significant carbon sink programs.
- The level of inquiry from corporate Australia and small businesses has increased significantly over the last few months.

Brief Overview of Other Major Carbon Developments

- For a brief overview of further significant regulatory carbon developments, refer to Attachment 2.

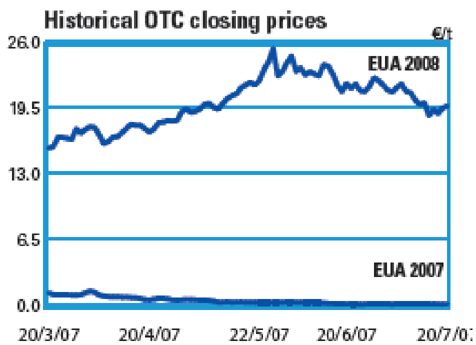
Overview of EU ETS Scheme and NSW Scheme and Greenhouse Friendly™ Program

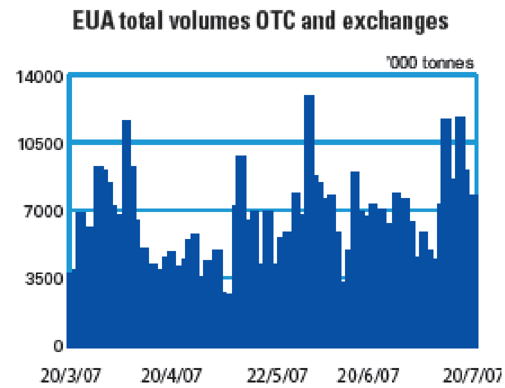
The EU ETS

- As highlighted by the historical OTC closing prices graph below, prices for allowances (carbon credits) during the quarter remained volatile driven largely by market recognition that the allocations made during Phase I of the EU-ETS has led to an oversupply of credits available to be sold. However, "carbon" prices for European Union Allowances ("EUA") in 2008 and 2009 remain less volatile and have continued to increase during the quarter.

  Many 'credits' created in Phase 1 have no value post December 2007.

- Phase II of the EU-ETS scheme (2008-2012) will see the penalty rate for non-compliance increased from €40 per tonne to €100 per tonne.





EU ETS OTC closing prices (€/t)

Delivery	Bid	Offer	Close
Spot	0.11	0.13	0.12
EUA 2007	0.12	0.14	0.13
EUA 2008	19.60	19.65	19.63
EUA 2009	19.98	20.03	20.01

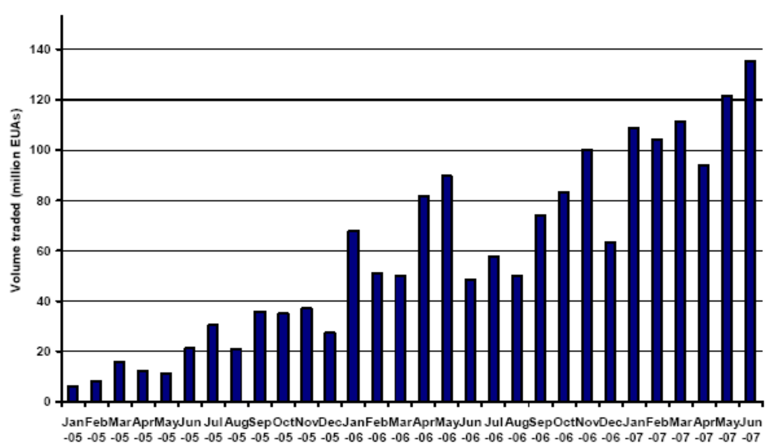
Secondary market CER assessment (€/t)

	Low	High
Dec-08	14.60	14.70
Dec-08-12	15.10	15.20

Source: Point Carbon

Monthly volumes traded in the EU ETS

The figure below shows monthly vomues of EU allowances traded since January 2005. The data includes traded volumes on ECX, EEX, EXAA, Nord Pool and Powernext, as well as Point Carbon's assessment of volumes in the brokered market.



Source: Point Carbon

Forecast Carbon EU-ETS Prices

Carbon market expects higher prices: Survey[1]

- Carbon market participants expect carbon prices to rise in the 2008-2012 period, both for EU allowances and Kyoto project credits, according to a survey presented by the International Emissions Trading Association (IETA).
- Close to two thirds of the carbon market participants questioned by PriceWaterhouseCoopers, the consultancy that prepared the report for IETA stated that they expected prices to rise in the second phase of the EU emissions trading scheme (ETS), with 13.7 per cent stating they expect prices to be "significantly higher."
- Market participants also expect the price of carbon credits generated through the Kyoto Protocol's clean development mechanism (CDM) to grow in 2008-2012 period. Close to 60 per cent expect higher prices, while 26 per cent expect prices stay at current levels.
- The survey was based on 150 responses from participants in greenhouse gas markets.

Including aviation could increase EU carbon prices by €5.00: analyst[2]

- Alexandre Marty, a consultant with ICF International, stated that the inclusion of aviation in Europe's carbon trading scheme could increase prices by €2.00 to €5.00 per tonne
- Air travel within the EU will be covered by the EU emissions trading scheme (ETS) from 2011, according to proposed legislation currently making its way through the EU's decision-making bodies. From 2012, all flights touching ground in the EU will be covered by the scheme.
- The inclusion of intra-EU flights from 2011 will increase demand by 40 million allowances over the last two years of the 2008-2012 trading period. If international flights are added from 2012, demand for credits would increase by 100 million in 2011 and 2012, the Marty analysis concluded.
- The demand for Kyoto project credits would increase by 35 million if the EC applies the current limit to the aviation industry. If only intra-EU flights are included, that number would be reduced to 15 million, ICF report stated.

UBS predicts €30.00 phase-two price, market responds[3]

- Forward hedging of power production by utilities will push the price of carbon up to €30.00 in 2008, UBS stated in its report. However, as more supply of Kyoto project credits enter the system, UBS predicts that the price of carbon will decline to €25.00 in 2009-2010 and rise again gradually to €35.00 in 2012.
- The price of phase two allowances has climbed 70 per cent since February, when it reached a low of approximately €12.00, and has caused UBS to revise upward its previous carbon price forecast of €20.00 for 2008.
- Current prices are now above the latest forecast from Point Carbon's analysts, which predicted a price of €22.00. However, analysts with Deutsche Bank join UBS in predicting higher carbon prices, setting the mark at €25.00 (refer to diagram on the following page).

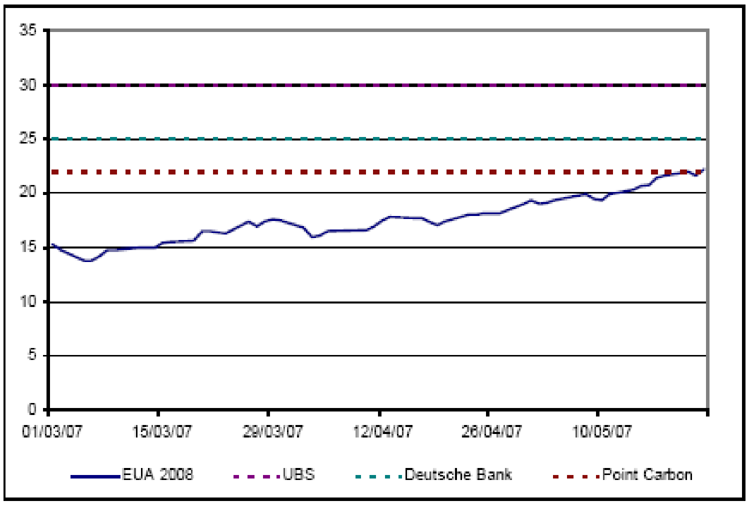
Background to EU ETS

- The European Union Emission Trading Scheme (EU ETS) encompasses the 28 countries which make up the European Union (EU) and has been implemented to achieve targets set out in the Kyoto agreement. The EU ETS became European law in June 2003 and became operational on 1st January 2005.
- The EU ETS is planned to operate in two phases. Phase 1, commonly referred to as the warm-up phase from 2005 to 2007 focuses on carbon dioxide only (the principal greenhouse gas) and on a range of large installations in key industrial sectors. In Phase 1 of the EU ETS, over 6 billion tonnes of European Union Allowances (a form of carbon credits) have been allocated, equivalent to a value of some €120 billion.
- The second phase from 2008 to 2012 is set to coincide with the first Kyoto compliance period. The second phase will involve tighter overall caps (in line with economy-wide emissions targets under the Kyoto Protocol) and may be expanded to other greenhouse gases and additional sources and sectors (e.g. aluminium and aviation).

[1] Carbon Market News, 2 May 2007
[2] Carbon Market News, 3 May 2007
[3] Carbon Market Europe, 25 May 2007

Forecasts and prices

The figure shows the current forecasts for EUA prices in the second phase of the EU ETS., and actual EUA 2008 forward prices since 1 March. The UBS forecast is for 2008, the Deutsche Bank forecast is an expectation for the period, and Point Carbon's is an average price target for the second phase.



- With regard to the size and value of the EU ETS, a recent report[4] by Point Carbon has provided a summary of the EU ETS and other carbon markets. Below are extracts from this report.
- In 2006, trading on the EU ETS totalled 817 million tonnes (through brokers or exchanges). This equates to a carbon market value of €14.6 billion, representing a threefold increase from 2005, and a two hundred times more than in 2004. In addition to the brokers and exchanges there is a sizeable direct bilateral market, bringing the financial value even higher.
- There was an expected boost in trading for delivery in the Kyoto period (2008-2012), with trades of 200 million tonnes CO_2 worth €3.7 billion. 75 per cent of this came in the second half of the year, with activity peaking around the EC's announcement on new allocation plans[5].

Brief Background to NSW Benchmark Scheme

- The NSW Benchmark Scheme requires energy retailers and certain other parties (benchmark participants) to reduce the CO_2 intensity of the power purchased (i.e. their CO_2 emissions) or pay penalties. Currently there are 32 benchmark participants involved in the scheme.
- The NSW Benchmark Scheme became operational on the 1st January 2003 and was originally designed to expire at the end of 2012, to coincide with the first Kyoto commitment period (i.e. 2008-2012). Legislative amendments to the Scheme have now extended the Scheme to 2021 (and beyond – with automatic 15 year extensions).
- The volume of New South Wales Greenhouse Gas Abatement Certificates (NGACs = carbon credits) transferred on the registry tripled from 6 million in 2005 to 20 million in 2006. According to Point Carbon, the estimated financial value jumped three-and-a-half times from A$78.2 million (€48.5 million) in 2005 to A$268.3 million (€160 million) in 2006
- During the quarter NGAC prices have consolidated to around $10 per tonne of CO_2e.

Brief Background to Federal Government's Greenhouse Friendly™ Program

The Federal Government's Greenhouse Friendly™ Program which was officially launched on 7 November 2001 allows certification of goods and services where associated cradle-to-grave greenhouse emissions have been fully offset (i.e. carbon neutral). Certification entitles the participating companies to display the

[4] Point Carbon."Carbon 2007 – A new climate for carbon trading" (March 2007)
[5] Carbon Market Europe 12 January 2007

Greenhouse Friendly™ logo in conjunction with the sale and marketing of their certified product/service.

Greenhouse Friendly™ accredited carbon offset providers have the ability to provide carbon credits to:

- Greenhouse Friendly™ product and service providers to offset the greenhouse emissions associated with their certified product or service; and
- Greenhouse Challenge Plus (GCP) Members as an offset in their greenhouse inventories or to meet greenhouse goals as GCP Members.

Importantly, Greenhouse Friendly™ approved carbon credits can also be bought and sold to other parties outside the GCP framework.

The Federal Government's Greenhouse Challenge Plus (GCP) Program was established in 1995. The GCP Program is based upon Australian industry/organizations signing voluntary greenhouse co-operative agreements with the Federal Government under which Australian industry/organizations agree to develop, progress and report on action plans to abate greenhouse gas emissions. This involves the development of a thorough and independently verified greenhouse gas inventory and the establishment of business greenhouse targets.

It is currently estimated that there are over 800 companies/organisations registered as participating companies (offering carbon neutral products/services) under GFP and/or are members of the GCP. The Federal Government has recently announced mandatory membership requirements to the GCP Program for high greenhouse emission development projects as well as companies receiving $3m (or more) in fuel excise. These initiatives are expected to further increase overall membership to the GCP Program by 100 to 200 companies with most of these new GCP members coming from the transport, mining and resources sectors[6].

Yours faithfully
CO2 Group Limited

Harley Whitcombe
Director

[6] Australian Government. Greenhouse Challenge Plus – an Australian Government – industry partnership to reduce greenhouse gas emissions and improve energy efficiency (2005).

Brief Overview of Project

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

The Program is unique in the Australian marketplace. The Program involves establishing long term environmental plantings in agricultural areas of rural Australia that have been denuded of native vegetation. Mallee Eucalypts have been selected due to their ecological qualities: they are long lived; survive drought and fire; are resistant to pest and disease; are unpalatable to stock; and do not require irrigation or fertilisation. Most importantly, they accumulate large amounts of biomass, both above and below the ground and therefore generate significant carbon offsets.

The Program generates significant additional community benefits by retarding salination and thereby reducing the loss of biodiversity, increasing farm productivity as well as creating regional employment.

The Mallee Eucalypts is an indigenous tree species of southern Australia. Extensive clearing of the mallee has occurred (approximately 133,000 km² since European settlement[7]) in establishing the wheat-belt regions of southern Australia. As such, this over-clearing has resulted in the mallee being "recognized as one of the most affected of the major vegetation groups in Australia"[8].

As a consequence of over-clearing Australia now faces an increasing impact on its agricultural productivity, water quality and environmental health as a result of dryland 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"[9]. The Council of Australian Governments has stated that the total cost of land and water degradation is approximately A$3.5 billion per annum[10]. The National Land and Water Resources Audit (2000) 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.

A recent progress report on salinity has stated that more attention must be diverted in "securing greater industry involvement in salinity and the capacity to attract large-scale private investors[11].

Research and Development Program

The Program is well supported by over 15 years of research and development, which in turn has generated unique intellectual property on many aspects of the overall Program. It is also is supported by State and Federal Government policies on both climate change and natural resource management. For instance, the Federal Government has stated that "the Australian Government supports the establishment of appropriate forest carbon sinks projects as part of a comprehensive economy-wide response to achieving greenhouse gas emissions reductions"[12] and "integrating forest sinks with NRM forms an important priority"[13].

[7] Australian Government. Australian Native Vegetation Assessment 2001 – Vegetation Profile Fact Sheets Mallee Woodland and Shrublands
[8] NLWRA (2002)
[9] Commonwealth Environment Expenditure 2003-04
[10] COAG – Communiqué, 3 November 2003
[11] Commonwealth of Australia. Environment, Communications, Information Technology and the Arts Reference Committee – Living with Salinity – a report on progress. The extent and economic impact of salinity in Australia. (March 2006).
[12] Australian Government March 2005.
[13] Australian Government: Greenhouse Action in Regional Australia, Annual Prospectus 2005-2006.

The Program has gained international recognition by being invited to present at the Australian side event at the annual Kyoto Protocol Conference of Parties (COP10), the winning of a number of international environmental and sustainability awards and the recent invitation and subsequent membership to the Chicago Climate Exchange.

Domestically, recognition has been achieved by the program with a number of Australian and Asia Pacific industry awards as well as being nominated as a finalist in 3 Australian industry awards.

Mallees incorporated into farmers cropping system.

Further Australian Carbon Developments

- The Queensland Parliament has passed the Clean Coal Technology Special Agreement Bill which determines how the funds raised through the voluntary industry levy on coal production are allocated.
- The Queensland Government is to mandate business efficiency gains and introduce a MRET-style scheme.
- The South Australian Parliament has passed the Climate Change and Greenhouse Emissions Reduction Bill which includes a target of reducing greenhouse gas emissions to 60% below 1990 levels by 2050.
- The Western Australian Environmental Protection Authority has released the State of the Environment Report. The report's findings highlight some of the biggest environmental challenges facing WA are preventing the loss of biodiversity, halting land salinisation and addressing global pressures such as climate change.
- The Western Australia Government has released its Greenhouse Strategy – Climate Change: Making Decisions for the Future. Included in this strategy is a target to reduce emissions by at least 60% below 2000 levels by 2050 as well as a commitment to establishing a national emission trading scheme.
- A number of new surveys released during the quarter. For instance, The Understanding and Incorporating Stakeholder Perspectives to Low Emission Technologies in Queensland which was conducted by CSIRO revealed widespread recognition that reducing emissions is a joint responsibility of government, industry and the community.

USA Carbon developments

- US President Bush has announced that he will seek agreement amongst the world's major emitters on a long-term global goal to reduce emissions. Under the Bush proposal, each major emitter would work towards achieving the global goal by establishing its own mid-term targets.

  The Bush proposal will be undertaken in parallel with the UN process.
- Overview bills presented to US Congress:

  Since the start of the 110th Congress in January, several bills addressing climate change regulation have been introduced:

  - 9 bills create cap-and-trade programs (7 in the Senate; 2 in the House).
  - 1 bill introduced in the House imposes a carbon tax
    - Tax on fossil fuels based on their carbon content, as set by the Secretary of the Treasury
    - $10 per ton of carbon content

Clean Air Act: 6 of the 9 cap-and-trade bills would amend the Clean Air Act to add a new Title VII addressing climate change

Sectors: 5 bills impose reductions economy-wide; 4 bills impose reductions only on electric generating units

Levels and Timing of Reduction:

- The bills all contain interim caps over multi-year timeframes that progressively get more stringent.
- 35% below 2000 levels by 2050
- 67% below 2000 levels by 2050
- 17% below 1990 levels by 2050
- 80% below 1990 levels by 2050
- One bill doesn't contain exact targets but has a goal of reaching a stabilized level of 450 ppm CO_2 equivalent in the global atmosphere.

Safety Valve:

- Four bills have no explicit safety valve provision, but allow EPA to step in under certain circumstances to do certain prescribed things:
  - EPA can permit allowances to be used a year in advance
  - EPA can revisit the targets (2 bills)
  - EPA can extend deadlines by two years
- Four bills do not have any safety valve provision at all.
- One bill provides for a technology indexed stop price. If the price of an allowance goes above the technology indexed stop price, the cap remains the same and does not decline until the price goes below the stop price or three years passes, whichever occurs first.

Other Pollutants: Three bills – all addressing electric generating units – also set decreasing limits for sulphur dioxide, nitrogen oxides, and mercury.

Allocation of Allowances:

- Almost all of the bills have a mix between allocating allowances to sources and auctioning allowances.
- Two bills increase the auction component to a 100% auction by 2036.
- Some bills provide for the allocation of allowances not just to regulated sources but also to households.
- Some disagreement over whether to allocate to electric generating units based on traditional fuel use or based on amount of electricity generated.

Offsets:

- Four of the bills explicitly allow the use of international allowances to meet emission reduction requirements up to varying percentages (30%, 20%, and 15%).
- Most of the bills are silent on the subject, and there does not appear to be clear consensus on the issue.
  - Some members of Congress support strongly because climate change is an issue.
  - Other members are concerned about problems with verifiability of international offsets.

- US State led greenhouse initiatives continued during the quarter. These include:
  - British Columbia and Utah have joined the so-called Western Regional Climate Action Initiative.
  - Washington to limit power plant greenhouse emissions.
  - Over 30 states have established the Climate Registry – a unified greenhouse gas tracking and reporting system.
  - New Jersey Bill seeks mandatory reductions of greenhouse gas emissions by 80% from 1990 levels by 2050.
  - Governor Pawlenty of Minnesota has signed legislation that sets greenhouse reduction targets of 30% from 2005 levels by 2025 and 80% by 2050. Minnesota to explore prospects for a cap and trade scheme for power plants.
  - State of Pennsylvania considering setting a greenhouse gas reduction target of 25% below 2000 levels by 2025.
  - Hawaii looking to adopt long-term greenhouse gas reduction targets.

G8 Developments

- G8 leaders have agreed to seriously consider a 50% reduction in emissions by 2050 and reach an international agreement on climate change by 2009. Further, G8 leaders acknowledge that the UN climate process was the appropriate forum for negotiating future action on climate change.

  Five major developing countries have stated that they would do their "fair share to tackle climate change" and would work with the G8 countries.

Other International Developments

- Switzerland to introduce carbon tax on heating and process fuels and a domestic trading scheme in 2008.
- Canadian province Quebec has announced the introduction of a carbon tax to be targeted at oil and coal companies.
- The Canadian Government has introduced a Greenhouse Gas Reduction Program which targets a reduction in emissions by 20% below the 2006 level by 2020. In addition, Canada will set up a domestic emission trading scheme with a baseline-and-credit approach. Companies can "pay off" their excess emissions for a price of C$15/t in 2010, which rises to C$20/t in 2013 and grows thereafter.
- New Zealand moving towards a broad-base cap and trade scheme. Jointly exploring being part of the planned Australian national emission trading scheme.

Rule 4.7B

Appendix 4C

Quarterly report
for entities admitted
on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

CO2 Group Limited

ABN	Quarter ended ("current quarter")
50 009 317 846	**30 June 2007**

Consolidated statement of cash flows

	Cash flows related to operating activities		Current quarter $A'000	Year to date (12 months) $A'000
1.1	Receipts from customers		312	2,279
1.2	Payments for	(a) staff costs	(626)	(2,405)
		(b) advertising and marketing	-	-
		(c) research and development	(29)	(59)
		(d) leased assets	(15)	(61)
		(e) other working capital	(705)	(4,655)
1.3	Dividends received		-	-
1.4	Interest and other items of a similar nature received		67	153
1.5	Interest and other costs of finance paid		(15)	(36)
1.6	Income taxes paid		-	-
1.7	Other		22	72
	Net operating cash flows		(989)	(4,712)

+ See chapter 19 for defined terms.

		Current quarter $A'000	Year to date (12 months) $A'000
1.8	Net operating cash flows (carried forward)	(989)	(4,712)
	Cash flows related to investing activities		
1.9	Payment for acquisition of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	(847)	(1,349)
	(e) other non-current assets	-	(50)
1.10	Proceeds from disposal of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	-	-
	(e) other non-current assets	-	-
1.11	Loans to other entities	-	-
1.12	Loans repaid by other entities	-	-
1.13	Other (provide details if material)	-	-
	Net investing cash flows	(847)	(1,399)
1.14	**Total operating and investing cash flows**	(1,836)	(6,111)
	Cash flows related to financing activities		
1.15	Proceeds from issues of shares, options, etc.	1,040	4,104
1.16	Proceeds from sale of forfeited shares	-	-
1.17	Proceeds from borrowings	-	639
1.18	Repayment of borrowings	-	-
1.19	Dividends paid	-	-
1.20	Other (provide details if material)	-	-
	Net financing cash flows	1,040	4,743
	Net increase (decrease) in cash held	(796)	(1,368)
1.21	Cash at beginning of quarter/year to date	4,092	4,664
1.22	Exchange rate adjustments to item 1.20	-	-
1.23	**Cash at end of quarter**	3,296	3,296

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter $A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	263
1.25	Aggregate amount of loans to the parties included in item 1.11	Nil

1.26 Explanation necessary for an understanding of the transactions

Wages

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities	639	639
3.2	Credit standby arrangements	Nil	Nil

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter $A'000	Previous quarter $A'000
4.1 Cash on hand and at bank	698	3,256
4.2 Deposits at call	2,598	836
4.3 Bank overdraft		
4.4 Other (provide details)		
Total: cash at end of quarter (item 1.23)	3,296	4,092

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity		
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.

2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date: 30 July 2007
(Director/Company secretary)

Print name: **Harley Whitcombe**

+ See chapter 19 for defined terms.