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31 January 2006

The Company Announcements Office
Australian Stock Exchange Limited
4th Floor
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

DECEMBER QUARTER ACTIVITIES REPORT

HIGHLIGHTS

- **Comet Enters into Environmental Oil Solutions Project**
- **Environmental Oil Solutions Project receives \$1,048,268 Grant funding from South Australian Government**

ENVIRONMENTAL OIL SOLUTIONS PROJECT

Background

In early November Comet Resources Limited (**CRL**) announced that the Company had entered into an agreement to purchase the assets of environmental research Company BIO-Tec Pty Ltd. The assets are related to various patent applications and intellectual property associated with BIO-Tec's BIO-Paragone bacteria technology platform (**The Technology**) for the clean up and recycling of oil wastes (**Environmental Oil Solutions Project**). The assets are to be held in CRL's wholly owned subsidiary Environmental Oil Solutions Pty Ltd.

On 25 January the South Australian State Government announced a grant of over \$1 million to support the project through the Science Technology and Innovation Directorate of the Department of Further Education, Employment, Science and Technology. This grant contributes to the development of the Environmental Oil Solutions Project without dilution of CRL shareholders.

The Technology is being developed as a cost effective solution for the global waste oil problem. This includes the residual heavier hydrocarbon waste components left in oil storage tanks in the oil refining and storage industry. This waste must be removed by law in many countries. CRL plans to be able to recycle oil waste by altering the properties of the waste oil so it can be reused. Currently, there is no method available that cost effectively recycles heavy hydrocarbon waste without adverse environmental side effects.

The Technology offers a significant improvement to current cleaning methods of oil storage tanks, which involve chemical additives, tank entry by personnel, dumping or incineration of waste, and significant down time for the storage tank. The technology has the potential to be used on any hydrocarbon oil waste that is surplus to requirements or becomes contaminated after use. The problem is world-wide and is serviced by a multi billion dollar cleaning industry.

CRL believes that the attractions of The Technology are:-

1. Governments and participants in oil waste management around the world are demanding more cost effective, safer and environmentally friendly methods of handling oil wastes.
2. The planned development work involves optimising the time to grow the bacteria and progressively scaling up to commercial production. The bacteria will be grown in vessels commonly used throughout the biotechnology industry.
3. The test work and the securing of initial commercial contracts are scheduled to be completed within 9 months of project commencement.
4. CRL believes that The Technology will be an enabling platform for other commercial uses, which will be developed in due course.
5. BIO-Tec has developed strong relationships with many of the major oil production, processing and service companies, which have long term contracts in place to clean oil tanks.

Deal Summary

The proposed transaction will reward BIO-Tec as tangible milestones are met. CRL will seek shareholder approval as required as the project proceeds. The basis of the agreement is summarised below.

- CRL acquires 100% of patents, Intellectual property and assets from BIO-Tec Pty Ltd for the BIO-Paragone Technology platform and associated products.
- CRL provides funding of up to \$500,000 over the first 9 months of the agreement.

- CRL will issue up to 14 million shares and 4 million options if all milestones are met.
- The first tranche of 5 million shares will be paid after 9 months if the technology has led to \$20 million in commercial contracts to CRL.
- A second tranche of 5 million shares will be paid if CRL achieves \$2 million dollars net profits after tax (NPAT) during the 2007-2008 tax year.
- A third tranche of 4 million shares will be paid if CRL achieves \$10 million NPAT during the 2008-2009 tax year.
- The full payment of 14 million shares will be made to BIO-Tec at any time after the first 9 months if the average price of CRL shares remains above \$.050 for a period of 4 months.
- BIO-Tec will also receive 1million options in CRL exercisable @ \$.75/share, 1million @ \$1.00/share, 1million @1.25/share and 1million @1.50/share.
- The agreement is subject to due diligence which is nearing completion.

CRL has negotiated a Consultancy agreement with the BIO-Tec technology inventor Mr Andy Roberts.

Grant Funding

The Environmental Oil Solutions Project has received grant funding support from the Government of South Australia. A letter of approval has been received for the project from The Hon. Karlene Maywald MP, Minister for Science and Information Economy, Government of South Australia for a total amount of \$1,048,268 grant funding for the project over three years. The first amount of \$405,661.00 will be paid immediately. The Minister has signed the documentation for this grant.

CRL is encouraged to have Government recognition of the strategic and commercial potential of the project with support for the project through the Science Technology and Innovation Directorate of the Department of Further Education, Employment, Science and Technology. The Project has been recognised for its potential as a national solution for the treatment and recycling of waste oil residues.

Proof of concept of The Technology has been achieved and the Project is now at the feasibility stage. CRL's funding and the South Australian Government grant will enable CRL to commence studies immediately to establish that the bacteria can be produced at commercial prices and quantities and that the Project is effective in clean up waste oil materials at commercial scale.

This is expected to prove that the technology is a cost effective cleaning technology solution for the waste oil problem, including waste components left in oil storage tanks.

Exploration Activities

In October CRL entered into a Joint Venture with newly formed Ferrowest Pty Ltd to investigate CRL's Yalgoo Iron Project.

Ferrowest proposes to combine the existing sealed road and natural gas infrastructure that pass through the Yalgoo Iron Project with newly developed iron nugget manufacturing technology to produce up to 1 million tonnes per annum of high purity iron nuggets for export through the existing facilities at the Port of Geraldton.

The Joint Venture

Ferrowest was chosen as Joint Venture partner, following discussions with a number of potential groups, because of their superior project development concept and the experience and expertise of the principals and their consulting team in completing studies necessary to bank iron related projects.

The key terms of the Joint Venture arrangements are:-

The JV is constituted on ferrometal rights currently held by CRL on EL59/642, P59/1508, MLA59/634 MLA59/635, MLA 59/636, MLA59/637 and ELA59/1097 at Yogi 14Km west of Yalgoo.

The initial JV will be constituted on a 50:50 basis with Ferrowest assuming all responsibility for project management and all funding through to the completion of a Bankable Feasibility Study (assuming the project studies support its commercial and technical viability), anticipated to cost in the order of \$15.5 million.

CRL shall also receive a 'buy-in' fee from Ferrowest of \$100,000, payable within 6 months of execution of the JV to compensate CRL for a portion of the tenement costs expended to date.

Ferrowest will undertake the following study stages in evaluating the Project:

| Study Stage | Estimated Expenditure |
|------------------------------|------------------------------|
| Scoping Study | \$0.5 million |
| Pre-feasibility Study | \$2.5 million |
| Definitive Engineering Study | \$5.0 million |
| Bankable Feasibility Study | \$7.5 million |

Ferrowest will earn an increased percentage of the JV with each stage successfully funded and completed up to a maximum of 85% upon the successful completion of the Bankable Feasibility Study.

Other terms are generally in line with normal JV practices.

CRL's guaranteed 15% free carried interest through to completion of a successful Bankable Feasibility Study would represent a significant asset growth over time, with no outlay, no risk and is additional to the its Base Metal exploration.

While it is Ferrowest's responsibility to determine the best funding approach for the studies, CRL's board would support transferring the Yalgoo Iron Project into a suitable corporate entity for the purpose of listing on a reputable stock exchange. Agreement with Ferrowest has been reached that would allow CRL to swap equity in the project for 8 million shares in the newly listed company.

New South Wales

Kerrs Creek (EL6240)

Successful negotiations with selected Landowners at Kerrs Creek have been completed. Field investigations of old workings have identified the Day Dawn area of Kerrs Creek as having potential for epithermal style gold mineralisation. A programme of soil and stream sediment sampling in addition to re-sampling of previous diamond drill core is planned for the March quarter 2006.

Murrumbateman (EL6339)

An Access Agreement with the principal land owner over the Murrumbateman Prospect skarn hosted gold mineralisation was signed. A work programme including soil sampling and ground magnetic traversing will be conducted during the March quarter prior conducting a drilling programme.

Browns Reef (EL6321)

Diamond drill core from the Browns Reef base metal prospect was inspected CRL's assessment of the core was that additional core sampling is required and that this should be aimed at testing for potential gold mineralisation. Previous sampling for gold has been restricted to zones of highest base metal concentrations rather than zones of sulphide mineralisation and quartz – carbonate – sulphide veining.

CRL is in the process of negotiating Access Agreements prior to conducting an orientation surface soil sampling. The aim of this work is to assess the suitability of this technique to define anomalous gold and base metal geochemistry over the Browns Reef and Browns Reef South

Western Australia

Utopia (EL's 28/1412, 1294, 1295)

Further assessment of the open file data for the Utopia Project area was completed. Recently released open file reports provided support to previously delineated gold anomalism. This included further soil sampling programs which confirmed previous anomalism and re-sampling of Newmont's drill hole E07 which reported 5m @ 0.24 g/t Au (20-25m) and 1m @ 0.12 g/t Au (27-28m End Of Hole).

CRL has defined six anomalous areas, primarily within EL 28/1412 and 28/1495. It is planned to follow-up these anomalies initially by surface soil sampling and then RAB drilling to bedrock. The soil sampling will be conducted during the March 2006 quarter.

Aeromagnetic data over E28/1494, which CRL considers to be prospective for nickel sulphide mineralisation, will be purchased prior to interpretation and definition of targets.

For further information on Comet and its Environmental Oil Solutions Project and exploration projects please contact.

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Comet listed on the Australian Stock Exchange in 1994. The Company discovered and studied the Ravensthorpe Nickel Project which is now part of a 1.7 billion dollar project being developed by BHP Billiton. In 2001 Comet successfully sold its final equity to BHP Billiton and returned to Comet shareholders \$32 million. Comet has a number of exciting exploration projects that it is currently exploring and advancing. Comet has cash assets of approximately \$2.6 million, 6 million Prosperity shares and has approximately 68 million shares on issue.