



COMET

RESOURCES LIMITED

ABN 88 060 628 202



ANNUAL REPORT

30 June 2006

COMET RESOURCES LTD
and its Controlled Entities
CONTENTS

	Page No.
Corporate Directory	1
Chairman's Report	2
Directors' Report	3
Income Statement	16
Balance Sheet	17
Statement of Cashflows	18
Statement of Changes in Equity	19
Notes to and forming part of the Financial Statements	20
Directors' Declaration	45
Independent Audit Report	46
Auditor's Independence Declaration	48
ASX Additional Information	49
Corporate Governance Statement	51
Tenement Listing	52

**COMET RESOURCES LTD
and its Controlled Entities
CORPORATE DIRECTORY**

Directors

RO Jones (Chairman)
AR Cooper (Chief Executive Officer)
RN Hill

Company Secretary

N Lloyd

Registered Office

Level 9
190 St Georges Terrace
PERTH WA 6000
Telephone: 61 8 9322 5330
Facsimile: 61 8 9322 5988

Share Registry

Advanced Share Registry Services Pty Ltd
110 Stirling Highway
NEDLANDS WA 6009
Telephone: 61 8 9389 8033
Facsimile: 61 8 9389 7871

Auditors

Stantons International
1 Havelock Street
WEST PERTH WA 6005

Stock Exchange Listing

The Company is listed on the Australian Stock Exchange Limited
Home Exchange: Perth
ASX Code: CRL - fully paid shares

Web Page www.cometres.com.au

**COMET RESOURCES LTD
and its Controlled Entities
CHAIRMAN'S REPORT**

Dear Fellow shareholder,

Your Directors present the Annual Report and Audited Financial Statements of the Company for the year ended 30 June 2006.

During the year the Company entered into a significant new project, the Environmental Oil Solutions (EOS) Project, and made progress to adding value for shareholders on a number of existing resources projects.

The EOS Technology obtained by Comet, 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 developed countries. Comet 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 billion dollar cleaning industry.

The Research and Development (R&D) test-work is progressing with field trials due to be carried out in the last quarter of 2006.

The potential of this project has been recognised and supported by the South Australian State Government by a grant of over \$1 million through the Science Technology and Innovation Directorate of the Department of Further Education, Employment, Science and Technology.

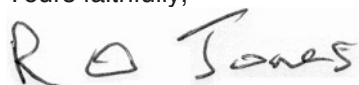
Two resource projects are scheduled for drilling in the second half of 2006. Access issues and shortage of drill rigs have delayed drilling. At Utopia in Western Australia, radiometric anomalies (potentially representing uranium mineralisation) and soil / RAB gold anomalies have been investigated by rotary air blast drilling.

In New South Wales the Browns Reef Project has significant previously defined base metal mineralization. There is potential for very large lower tonnage deposits with higher grade pods. Past exploration has been minimal. The best intersection is 20 metres at 4.95% Zinc, 2.77% Lead, 0.16% Copper and 13.5% Silver. Reverse Circulation and diamond drilling are planned for to commence in September 2006.

On the 27 July 2006 Ferrowest Ltd (FWL) was admitted to the official list of the Australian Stock Exchange Ltd. Pursuant to the sale and purchase agreement between Comet and FWL, Comet has received 8.7 million FWL shares as consideration for the Yalgoo Iron Ore Project. This represents 16.1% of the issued capital of FWL.

We will continue to manage your funds in a sensible and judicious manner and look forward to providing further tangible rewards to shareholders.

Yours faithfully,



R.O.JONES
Chairman

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' REPORT**

The directors present their report together with the financial report of Comet Resources Limited ("Comet or the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2006 and the auditors' report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Mr Robert (Roj) Oswald Jones (Chairman) Bsc (JtHons), FAusIMM(CP)

Mr Jones was a founding director of Comet. Mr Jones has over 30 years experience in the mining industry with major resource development companies worldwide.

Director since 1993 – appointed Chairman in 1999.

Mr Jones has been a Director of Prosperity Resources Limited since 12 September 2003 and has had no other Directorships in listed companies in the last 3 years.

Mr Anthony (Tony) Roy Cooper (Chief Executive Officer) B(app)Sc (Geol), FAusIMM

Mr Cooper joined Comet in 1994. From 1996 to 2001 Mr Cooper was responsible for the geological management of the Ravensthorpe Nickel Project.

Mr Cooper has 20 years experience in the mining and mineral exploration industries, with particular expertise on gold and base metals.

Director since March 2001.

No other Directorships in listed companies in the last 3 years.

Mr Roger Norman Hill (Non Executive Director) LLB

Mr Hill was a founding director of Comet and was a Board member initially until 1997. He has experience as a director of public and private companies in a number of industries, including mining and resource. Mr Hill presently manages his own business interests.

Mr Hill was formerly a partner in a Perth law firm for 10 years.

Director since 22 March 2004.

No other Directorships in listed companies in the last 3 years.

Company Secretary

Ms Narelle Lloyd LLB B.Com CA

Appointed 28 April 2006

Ms Lloyd is a Chartered Accountant and has over 5 years experience as Company Secretary and Financial Officer of both private and publicly listed companies.

Ms Lloyd also works as a consultant specialising in the co-ordination and project management of capital raisings and associated due diligence procedures as well as the provision of company secretarial and financial management services.

Ms Lloyd has worked for a Perth based corporate advisory group in London as a Treasury financial analyst for HSBC and in Australia for KPMG.

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' REPORT (CONT'D)**

Mr Malcolm Keith Smartt BA(Acctg), ADipBus, FCPA, FCIS, FCIM

Mr Smartt resigned as Company Secretary on 28 April 2006

Directors' interests

The relevant interest of each director in the share capital of the companies within the consolidated entity, as notified by the directors to the Australian Stock Exchange Limited in accordance with section 205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary fully paid shares
RO Jones	9,162,841
AR Cooper	4,260,312
RN Hill	3,895,045

Earnings per Share

	Cents
Basic loss per Share	1.00

Dividends

No dividends have been paid or will be recommended to be paid.

Nature of Operations and Principal Activities

The principal activities of the Comet Resources Ltd during the course of the financial year were:

- mineral exploration; and
- research and development of biotechnological products for environmentally sound issues in the oil industry.

There has been no other significant change in the nature of this activity during the year.

Results

The operating loss after income tax of the consolidated entity for the financial year was \$678,936 (2005: \$923,417).

Operating and Financial Review

Western Australia Exploration Projects

Yalgoo Iron Project (Ferrowest Joint Venture)

In October 2005 Comet entered into a Joint Venture with newly formed Ferrowest Pty Ltd to investigate Comet'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 grade pig iron for export through the existing facilities at the Port of Geraldton.

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' REPORT (CONT'D)**

Western Australia Exploration Projects (cont'd)

Ferrowest listed on the ASX on 31 July 2006. Comet has agreed to swap its equity in the project for 8.7 million shares in the newly listed company. The shares are escrowed for a period of 12 months.

Utopia Project (100% Comet)

The Utopia Project is located approximately 125 kilometres (km) east-southeast of Kalgoorlie and covers an area of over 300 km².

A 70 hole Rotary Air Blast (RAB) drilling programme was completed in June. Seventy holes (UTR 001-UTR 070) were drilled for 3,567 metres. Seven holes tested aeromagnetic feature, 4 holes evaluated radiometric anomalies (for uranium) and the balance of the holes tested various gold soil and RAB anomalies. 894 composite 4m samples were collected and submitted for analysis.

Several results over 0.2 g/t gold were reported with the best result of 3.84 g/t gold. These results are all over a 4 metres composite and require resampling at 1 metre intervals to understand the style and width of mineralisation. The uranium anomaly has not been explained from this drill programme.

New South Wales Exploration Projects

Browns Reef Base Metal Project (100% Comet)

The Browns Reef Project is located approximate 5 kms west of the township of Lake Cargelligo and approximately 470 kms west of Sydney. Lake Cargelligo is serviced by the New South Wales rail network and there is a gas pipeline approximately 100km away. The tenement number is EL6321 and covers 57.5 km². The project occurs mainly on Freehold agricultural land. Established roads and tracks allow ready access.

Resources.

The area was explored in the late 70's to mid 80's by Electrolytic Zinc Company of Australasia Ltd (EZ) as managers of the Lake Cargelligo Joint Venture. Exploration included surface sampling, 12 diamond drill holes and several geophysical techniques. The work resulted in the discovery of a lead-zinc mineralised zone. Comet has calculated an inferred resource using this historic data. These resources are listed in Table 1

Table 1. Browns Reef Inferred Resources

Cut Off	Zinc(%)	Lead (%)	Copper (%)	Silver (ppm)	Tonnes
Case 1					
+2% Pb+Zn	2.3	1.2	0.11	8.5	12,600,000
Case 2					
+1% Pb+Zn	2.0	1.1	0.1	9.0	20,500,000

. The resource covers a 1 km strike length and is open along strike and at depth. Surface expression of mineralisation (defined by gossans, surface sampling and auger sampling) can be traced for over 10 km in a north-north-west direction. Table 2 lists all EZ drilling into the mineralised zone.

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' REPORT (CONT'D)**

New South Wales Exploration Projects (cont'd)

Table 2. Drill Hole Intersections

Hole No.	Easting (m)	Northing (m)	From (m)	To (m)	Intersection (m)	Zinc (%)	Lead (%)	Copper (%)	Silver (ppm)
BR1	437,144.0	6,312,666.9	165.0	200.4	35.4	0.83	1.33	0.20	11.5
BR2	437,082.2	6,312,656.1	291.0	336.3	45.3	3.01	1.71	0.10	8.1
BR3	437,147.6	6,312,513.2	256.0	299.3	43.3	1.88	1.17	0.13	12.7
BR3A	437,147.6	6,312,513.2	286.8	306.0	19.2	1.94	0.99	0.08	5.8
BR4	437,043.4	6,312,802.4	266.3	328.8	62.5	1.72	0.81	0.08	4.7
BR5	437,064.3	6,312,653.8	312.8	322.8	10.0	2.34	0.92	0.13	10.2
BR5			340.8	380.0	39.2	2.07	0.92	0.11	8.9
BR6	436,975.9	6,313,146.0	161.5	177.5	16.0	1.83	1.06	0.18	10.3
BS1	437,751.6	6,311,013.7	184.5	194.3	9.8	1.44	0.68	0.16	8.6
BS1			201.4	209.2	7.8	1.11	0.52	0.20	2.7
BS2	437,799.2	6,311,032.2	256.7	266.0	9.3	4.28	2.67	0.18	12.4
BS3	437,680.5	6,311,245.4	286.1	298.1	12.0	1.25	0.42	0.12	4.7
WS1	436,072.0	6,314,907.0	443.5	459.3	15.8	1.45	1.17	0.14	7.5

The best drill hole intersection is in BR-2 which intersected 45.3m @ 3.01%Zn, 1.71%Pb, 0.10%Cu and 8.1ppm Ag from 288m. This intersection contains 20m @ 4.95%Zn, 2.77%Pb, 0.16%Cu, 13.5g/tAg from 302 m down hole. Gold was not included in the analysis and may add value to the mineralised zone.

Access difficulties meant that holes drilled by EZ were not always in the prime location and they were also forced to only conduct deep drilling.

The area has had limited exploration since EZ withdrew from the project area in 1984. The most significant exploration advance was by Equity 1 Resources NL (2001-2003) when selected samples were taken from the mineralised zone and were assayed for gold. This indicated that gold mineralisation can be associated with the base metal mineralisation (best grade 1.8g/tAu over 1m). No systematic gold sampling has been conducted over the base metal mineralised zones.

Over the past year Comet has made significant progress on its 100% owned Browns Reef Project. The next stage of evaluation is scheduled to commence in September with diamond drilling.

Resource Estimation Summary.

Geological domain were interpreted and a lower cut of 2% Pb+Zn Case 1 and 1% Pb+Zn Case 2 was used. No top-cut was applied.

A Polygonal block model was created and a bulk density of 3 was assigned by averaging historic density data. Drill hole locations were interpreted from located sites and then a grid conversion was made

The resource estimate has been classified based on data density, data quality, confidence in the geological interpretation and confidence in the estimation.

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' REPORT (CONT'D)**

New South Wales Exploration Projects (cont'd)

Kerrs Creek Project (100% Comet)

The Kerrs Creek Project covers an area of 288 km². It is centred about 20km north of Orange, a major mining centre hosting Newcrest's Cadia mine, and Tri Origin Australia NL's Lewis Ponds deposit.

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 program of soil and stream sediment sampling has been completed with anomalous zones identified. Additional re-sampling of previous diamond drill core is planned

Murrumbateman Project (100% Comet)

This Project is located approximate 80km north of Canberra. The area was mainly explored in the late 1980's by Kennecott, Alkane and Central West Gold. Exploration included soil sampling, ground magnetics, drilling and metallurgical studies.

Reports indicate soil sampling and trenching delineated two zones of gold mineralisation with the best result of 39m @1.63g/t Au from a costean. The northern zone is still open to the northeast.

The two zones were drill tested by a number of shallow holes which indicated a wide low grade (+0.5g/t) zone of mineralisation. Best intersections are listed below.

Hole Number	From (m)	To (m)	Intersection (m)	Grade g/t Au
LM 06	16	26	10	2.2
MUM 02	1.7	16	14.3	2.4
MUM 03	21	24.96	3.96	1.7*
LM 07	2	18	16	1.2

*Hole stopped in mineralisation

A selection of samples were re-assayed using a fire assay method with each sample showing a significant increase in grade up to 288%. This suggest that the assay technique use by these explorers may have been unreliable.

An Access Agreement with the land owner over the Murrumbateman Prospect was signed. A work program including soil sampling and ground magnetic traversing has been completed during the March quarter with results as high as 0.9g/t Au in soils. This project will be drilled when a rig becomes available.

The information in the report to which this statement is attached relates to Exploration Results, Mineral Resources or Ore Reserves compiled by Mr. A Cooper, who is a Member of The Australian Institute of Mining and Metallurgy, with over 20 years experience in the mining industry. Mr. Cooper has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity, which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australian Code for Reporting of Mineral Resources and Ore reserves". Mr Cooper consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' REPORT (CONT'D)**

Environmental Oil Solutions (cont'd)

In November 2005 Comet 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 held in Comet's wholly owned subsidiary Environmental Oil Solutions Pty Ltd.

On 25 January 2006 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 Comet shareholders. The first amount of \$405,661 was received after the grant deed was signed by The Hon. Karlene Maywald MP, Minister for Science and Information Economy, Government of South Australia. The balance of the payments are to be made by July 2007.

The funding enabled the project to commence in February with an announcement by Comet that it had entered into a Research & Development Contract with Flinders and Murdoch Universities to carry out a 9 month research programme required to demonstrate the commercialisation of the BIO-Paragone Platform technology.

The technology is being developed as a cost effective commercial solution for the waste oil problem, commencing with waste components left in oil storage tanks. Development of the tank cleaning system using tank bottom samples obtained by Contract Resources Pty Ltd is advancing with preparations in place to treat a range of oil wastes.

Flinders University is optimising the bacterial formulation in preparation for scale-up to commercial volumes. This work involves testing various aspects of the tank cleaning system to develop the best and most cost effective conditions to grow and operate the BIO-Paragone formulation.

Murdoch University is conducting detailed hydrocarbon analysis to identify the recoverable hydrocarbon products of the system with separation science being used to fully understand the mechanisms of biotransformation of heavy hydrocarbons in tank bottoms. The objective of this work is to identify what hydrocarbon chains the bacteria are altering and focus on the recovery of the most valuable hydrocarbon products.

Project Progress to the end of June 2006

To date the waste oils used in the laboratory testwork have been from crude oil tanks located in South Australia. Other waste oils are now being obtained from sources in Australia. It is anticipated that, although there may be some modest variation there is no reason why the BIO-Paragone performance will not be similar on other waste oil.

The Objective of the Work to date has been :

1. To Obtain The Best Conditions For Producing The Bacteria Formulation.

This has been advanced to a stage where the manufacturing process has been improved significantly and is capable of being scaled for commercial production. This is expected to result in a reduction in capital expenditure requirements with associated reductions in operating costs.

2. To Demonstrate That The BIO-Pragone Formulation Lowers The Viscosity Of Waste Oils.

This has been achieved and the oil viscosity and treatment time have been significantly lowered, allowing for the pump removal of the transformed product. A new nutrient formulation has been developed that reduces the treatment time to lower the viscosity of the oil residues.

3. To Establish The Survival Of BIO-Paragone Under Physical Stress

The survival of BIO-Paragone under physical stress typical of that experienced at full scale tank cleaning, has been determined. This has positive implications for the practical application of the process to enable rapid turn-around for cost effective tank cleaning.

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' REPORT (CONT'D)**

Environmental Oil Solutions (cont'd)

4. To Establish That The Waste Oils Are Being Broken Down Into Products That Can Be Potentially Recycled.

This has been achieved and work is ongoing to maximise the value of the recycled product.

On Going Development

The improved formulation will now be tested on other waste oils from around Australia. On completion the formulation production and waste oil treatment will be scaled up in larger vessels culminating in field trials with larger tanks in the last quarter of 2006.

The objective is to demonstrate the ability of BIO-Paragone to break down the viscous waste oils at pilot scale, enabling the transformed waste oil to be pumped from the vessel and recycled.

There are now several products being developed for commercialisation with a number of new patent opportunities identified. BIO-Paragone has been analysed by DNA sequencing in preparation for a new patent application.

Oil industry demand for tank cleaning requirements is increasing due to prolonged high levels of oil production and processing. The industry is demanding rapid turn-around on tank cleaning to maintain these high production levels. Comet is positioning to commission relatively low cost in-house commercial manufacturing systems which are expected to deliver a cost effective rapid turn-around tank cleaning system to meet this market demand.

The proposed transaction will reward BIO-Tec as tangible milestones are met. Comet will seek shareholder approval as required as the project proceeds.

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' REPORT (CONT'D)**

Review of Financial Condition

The Group has cash reserves of \$2.32 million at 30 June 2006 and a net asset position of \$2.73 million. The Company considers this together with further grant funding of approximately \$600,000 to be adequate to:

- meet the research and development commitments of Environmental Oil Solutions
- meet the exploration commitments; and
- assess new exploration projects.

Capital Structure

During the period, there were no shares issued.

On 31 January 2006 500,000 options exercisable at 15 cents each and expiring on 31 January 2009 were issued. In addition a further 500,000 unlisted options exercisable at 12 cents and expiring on 31 March 2007 remain outstanding.

Risk Management

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Group believes that it is crucial for all Board members to be part of this process, and as such the Board has not established a separate risk management committee and the whole Board acts in that role.

The Board has a number of mechanisms in place to ensure that the management's objectives and activities are aligned with the risks identified by the Board.

Significant Events since Balance Sheet Date

On the 24 July 2006 Comet was issued 8.7 million ordinary shares in Ferrowest Limited as consideration for their interests in the Yalgoo tenements. The shares are escrowed for a period of 12 months.

Other than the above there were no significant events that need to be reported since Balance sheet date.

Likely Developments

The consolidated entity will focus on:

- the exploration of its portfolio of mining tenements and the acquisition of new projects and/or assets;
and
- the development and commercialisation of the EOS technology.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations on future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental Regulation and Performance

The consolidated entity's operations were subject to environmental regulations under both Commonwealth and State legislation in relation to its exploration activities and its research and development activities.

The directors are not aware of any breaches during the period covered by this report.

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' REPORT (CONT'D)**

Share Options

As at the date of this report there are:

- 500,000 unlisted options exercisable at 12 cents which expire on 31 March 2007; and
- 500,000 unlisted options exercisable at 15 cents which expire on 31 January 2009.

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

Indemnification of Officers

The Company has agreed to indemnify and keep indemnified the following officers, Mr RO Jones, Mr AR Cooper, Mr RN Hill, Mr M Smartt and Ms N Lloyd against all liabilities incurred by the directors and officers as a director or officer of the Company (and subsidiaries) and all legal expenses incurred by the directors as a director of the Company (and subsidiaries).

The indemnity only applies to the extent and in the amount that the directors are not indemnified under any other indemnity, including an indemnity contained in any insurance policy taken out by the Company (or subsidiary), under the general law or otherwise.

The indemnity does not extend to any liability:

- to the Company or a related body corporate of the Company; or
- arising out of conduct of the directors involving a lack of good faith; or
- which was incurred prior to 15 April 1994 and which is in respect of any negligence, default, breach of duty or breach of trust of which the directors may be guilty in relation to the Company or related body corporate.

Insurance of Officers

Since the end of the previous financial year the Company has paid insurance premiums of \$17,848 in respect of directors and officers liability and corporate reimbursement, for directors and officers of the Company. The insurance premiums relate to:

- any loss for which the directors and officers may not be legally indemnified by the Company arising out of any claim, by reason of any wrongful act committed by them in their capacity as a director or officer, first made against them jointly or severally during the period of insurance; and
- indemnifying the Company against any payment which it has made and was legally permitted to make arising out of any claim, by reason of any wrongful act, committed by any director or officer in their capacity as a director or officer, first made against the director or officer during the period of insurance.

The insurance policy outlined above does not allocate the premium paid to each individual officer of the Company.

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' REPORT (CONT'D)**

Remuneration Report

This report outlines the remuneration arrangements in place for directors and key management personnel of Comet.

Remuneration philosophy

The performance of the Company depends upon the quality of its directors and key management personnel. To prosper the company must attract, motivate and retain appropriately skilled directors and executives.

The Company's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The Company bases its remuneration of employees and consultants on industry standards and the Australasian Institute of Mining and Metallurgy Remuneration and Membership Survey. Whilst in the exploration and acquisition phase, the Company targets the lowest quartile of remuneration levels.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-executive director and Executive remuneration is separate and distinct.

Details of the nature and amount of each element of the emoluments of each director of the Company and the consolidated entity are:

Employment Agreements

Comet has entered into the following agreements with Directors:

- An agreement with Alberta Resources Pty Ltd for the services of Mr Tony Cooper with fees of \$136,800 per year. The agreement is on commercial terms and can be terminated at 1 months notice; and
- An agreement with Rojex Mining Services Pty Ltd for the services of Mr Roj Jones with fees of \$136,800 per year. The agreement is on commercial terms and can be terminated at 1 months notice.

Comet has entered into the following agreements with Key Management Personnel:

- An agreement with BIO-Tec for the services of Mr Andrew Roberts with fees of \$10,000-\$20,000 per month depending on project development. The agreement is on commercial terms and can be terminated at 3 months notice; and
- An employment agreement with Mr Scott Matheson for the position of Exploration Manager, with a salary of \$80,000 plus superannuation. The agreement is on commercial terms and can be terminated at 1 months notice.

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' REPORT (CONT'D)**

Remuneration Report (cont'd)

Directors' Fees and Benefits

Directors fees are determined within an aggregate fee pool limit, which is periodically recommended for approval by Shareholders. This amount is separate from any specific tasks the Directors may take on for the Company.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the accounts of the Company) because of a contract made by the Company or a related body corporate with the Director or with a firm of which the Director has a substantial financial interest, other than;

- a) a total of \$136,800 was paid to Rojex Mining Services Pty Ltd in which Mr Jones has a substantial financial interest for services provided in the normal course of business and at normal commercial rates;
- b) geological consulting and management fees paid or due and payable to Alberta Resources Pty Ltd of \$136,800 and Geocad (WA) Pty Ltd \$7,280, both entities in which Mr Cooper has a substantial financial interest for services provided in the normal course of business and at normal commercial rates.

All remuneration for Directors is disclosed in Note 17 to the Financial Statements.

**Table 1
Director remuneration for the Year ended 30 June 2006**

Name		Short-term			Post-employment		Share based	Total
		Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
RO Jones	2006	68,400	-	4,462	68,400	-	-	141,262
Chairman	2005	137,661	-	-	-	-	-	137,661
AR Cooper	2006	136,800	-	4,462	-	-	-	141,262
CEO	2005	125,745	-	-	-	-	-	125,745
RN Hill	2006	23,313	-	4,462	2,098	-	-	29,873
Non-executive	2005	22,365	-	-	2,635	-	-	25,000
Total 2006		228,513	-	13,386	70,498	-	-	312,397
Total 2005		285,771	-	-	2,635	-	-	288,406

**Table 2
Remuneration of Key Management Personnel for the Year ended 30 June 2006**

Name		Short-term			Post-employment		Share based	Total
		Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
*part-time								
N Lloyd *	2006	9,000	-	1,487	-	-	-	10,487
Company Secretary	2005	-	-	-	-	-	-	-
M Smartt*	2006	27,500	-	2,975	2,500	-	35,765	68,740
Company Secretary	2005	16,500	-	-	1,500	-	-	18,000
A Roberts	2006	78,500	-	-	-	-	-	78,500
EOS Project Manager	2005	-	-	-	-	-	-	-
S Matheson	2006	78,800	-	-	7,092	-	-	85,892
Exploration Manager	2005	70,800	-	-	6,372	-	-	77,172
Total 2006		193,800	-	4,462	9,592	-	35,765	243,619
Total 2005		87,300	-	-	7,872	-	-	95,172

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' REPORT (CONT'D)**

Remuneration Report (cont'd)

Table 3
Options granted as part of remuneration

Name	Grant date	Grant Number	Value per option at Grant date	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Total Value of options, granted, exercised and lapsed during the year	% Remuneration consisting of options for the year
M Smartt Company Secretary	16 /02/06	500,000	\$0.0715	\$35,765	-	-	\$35,765	52.00

For details on the valuation of options, including models and assumptions used, please refer to Note 13. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings	
	A	B
RO Jones	10	10
AR Cooper	10	10
RN Hill	9	10

A = Number of meetings attended B = Number of meetings during the time the Director held office during the year.

Committee Memberships

As at the date of this report the Company does not have a Remuneration, Nomination or Audit Committee and the role is completed by the full Board.

Significant changes in State of Affairs

During the financial year there were no significant changes in the state of affairs of the consolidated entity.

Auditor's Independence and non audit services

There have been no non audit services provided during the year.

A copy of the Auditor's independence declaration as required by Section 307c of the Corporations Act 2001 is set out on page 48.

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' REPORT (CONT'D)**

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Comet Resources Limited support and have substantially adhered to the best practice recommendations set by the ASX Corporate Governance Council. The Company's corporate governance statement is contained on its web page at www.cometres.com.au.

Signed in accordance with a resolution of directors.

A handwritten signature in black ink that reads "RO Jones". The letters are cursive and slightly slanted to the right.

**RO Jones
Chairman**

Dated at Perth this 23 day of August 2006

**COMET RESOURCES LTD
and its Controlled Entities
INCOME STATEMENT
for the year ended 30 June 2006**

	Note	CONSOLIDATED		THE COMPANY	
		2006 \$	2005 \$	2006 \$	2005 \$
Finance income	3(b)	146,130	147,586	143,160	147,586
Revenue		146,130	147,586	143,160	147,586
Other income	3(a)	549,280	-	155,319	-
Expenses					
Administration expenses		(379,753)	(385,204)	(363,797)	(385,204)
Research and development expenses		(616,408)	-	-	-
Exploration expenditure expenses/ written off		(288,187)	(453,299)	(288,187)	(453,299)
Diminution of investments	3(c)	(90,000)	(232,500)	(311,673)	(232,500)
Loss before related income tax		(678,938)	(923,417)	(665,178)	(923,417)
Income tax	5	-	-	-	-
Net loss	14	(678,938)	(923,417)	(665,178)	(923,417)
Basic loss per share	15	1.00 cents	1.44 cents		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 20 to 44.

COMET RESOURCES LTD
and its Controlled Entities
BALANCE SHEET
As at 30 June 2006

	NOTE	CONSOLIDATED		THE COMPANY	
		2006 \$	2005 \$	2006 \$	2005 \$
ASSETS					
Current assets					
Cash and cash equivalents	6	2,316,327	2,714,364	2,282,615	2,714,364
Trade and other receivables	7	57,733	32,144	26,323	32,144
Prepayments		5,550	6,748	5,550	6,748
Other financial assets	10	590,526	-	510,000	-
Total current assets		2,970,136	2,753,256	2,824,488	2,753,256
Non-current assets					
Plant and equipment	8	10,339	38,237	10,339	38,237
Exploration and evaluation expenditure	9	-	-	-	-
Other financial assets	10	40,000	670,000	40,000	670,000
Total non-current assets		50,339	708,237	50,339	708,237
TOTAL ASSETS		3,020,475	3,461,493	2,874,827	3,461,493
LIABILITIES					
Current liabilities					
Trade and other payables	11	289,772	87,617	130,364	87,617
Total current liabilities		289,772	87,617	130,364	87,617
TOTAL LIABILITIES		289,772	87,617	130,364	87,617
NET ASSETS		2,730,703	3,373,876	2,744,463	3,373,876
EQUITY					
Contributed equity	12	4,698,265	4,698,265	4,698,265	4,698,265
Reserves	13	330,472	294,707	330,472	294,707
Accumulated losses	14	(2,298,034)	(1,619,096)	(2,284,274)	(1,619,096)
TOTAL EQUITY		2,730,703	3,373,876	2,744,463	3,373,876

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 20 to 44.

COMET RESOURCES LTD
and its Controlled Entities
STATEMENTS OF CASH FLOWS
for the year ended 30 June 2006

	NOTE	CONSOLIDATED		THE COMPANY	
		2006 \$	2005 \$	2006 \$	2005 \$
Cash flows from operating activities					
Payments to suppliers and employees		(1,077,259)	(412,757)	(528,291)	(412,757)
Receipts of government grants		446,227	-	-	-
Interest received		143,160	153,275	143,160	153,275
Net cash flows used in operating activities	16(b)	(487,872)	(259,482)	(385,131)	(259,482)
Cash flows from investing activities					
Loans to controlled entities		-	-	(218,673)	-
Loans to other entities		(100,000)	-	-	-
Repayment of loans from other entities		17,780	-	-	-
Payments for exploration and evaluation expenditure		-	(453,299)	-	(453,299)
Payments for plant and equipment		(1,945)	(9,745)	(1,945)	(9,745)
Payments for purchase of investments		(30,000)	-	(30,000)	-
Proceeds from sale of investments		69,000	-	69,000	-
Proceeds from sale of exploration assets		105,000	-	105,000	-
Security deposit for mining tenements repaid/(paid)		30,000	(60,000)	30,000	(60,000)
Net cash flows provided by (used in) investing activities		89,835	(523,044)	(46,618)	(523,044)
Cash flows from financing activities					
Proceeds from issue of shares		-	548,137	-	548,137
Net cash flows provided by financing activities		-	548,137	-	548,137
Net decrease in cash and cash equivalents		(398,037)	(234,389)	(431,749)	(234,389)
Cash and cash equivalents at the beginning of the year		2,714,364	2,948,753	2,714,364	2,948,753
Cash and cash equivalents at the end of the year	16(a)	2,316,327	2,714,364	2,282,615	2,714,364

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 20 to 44.

COMET RESOURCES LTD
and its Controlled Entities
STATEMENT OF CHANGES IN EQUITY
As at 30 June 2006

	Issued Capital \$	Accumulated losses \$	Other Reserves \$	Total \$
CONSOLIDATED				
At 1 July 2004	4,150,128	(695,679)	294,707	3,749,156
Loss for the year	-	(923,417)	-	(923,417)
Exercise of options	548,137	-	-	548,137
At 30 June 2005	4,698,265	(1,619,096)	294,707	3,373,876
Loss for the year	-	(678,938)	-	(678,938)
Cost of share-based payments	-	-	35,765	35,765
At 30 June 2006	4,698,265	(2,298,034)	330,472	2,730,703
PARENT				
At 1 July 2004	4,150,128	(695,679)	294,707	3,749,156
Loss for the year	-	(923,417)	-	(923,417)
Exercise of options	548,137	-	-	548,137
At 30 June 2005	4,698,265	(1,619,096)	294,707	3,373,876
Loss for the year	-	(665,178)	-	(665,178)
Cost of share-based payments	-	-	35,765	35,765
At 30 June 2006	4,698,265	(2,284,274)	330,472	2,744,463

The statements of changes in equity are to be read in conjunction with the notes to the financial statements set out on pages 20 to 44.

**COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS**

1. CORPORATE INFORMATION

The financial report of Comet Resources Limited for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 23 August 2006.

Comet Resources Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operation and principal activities of the Group are described in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies, which have been adopted in the preparation of this financial report, are:

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of accrual accounting and historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the previous year.

(b) Statement of Compliance

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

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of AIFRS equity and loss for 30 June 2005 to the balances reported in the 30 June 2005 financial report are detailed in Note 25.

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

AASB Amendment	Affected Standard	Nature of Change to Accounting Policy	Application date of standard	Application date for Group
2005-1	<i>AASB 139: Financial Instruments: Recognition and Measurement</i>	No Change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-5	<i>AASB1: First time adoption of AIFRS, AASB 139: Financial Instruments: Recognition and Measurement</i>	No Change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006

**COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**

(b) Statement of Compliance (cont'd)

AASB Amendment	Affected Standard	Nature of Change to Accounting Policy	Application date of standard	Application date for Group
2005-6	AASB 3: <i>Business Combinations</i>	No Change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>leases</i> , AASB 133: <i>Earnings per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First time adoption of AIFRS</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1038: <i>Life Insurance Contracts</i>	No Change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
<i>New Standard</i>	AASB 7 <i>Financial Instruments: Disclosures</i>	No Change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007

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

AASB Amendment	Affected Standard
2005-2	AASB 1023: <i>General Insurance Contracts</i>
2005-4	AASB 139: <i>Financial Instruments: recognition and Measurement</i> , AASB 132: <i>Financial Instruments: Disclosure and presentation</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1028: <i>Life Insurance Contracts</i>
2005-9	AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> and AASB 132: <i>Financial Instruments: Disclosure and Presentation</i>
2005-12	AASB 1038: <i>Life Insurance Contracts</i> and AASB 1023: <i>General Insurance Contracts</i>
2005-13	AAS 25: <i>Financial Reporting by Superannuation Plans</i>

**COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**

(c) Principles of consolidation

The consolidated financial statements comprise the financial statements of Comet Resources Limited and its subsidiaries as at 30 June each year (the Group).

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Comet Resources Limited has control.

Environmental Oil Solutions Pty Limited commenced operations in October 2005. Accordingly, the consolidated financial statements include the results of Environmental Oil Solutions Pty Limited for the eight-month period from its commencement of operations in October 2005.

(d) Revenue recognition

Interest income

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income amount and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Sale of non current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(e) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short terms deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdraft.

**COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**

(f) Intangible Assets

Acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the 'research and development expenses' line item.

Intangible assets, including development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs

Research costs are expensed as incurred.

Development expenditure incurred on an individual project in the future may be carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

A summary of the policies applied to the Group's intangible assets is as follows:

	<i>Patents and Licences</i>	<i>Development Costs</i>
<i>Useful lives</i>	<i>Indefinite</i>	<i>Indefinite</i>
<i>Method used</i>	<i>Not amortised or revalued</i>	<i>Not amortised</i>
<i>Internally generated/ Acquired</i>	<i>Acquired</i>	<i>Internally generated</i>
<i>Impairment test / Recoverable amount testing</i>	<i>Annually and more frequently when an indication of impairment exists</i>	<i>Annually and more frequently when an indication of impairment exists</i>

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised on the income statement when the asset is derecognised.

(g) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(g) Impairment of assets (cont'd)

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

(h) Investments and other financial assets

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured as fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Group commits to purchase the asset.

(i) Other taxes

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

Receivables and payables are stated with the amount of GST included.

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

(j) Foreign currency transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the income statement in the financial year in which the exchange rates change.

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(k) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and lease finance charges. Borrowing costs are expensed as incurred.

(l) Income Tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(m) Trade and other receivables

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts. Trade debtors to be settled within 60 days are carried at amounts due.

(n) Plant and equipment

Acquisition

Items of plant and equipment are initially stated at cost less accumulated depreciation and impairment losses.

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(n) Plant and equipment (cont'd)

Depreciation and amortisation

Items of plant and equipment are depreciated/amortised using the straight-line method over their estimated useful lives.

The depreciation rates used for plant and equipment range between 13% and 27%.

Assets are depreciated or amortised from the date of acquisition.

(o) Leased assets

Leases under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases

Payments made under operating leases are charged against profits in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(p) Exploration and Evaluation Expenditure

All exploration and evaluation expenditure is expensed as incurred.

(q) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30 days.

(r) Employee entitlements

Wages, salaries and annual leave

The provisions for employee entitlements to wages, salaries and annual leave represent present obligations resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based on expected wage and salary rates including related on-costs.

Superannuation plan

The Company contributes to defined contribution superannuation plans. Contributions are charged against income as they are made

(s) Share-based payment transactions

The Group provides benefits to employees or consultants (including directors) of the Group in the form of share-based payment transactions, whereby employees or consultants render services in exchange for shares or rights over shares ('equity-settled transactions').

The directors may provide these benefits at their discretion by a resolution or there is currently a plan in place to provide these benefits, the Employee Share Option Plan (ESOP), which provides benefits to directors, executives and employees.

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(s) Share-based payment transactions (cont'd)

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in Note 13.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Comet (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 15).

The Group has applied the requirements of AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' in respect of equity-settled awards and has applied AASB 2 'Share-based Payments' only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

(t) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new share or options are shown in equity as a deduction, net of tax, from the proceeds.

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(u) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- a. costs of servicing equity (other than dividends) and preference share dividends;
- b. the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have not been recognized as expenses; and
- c. other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(v) Significant accounting estimates

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date which they are granted. The fair value is determined by the company using a binomial model, using the assumptions detailed in Note 13.

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
	\$	\$	\$	\$
3. REVENUES AND EXPENSES				
(a) Other income				
Profit on sale of exploration assets	105,000	-	105,000	-
Profit on sale of listed securities	38,619	-	38,619	-
Management fees – intercompany	-	-	11,700	-
Government grants	405,661	-	-	-
	<u>549,280</u>	<u>-</u>	<u>155,319</u>	<u>-</u>
A government grant has been received for research activities within Australia. There are no unfulfilled conditions or contingencies attaching to this grant at balance date.				
(b) Finance income/(costs)				
Interest – other parties	146,130	147,586	143,160	147,586
(c) Other expenses				
Provision for diminution in loan to controlled entity	-	-	221,673	-
Diminution in value of listed securities	90,000	232,500	90,000	232,500
(d) Depreciation, included in income statement				
Included in administrative expenses: Depreciation of plant and equipment	22,265	30,911	22,265	30,911
(e) Lease payments included in income statement				
Minimum lease payments - operating leases	55,905	52,151	50,871	52,151
(f) Employee/consultants benefits expense				
Consulting fees	292,700	263,406	94,299	263,406
Wages and Salaries	129,613	93,165	129,613	93,165
Superannuation costs	80,090	9,007	35,090	9,007
Expense of share-based payments	35,765	-	35,765	-
	<u>538,168</u>	<u>365,578</u>	<u>294,767</u>	<u>365,578</u>

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

4. SEGMENT INFORMATION

The Group's primary reporting format is business segments and the Group only operates within one geographical segment.

The operating businesses are organised and managed separately according to the nature of the activities, with each segment representing a different business.

The exploration segment is involved the exploration of minerals.

The research and development segment is involved in the research and development of the EOS Technology.

Business segments

The following tables present revenue and loss information and certain asset and liability information regarding business segments for the year ended 30 June 2006. In the year ended 30 June 2005 the Group operated solely within Australia in the mineral exploration segment.

	<i>Exploration</i>	<i>R&D</i>	<i>Total</i>
	\$	\$	\$
Year ended 30 June 2006			
Revenue			
Profit on sale of securities	38,619	-	38,619
Profit on sale of exploration assets	105,000	-	105,000
Grant revenue	-	405,661	405,661
Management fee	11,700	-	11,700
Total segment revenue	<u>155,319</u>	<u>405,661</u>	<u>560,980</u>
Interest revenue			<u>146,130</u>
Inter segment elimination			<u>(11,700)</u>
Total consolidated revenue			<u>695,410</u>
Result			
Segment result	(808,338)	(238,403)	(1,046,741)
Intersegment elimination			221,673
Unallocated income/(expenses)	-	-	<u>146,130</u>
Loss before tax			<u>(678,938)</u>
Income tax expense	-	-	-
Net loss for the year			<u>(678,938)</u>
Assets and liabilities			
Segment assets	592,212	31,410	623,622
Unallocated assets	-	-	<u>2,396,853</u>
Total assets	-	-	<u>3,020,475</u>
Segment liabilities	(130,364)	(159,408)	<u>(289,772)</u>
Total liabilities			<u>(289,772)</u>
Other segment information			
Capital expenditure	<u>(1,945)</u>	-	<u>(1,945)</u>
Depreciation	<u>(22,265)</u>	-	<u>(22,265)</u>

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

5. TAXATION

	<i>CONSOLIDATED</i>		<i>THE COMPANY</i>	
	2006	2005	2006	2005
	\$	\$	\$	\$
Income Statement				
A reconciliation of income tax expense applicable to accounting loss before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 30 June 2006 is as follows:				
Accounting loss before income tax	(678,938)	(923,417)	(665,178)	(923,417)
<hr/>				
Prima facie income tax expense/(benefit) calculated at 30% on the loss	(203,681)	(277,025)	(199,553)	(277,025)
Non-deductible items	49,989	68,801	105,088	68,801
Temporary differences and tax losses not brought to account as future income tax benefits	153,692	208,224	94,465	208,224
<hr/>				
Income tax expense/(benefit) attributable to operating loss	-	-	-	-
<hr/>				

Deferred income tax

Deferred income tax at 30 June relates to the following:

On Income Tax Account

Losses available for offset against future taxable income	2,205,510	2,055,960	2,146,284	2,055,960
Capital raising costs	-	(3,163)	-	(3,163)
Plant and equipment temporary differences	(1,280)	(3,449)	(1,280)	(3,449)
Accruals temporary difference	(2,862)	(70)	(2,862)	(70)
Fair value adjustments on loans	-	69,750	66,502	69,750
Gross deferred income tax assets	<u>2,201,368</u>	<u>2,119,028</u>	<u>2,208,644</u>	<u>2,119,028</u>

On Capital Account

Fair value adjustment on investments	135,000	108,000	135,000	108,000
Losses available for offset against future taxable income	-	-	-	-
Profit on disposal of securities	(11,586)	-	(11,586)	-
Gross deferred capital gains tax assets	<u>123,414</u>	<u>108,000</u>	<u>123,414</u>	<u>108,000</u>

The group has tax losses arising in Australia of \$2,205,510 (2005: \$2,055,960) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

The Company has applied to the Federal Government for a retrospective change to Australia's Taxation Laws in an attempt to recover "untainting tax" of \$986,441 paid in the 2001 financial year.

At 30 June 2006, there is no recognised or unrecognised deferred income tax liability (2005: \$nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associate or joint venture, as the Group has no liability for additional taxation should such amounts be remitted.

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
	\$	\$	\$	\$
6. CASH AND CASH EQUIVALENTS				
Cash	52,726	70,838	19,014	70,838
Bank short term deposits, maturing within 60 days and paying interest at a weighted average interest rate of 5.75% (2005: 5.68%)	2,263,601	2,643,526	2,263,601	2,643,526
	<u>2,316,327</u>	<u>2,714,364</u>	<u>2,282,615</u>	<u>2,714,364</u>
7. TRADE AND OTHER RECEIVABLES				
Current				
Trade debtors	16,108	11,291	16,108	11,291
Accrued interest	9,306	9,764	9,306	9,764
GST	32,319	11,089	909	11,089
	<u>57,733</u>	<u>32,144</u>	<u>26,323</u>	<u>32,144</u>
Details regarding the effective interest rate and credit risk of current receivables is disclosed in Note 21.				
8. PLANT AND EQUIPMENT				
Non current				
At cost	203,321	219,705	203,321	219,705
Accumulated depreciation	(192,982)	(181,468)	(192,982)	(181,468)
Total plant and equipment net book value	<u>10,339</u>	<u>38,237</u>	<u>10,339</u>	<u>38,237</u>
Reconciliation				
Reconciliation of the carrying amount for plant and equipment is set out below:				
Carrying amount at beginning of year	38,237	59,403	38,237	59,403
Additions	1,945	9,745	1,945	9,745
Impairment	(7,578)	-	(7,578)	-
Depreciation	(22,265)	(30,911)	(22,265)	(30,911)
Carrying amount at end of year	<u>10,339</u>	<u>38,237</u>	<u>10,339</u>	<u>38,237</u>
9. EXPLORATION AND EVALUATION EXPENDITURE				
Non current				
Costs carried forward in respect of areas of interest				
Opening balance	-	-	-	-
Exploration and/or evaluation phase	-	453,299	-	453,299
Exploration expenditure written off	-	(453,299)	-	(453,299)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
	\$	\$	\$	\$
10. OTHER FINANCIAL ASSETS				
Current				
Securities in listed company (at cost)	960,000	-	960,000	-
Provision for diminution	(450,000)	-	(450,000)	-
	510,000	-	510,000	-
Loan to BIO-Tec (i)	80,526	-	-	-
	590,526	-	510,000	-
Non current				
Securities in listed company (at cost)	-	982,500	-	982,500
Provision for diminution	-	(382,500)	-	(382,500)
Investment in controlled entities	-	-	1	-
Loan to controlled entities	-	-	221,673	-
Provision for diminution	-	-	(221,674)	-
	-	600,000	-	600,000
Security bonds	40,000	70,000	40,000	70,000
	40,000	670,000	40,000	670,000
11. TRADE AND OTHER PAYABLES				
Current				
Trade creditors and accruals	231,699	9,535	72,291	9,535
Amount owing to related parties	15,000	23,966	15,000	23,966
Tax liabilities	-	11,043	-	11,043
Unclaimed funds	43,073	43,073	43,073	43,073
	289,772	87,617	130,364	87,617

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
	\$	\$	\$	\$
12. CONTRIBUTED EQUITY				
Issued and paid-up capital				
67,817,901 (2005: 67,817,901) ordinary shares	4,698,265	4,698,265	4,698,265	4,698,265
Movements in ordinary share capital				
Balance at the beginning of the financial year	4,698,265	4,150,128	4,698,265	4,150,128
2005: 6,851,724 shares issued pursuant to the exercise of options.	-	548,137	-	548,137
	4,698,265	4,698,265	4,698,265	4,698,265

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

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

Options

500,000 unlisted options exercisable at 15 cents and expiring 31 January 2009.

500,000 unlisted options exercisable at 12 cents and expiring 31 March 2007.

The market price of the Company's fully paid ordinary shares, at 30 June 2006, was 10 cents (2005: 7.1 cents) per share.

	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
	\$	\$	\$	\$
13. RESERVES				
Option premium reserve	294,707	294,707	294,707	294,707
Share based payments reserve	35,765	-	35,765	-
	330,472	294,707	330,472	294,707
Movement in reserve				
Balance at beginning of year	294,707	294,707	294,707	294,707
Issue of options to key management person	35,765	-	35,765	-
Balance at end of year	330,472	294,707	330,472	294,707

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

13. RESERVES (continued)

Nature and Purpose of Reserves

Option Premium Reserve

The Option premium reserve reflects the amounts received on issue of options other than remuneration options.

Share based payments reserve

The reserve reflects the value of equity benefits provided to executives as part of their remuneration.

On 31 January 2006, 500,000 options with a fair value of \$0.0715 each were granted over ordinary shares with an exercise price of \$0.15 each, exercisable until 31 January 2009.

Other relevant terms and conditions applicable to options granted include:

- the options vest upon issue.
- upon exercise, these options will be settled in ordinary shares of Comet Resources Limited.

The fair value of the options are estimated at the date of grant using the binomial model. The following table gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2006.

	<u>2006</u>
Dividend yield (%)	-
Expected volatility (%)	75
Risk-free interest rate (%)	5.91
Expected life of option (years)	3
Option exercise price (\$)	0.15
Share price at grant date (\$)	0.14

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
	\$	\$	\$	\$
14. ACCUMULATED LOSSES				
Accumulated losses at beginning of year	(1,619,096)	(695,679)	(1,619,096)	(695,679)
Net loss attributable to members of the parent entity	(678,938)	(923,417)	(665,178)	(923,417)
Accumulated losses at the end of the year	(2,298,034)	(1,619,096)	(2,284,274)	(1,619,096)

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

	CONSOLIDATED	
	2006	2005
15. EARNINGS PER SHARE		
Weighted average number of ordinary shares used in calculation of basic earnings per share	67,817,901	64,200,028

Diluted earnings per share

Diluted earnings per share has not been included, as it results in a more favourable earnings per share figure than basic earnings per share.

Classification of securities as potential ordinary shares

Options to purchase ordinary shares not exercised at 30 June 2006 have not been included in the determination of basic earnings per share.

16. STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash	2,271,327	2,669,364	2,237,615	2,669,364
Short term deposit	45,000	45,000	45,000	45,000
	2,316,327	2,714,364	2,282,615	2,714,364

(b) Reconciliation of operating loss after income tax to net cash provided by operating activities

Operating loss after income tax	(678,938)	(923,417)	(665,178)	(923,417)
Add item classified as investing activities				
(Profit) on sale of listed securities	(39,000)	-	(39,000)	-
(Profit) on sale of exploration assets	(105,000)	-	(105,000)	-
Add non-cash items				
Depreciation	22,265	30,911	22,265	30,911
Write down/(off) of plant and equipment	7,578	-	7,578	-
Exploration costs written off	-	453,299	-	453,299
Share based payments	35,765	-	35,765	-
Diminution in value of investments	90,000	232,500	311,673	232,500
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables and prepayments	(22,697)	(148)	7,019	(148)
Increase/(decrease) in trade and other payables	202,155	(52,627)	45,747	(52,627)
	(487,872)	(259,482)	(385,131)	(259,482)

**COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**

17. DIRECTOR AND EXECUTIVE DISCLOSURES

Details of Key Management Personnel

The following persons were directors of Comet Resources Limited during the financial year:

Mr RO Jones-Chairman
Mr AR Cooper -Chief Executive Officer
Mr R N Hill – Non-executive Director

The following persons were executives of Comet Resources Limited during the financial year:

Ms N Lloyd – Company Secretary – appointed 28 April 2006
Mr M Smartt – Company Secretary – resigned 28 April 2006
Mr A Roberts – Chief Scientific Officer – commenced November 2005
Mr S Matheson – Exploration Manager

Remuneration Policy

The Company's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The Company bases its remuneration of employees and consultants on industry standards and the Australasian Institute of Mining and Metallurgy Remuneration and Membership Survey. Whilst in the exploration and acquisition phase, the Company targets the lowest quartile of remuneration levels. The Company currently does not have in place any performance related compensation arrangements.

Employment Agreements

Comet has entered into the following agreements with Directors:

- An agreement with Alberta Resources Pty Ltd for the services of Mr Tony Cooper with fees of \$136,800 per year. The agreement is on commercial terms and can be terminated at 1 months notice; and
- An agreement with Rojex Mining Services Pty Ltd for the services of Mr Roj Jones with fees of \$136,800 per year. The agreement is on commercial terms and can be terminated at 1 months notice.

Comet has entered into the following agreements with Key Management Personnel:

- An agreement with BIO-Tec for the services of Mr Andrew Roberts with fees of \$10,000-\$20,000 per month depending on project development. The agreement is on commercial terms and can be terminated at 3 months notice; and
- An employment agreement with Mr Scott Matheson for the position of Exploration Manager, with a salary of \$80,000 plus superannuation. The agreement is on commercial terms and can be terminated at 1 months notice.

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

17. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

Details of remuneration

Details of the remuneration of each director of Comet, including their personally-related entities, are set out in the following table.

Name	Short –term			Post-employment		Share based payment	Total \$
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
RO Jones 2006 Chairman	68,400	-	4,462	68,400	-	-	141,262
2005	137,661	-	-	-	-	-	137,661
AR Cooper 2006 CEO	136,800	-	4,462	-	-	-	141,262
2005	125,745	-	-	-	-	-	125,745
RN Hill 2006 Non-exec	23,313	-	4,462	2,098	-	-	29,873
2005	22,365	-	-	2,635	-	-	25,000
Total 2006	228,513	-	13,386	70,498	-	-	312,397
Total 2005	285,771	-	-	2,635	-	-	288,406

Details of the remuneration of each key management person of Comet, including their personally-related entities, are set out in the following table.

Name	Short-term			Post-employment		Share based payment	Total \$
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
N Lloyd* 2006 Company Sec	9,000	-	1,487	-	-	-	10,487
2005	-	-	-	-	-	-	-
M Smartt** 2006 Company Sec	27,500	-	2,975	2,500	-	35,765	68,740
2005	16,500	-	-	1,500	-	-	18,000
A Roberts 2006 EOS Project Manager	78,500	-	-	-	-	-	78,500
2005	-	-	-	-	-	-	-
S Matheson 2006 Exploration Manager	78,800	-	-	7,092	-	-	85,892
2005	70,800	-	-	6,372	-	-	77,172
Total 2006	193,800	-	4,462	9,592	-	35,765	243,619
Total 2005	87,300	-	-	7,872	-	-	95,172

* Part-time, appointed 28 April 2006.

** Part-time, resigned 28 April 2006.

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

17. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

Compensation by Category: Key Management Personnel

	<i>CONSOLIDATED</i>		<i>THE COMPANY</i>	
	2006 \$	2005 \$	2006 \$	2005 \$
Short-term	198,262	87,300	120,612	87,300
Post employment	9,592	7,872	9,592	
Share-based payment	35,765	-	35,765	-
	243,619	95,172	165,969	95,172

Options granted as part of remuneration

Name	Grant date	Grant Number	Value per option at Grant date	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Total Value of options, granted, exercised and lapsed during the year	% Remuneration consisting of options for the year
M Smartt Company Secretary	31 /01/06	500,000	\$0.0715	\$35,765	-	-	\$35,765	52.00

For details on the valuation of options, including models and assumptions used, please refer to Note 13. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

Equity instruments disclosures relating to directors and executives

Option holdings

No options were held by directors at balance date (2005:0).

The number of options over ordinary shares in the Company held during the financial year by each director of Comet, including their personally-related entities, are set out below.

Name	Balance at the start of the year	Granted during the year as remuneration	Expired during the year	Options Exercised during the year	Balance at the end of the year	Vested and exercisable at the end of the year
RO Jones	-	-	-	-	Nil	N/a
AR Cooper	-	-	-	-	Nil	N/a
RN Hill	-	-	-	-	Nil	N/a

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

17. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

Share holdings

The numbers of shares in the Company held during the financial year by each director of Comet, including their personally-related entities, are set out below.

Name	Balance at the start of the year	Acquired during the year	Balance at the end of the year
RO Jones	9,112,841	50,000	9,162,841
AR Cooper	4,260,312	-	4,260,312
RN Hill	3,145,045	750,000	3,895,045

Other transactions with directors

Consultancy fees and superannuation of \$136,800 were paid at normal commercial rates to Rojex Mining Services Pty Ltd, a company controlled by Mr RO Jones, for the provision of management, administrative and technical services.

Consultancy fees of \$136,800 were paid at normal commercial rates to Alberta Resources Pty Ltd, a company controlled by Mr AR Cooper, for the provision of technical and administrative services and fees of \$7,280 were paid at normal commercial rates to Geocad (WA) Pty Ltd, a company of which Mr AR Cooper is a director, for the provision of drafting and geological services.

The above fees have been included in directors remuneration disclosed above.

The terms and conditions of the transactions with directors and director-related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arms length basis.

No amounts were receivable from directors and their director-related entities at balance date arising from these transactions.

Amounts payable to directors and their director-related entities at balance date arising from these transactions were as follows:

	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Current payables				
Trade creditors	12,540	23,966	4,840	23,966

Wholly owned group

Details of interests in wholly owned controlled entities are set out in Note 22. No dealings with these entities occurred during the year.

18. AUDITORS' REMUNERATION

Audit services:				
Auditors of the Company – Stantons International	16,296	10,933	16,296	10,933

COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

19. COMMITMENTS

Exploration expenditure commitments

	<i>CONSOLIDATED</i>		<i>THE COMPANY</i>	
	2006	2005	2006	2005
	\$	\$	\$	\$
The obligations to perform minimum exploration work on leases are not provided for in the accounts and are payable as follows:				
Not longer than one year	346,000	559,304	346,000	559,304
	<u>346,000</u>	<u>559,304</u>	<u>346,000</u>	<u>559,304</u>

The Company may vary the exploration expenditure over the period by reducing its tenement holdings and/or applying for exemptions. Future expenditure will be based on the prospectivity of the tenements and/or the cash resources of the Company.

Rental commitments

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2006 are as follows:

Not longer than one year	51,508	49,563	48,180	49,563
Longer than one year but not longer than two years	8,030	49,563	8,030	49,563
	<u>59,538</u>	<u>99,126</u>	<u>56,210</u>	<u>99,126</u>

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short-term deposits.

The main purpose of these financial instruments is to support the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's cash and short-term deposits.

Foreign currency risk

The Group operates solely within Australia at this time and subject to limited foreign currency risk.

Commodity price risk

The Group's exposure to price risk is minimal.

**COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Credit risk

The Group trades only with recognised, creditworthy third parties.

It is the Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale financial assets, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of short-term deposits, grant funding and equity raising if required.

21. FINANCIAL INSTRUMENTS

Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Note	Floating Interest	Fixed interest maturing in:		Non Interest bearing	Total	Weighted average interest rate
		\$	1 year or less \$	1-5 years \$	\$	\$	
2006							
Financial assets							
Cash and cash equivalents	6	2,263,601	-	-	52,726	2,316,327	5.75%
Trade and other receivables	7	-	-	-	57,733	57,733	0%
Listed securities	10	-	-	-	510,000	510,000	0%
Loan receivable		-	-	-	80,526	80,526	8.5%
Bonds	10	-	-	-	40,000	40,000	0%
		<u>2,263,601</u>	<u>-</u>	<u>-</u>	<u>740,985</u>	<u>3,004,586</u>	
Financial liabilities							
Trade and other Payables	11	-	-	-	289,771	289,771	0%
		<u>-</u>	<u>-</u>	<u>-</u>	<u>289,771</u>	<u>289,771</u>	
Net financial assets		<u>2,263,601</u>	<u>-</u>	<u>-</u>	<u>451,214</u>	<u>2,714,815</u>	

**COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**

21. FINANCIAL INSTRUMENTS (cont'd)

	Note	Floating Interest	Fixed interest maturing in:		Non Interest bearing	Total	Weighted average interest rate
		\$	1 year or less	1-5 years	\$	\$	
		\$	\$	\$	\$	\$	
2005							
Financial assets							
Cash and cash equivalents	6	2,643,526	-	-	70,838	2,714,364	5.68%
Trade and other receivables	7	-	-	-	38,892	38,892	0%
Listed securities	10	-	-	-	600,000	600,000	0%
Bonds	10	-	-	-	70,000	70,000	0%
		<u>2,643,526</u>	<u>-</u>	<u>-</u>	<u>779,730</u>	<u>3,423,256</u>	
Financial liabilities							
Trade and other Payables	11	-	-	-	87,617	87,617	
		<u>-</u>	<u>-</u>	<u>-</u>	<u>87,617</u>	<u>87,617</u>	
Net financial assets		<u>2,643,526</u>	<u>-</u>	<u>-</u>	<u>692,113</u>	<u>3,335,639</u>	

Net fair values of financial assets and liabilities

The net fair values of financial assets and liabilities at balance date approximates their carrying amount.

22. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of Comet and the subsidiaries listed in the following table.

	2006 %	2005 %
Comet Resources Limited – controlled entities		
Ravensthorpe Management Pty Ltd*^	100	100
Environmental Oil Solutions Pty Ltd*	100	100

* incorporated in Australia

^ dormant

Comet Resources Limited is the ultimate parent entity.

**COMET RESOURCES LTD
and its Controlled Entities
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**

22. RELATED PARTY DISCLOSURES (cont'd)

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year:

Related party		Sales to related parties \$	Amount owed by related parties \$	Amounts owed to related parties \$
Subsidiary:				
Environmental Oil Solutions	2006	11,700	221,673	-

23. EVENTS SUBSEQUENT TO BALANCE DATE

On the 24 July 2006 Comet was issued 8.7 million ordinary shares in Ferrowest Limited as consideration for their interests in the Yalgoo tenements. The shares are escrowed for a period of 12 months. The fair value of the shares based on a listing price of \$0.20 and a 20% discount is \$1,392,000.

Other than the above there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

24. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Comet's Agreement with BIO-Tec Pty (BIO-Tec) Ltd requires shareholder approval. If certain milestones are achieved relating to contracts and profit levels Comet may be required to issue BIO-Tec up to 14 million paid shares and 3 million options with various exercise prices between \$0.75 and \$1.50. The shares would be issued over a period from October 2006 to June 2009. The shares would be issued if the price of the Comet shares remains above \$0.50 for a period of 4 months or if the Net Profit after Tax (NPAT) for 2007/2008 exceeds \$2 million.

Comet is also required to fund expenditure up to \$500,000 by October 2006 on designated testwork. Approximately \$238,000 has been spent by the end of June 2006.

Comet has entered into an agreement with BIO-Tec for the services of Mr Andrew Roberts with fees of \$10,000-\$20,000 per month depending on project development. The agreement is on commercial terms and can be terminated at 3 months notice.

The Group does not have any contingent assets or liabilities other than the mentioned above.

25. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENT TO IFRS

Reconciliation of equity as presented under AGAAP and that under AIFRS

	CONSOLIDATED	THE COMPANY
	2005	2005
	\$	\$
Total equity under AGAAP	3,373,876	3,373,876
Total equity under AIFRS	3,373,876	3,373,876

There are no material differences in the loss for the year ended 30 June 2005 under AGAAP or under AIFRS.

**COMET RESOURCES LTD
and its Controlled Entities
DIRECTORS' DECLARATION**

The directors of Comet Resources Limited declare that:

- (a) the financial statements and notes, set out on pages 16 to 44 are in accordance with the Corporations Act 2001:
- give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the Company and economic entity; and
 - comply with Accounting Standards and the Corporations Regulations 2001;
- (b) 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.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.

This declaration is made in accordance with a resolution of the Board of directors.



RO Jones
Director

Dated at Perth this 23 day of August 2006

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF COMET RESOURCES LIMITED

SCOPE

The financial report and directors' responsibility

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

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

INDEPENDENCE

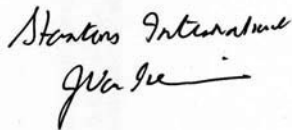
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

AUDIT OPINION

In our opinion, the financial report of Comet Resources Limited is in accordance with:

- a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

STANTONS INTERNATIONAL (Authorised Audit Company)

Handwritten signature of J P Van Dieren in black ink, appearing as 'Stantons International' followed by a cursive signature.

J P Van Dieren
Director

Perth, Western Australia
23 August 2006

Stantons International

ABN 41 103 088 697

LEVEL 1, 1 HAVELOCK STREET
WEST PERTH WA 6005, AUSTRALIA
PH: 61 8 9481 3188 • FAX: 61 8 9321 1204
www.stantons.com.au

23 August 2006

Board of Directors
Comet Resources Limited
Level 9
190 St Georges Terrace
PERTH WA 6000

Dear Sirs

RE: COMET RESOURCES 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 Comet Resources Limited.

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

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

STANTONS INTERNATIONAL
(Authorised Audit Company)



John Van Dieren
Director

**COMET RESOURCES LTD
and its Controlled Entities
ASX ADDITIONAL INFORMATION**

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report.

The information is made as at 21 August 2006.

Twenty largest shareholders		
	Number	%
Rojex Mining Services Pty Ltd	9,162,841	13.51
ANZ Nominees Ltd	7,310,406	10.78
Danari Holdings Ltd	5,000,000	7.37
Alberta Resources Pty Ltd	3,546,774	5.23
Chesilton Pty Ltd	3,000,000	4.42
Broomehill Pty Ltd	2,747,047	4.05
Mr Howard Dawson & Mrs Leight Dawson	1,683,506	2.48
Yandal Investments Pty Ltd	1,600,000	2.36
Alford Bay Pty Ltd	1,148,000	1.69
Mr Alex Negus	1,120,000	1.65
Tansearch Pty Ltd	1,006,500	1.48
Clodene Pty Ltd	923,657	1.36
Abancourt Holdings Pty Ltd	798,343	1.18
G J Alt Pty Ltd	750,000	1.10
Mr Anthony Cooper	713,158	1.05
Dr Salim Cassim	700,000	1.03
Mrs Josephine Beirne	650,000	0.96
Bee Dee Investments Ltd	600,000	0.88
Mr David Leadbeatter	500,556	0.74
Ozzitec Incorporated	500,000	0.74

Number of share and option holders

67,817,903 fully paid ordinary shares are held by 740 shareholders.

500,000 options exercisable at 12 cents and expiring 31 March 2007 are held by 1 optionholder.

500,000 options exercisable at 15 cents and expiring 31 January 2009 are held by 1 optionholder.

COMET RESOURCES LTD
and its Controlled Entities
ASX ADDITIONAL INFORMATION (CONT'D)

Distribution of share and option holders

	Fully paid	Options 31.01.2009	Options 31.3.2007
1-1,000	15,236	-	-
1,001-5,000	368,107	-	-
5,001-10,000	1,774,260	-	-
10,001-100,000	12,250,432	-	-
100,001 & over	53,409,868	1	1
TOTAL	67,817,903	1	1

Holders of non-marketable parcels

There are 77 shareholders that hold less than a marketable parcel of 3,846 fully paid ordinary shares.

Voting rights

On a show of hands each member is entitled to one vote and on a poll one vote for every fully paid share held.

Substantial shareholders

The following shareholders are recorded in the register of substantial shareholders:

Rojex Mining Services Pty Ltd – 9,162,841 fully paid shares;
 Mr Anthony Cooper & Alberta Resources Pty Ltd - 4,260,312 fully paid shares;
 Danari Holdings Pty Ltd – 5,000,000 fully paid shares; and
 Roger Hill, Alford Bay Pty Ltd and Broomehill Pty Ltd – 3,895,045 fully paid shares

Stock exchange listing

The Company's fully paid shares (CRL) are quoted by the Australian Stock Exchange Limited.

Restricted securities

The Company has no securities on issue that are classified as "Restricted Securities".

On-market buy-back

Currently there is no on-market buy-back of the Company's securities.

COMET RESOURCES LTD
and its Controlled Entities
CORPORATE GOVERNANCE STATEMENT

Corporate governance disclosures

During the financial year the Company has complied with each of the 10 Essential Corporate Governance Principles and the corresponding Best Practice Recommendations, other than in relation to the matters specified below:

Best Practice Recommendation	Notification of departure	Explanation of departure
2.1	Majority of Board not independent	The size and scope of the Company's activities does not justify the cost of appointing two additional independent directors.
2.2	Chairman is not independent	The Board considers that the executive role carried out by the Chairman is in the best interests of the Company.
2.4	The Company does not have a Nomination Committee	The role of the Nomination Committee has been assumed by the full Board. The size and scope of the Company's activities does not justify the establishment of such a Committee.
4.2, 4.3 & 4.4	The Company does not have an Audit Committee	The role of the Audit Committee has been assumed by the full Board. The size and scope of the Company's activities does not justify the establishment of such a Committee.
4.5	No Audit Committee charter and no rotation of external audit engagement partner.	All matters concerning the Company's financial statements were scrutinised by and determined by the Board. The Company utilises the services of an independent audit firm that has only two audit partners. Rotation will occur in due course.
9.2	No Remuneration Committee	The role of the Remuneration Committee has been assumed by the full Board. The size and scope of the Company's activities does not justify the establishment of such a Committee. No director participated in any deliberation regarding his own remuneration or related issues.
9.5	No Remuneration Committee charter	All matters of remuneration were scrutinised by and determined by the Board.

COMET RESOURCES LTD
and its Controlled Entities
TENEMENT LISTING

Tenement Listing		
Project	Interest	Tenement
Utopia	100%	EL 28/1412
	100%	EL 28/1494
	100%	EL 28/1495
Jilbadji	100%	ELA28/1657
	100%	ELA 77/1182
Yalgoo Base Metals	100%	E 59/642
	100%	P 59/1508
	100%	P59/1397
Perenjori (Paradise)	100%	ELA59/2602
Kerrs Creek	100%	EL 6240
Browns Reef	100%	EL 6321
		ELA2337
Murrumbateman	100%	EL 6295
Starfield	100%	EL 6549