

CO2 GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of CO2 Group Limited is responsible for the corporate governance of the Company and its controlled entities (referred to in this statement as the “Group”). The Board is elected by and is accountable to shareholders and guides and monitors the business and affairs of the Group on behalf of shareholders.

A review of the Group’s corporate governance practices was conducted in response to the recommendations of the Australian Stock Exchange Corporate Governance Council. Departures from best practice recommendations occur mainly because the size of the Group and the Board do not justify the additional cost of complying with the form of the recommendations (often directed to the top 100 listed companies) when there is little or no change to the way the Board functions in terms of the underlying substance of the recommendations.

A description of the Company’s main corporate governance practices are set out below. All these practices were in place for the entire year, unless stated otherwise.

THE BOARD OF DIRECTORS

The Board operates in accordance with the principles set out in its charter which can be found at the Company’s website at www.co2australia.com.au. The charter formalises and discloses the responsibilities reserved by the Board and those delegated to management.

A. Composition

- ❑ The current Board is comprised of three executive and two non-executive independent directors, including an Executive Chairman. The composition of the Board is not consistent with recommendation 2.1 of the Australian Stock Exchange Corporate Governance Council (“CGC”) in that a majority of the Board does not comprise independent directors. The size of the Company, its specialised non-complementary businesses and its geographic markets places a demand for a skills, knowledge and experience combination which is difficult to match without incurring unreasonable cost. The Board holds the view that expanding the Board further to comply with the form of recommendation 2.1 would not necessarily add value and that in the short-term, the cost outweighs the benefits. The Board is constantly reviewing this matter. The composition of the Board was varied in July 2005.
- ❑ The Chairperson is elected by the full Board. As the current Chairperson is an executive director, the Company’s practice is not consistent with recommendation 2.2 of CGC. The Chairperson was appointed a director of the Company and Chairman in 2001. He has been instrumental in changing the strategic direction of the Company and has an in-depth knowledge of the Group’s businesses. For a Company of this size, it would be difficult to attract an independent Chairperson of this calibre and experience.

B. Directors’ Independence

- ❑ The Board currently has two non-executive, independent directors. The appointment of non-executive, independent directors is constantly being considered and any further appointments will likely be non-executive and independent in compliance with the recommendations. The composition of the Board was varied in July 2005.

C. Independent Advice

- ❑ Directors may seek independent professional advice at the expense of the Company.
- ❑ Directors should notify the Chairman of the names of any professional advisers they propose to retain and, where appropriate, agree to make available to other directors details of the advice they receive.

D. Code of Conduct

- Directors are required to comply with the Group's Code of Conduct, which was approved by the Board on 21 September 2004. Prior to this, Directors were required to comply with the code of conduct codified in the Articles of Association of the Australian Institute of Company Directors.
- Directors are required to comply with the Group's Share Trading Policy which provides that they should not engage in short term trading and must not purchase and sell shares and securities in the Company while in possession of information which, if generally available to the public, would be likely materially to affect the price of the Company's shares and securities. Directors must notify the Company Secretary before making any purchase or sale of the Company's shares.

E. Nomination of Directors

- Given the size of the current Board, the Board does not consider it necessary to maintain a formal nomination committee. This is not consistent with recommendation 2.4 of CGC which is not considered practical as the Board can properly address this function without the need to delegate to a committee.
- The membership of the Board is reviewed by the existing Board on a continuous basis.
- The Board as a whole is responsible for establishing criteria for Board membership, reviewing Board membership and nominating directors.
- The main criteria for the appointment of directors are expertise, experience and qualifications which will contribute to the competent and efficient operation of the Board.
- The appointment and retirement of non-executive directors is reviewed by the Board on a continuous basis.

F. Performance

- The Chairperson reviews the performance of the Board and the performance of individual directors. The Board intends to implement a formal process for the review and appraisal of the overall performance of the Board and individual directors.
- The performance of the senior executives is also reviewed by the Board.

G. Responsibilities of the Board

- Appointing and removing the chief executive officer (or equivalent);
- Development of corporate strategy and performance objectives;
- Reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
- Monitoring the Group's operational and financial performance and implementation of strategy, and ensuring appropriate resources are available;
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures; and
- Monitoring and approving financial and other reporting.

Responsibilities of the Board were added in July 2005.

MANAGEMENT CERTIFICATIONS

Commencing with the 30 June 2004 financial year, the Executive Chairman and Chief Financial Officer are required to make the following certifications to the Board:

- The financial reports give a true and fair view, in all material respects, of the financial condition and performance of the Company and Group and are in accordance with relevant accounting standards and the Company can pay its debts as and when they become due and payable.
- The above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the Board and that the risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

BUSINESS RISKS

The Board of Directors has established a risk management policy and relevant details are set out below. A revised policy was approved by the Board on 21 September 2004 and has been posted on the website.

- The Board as a whole is responsible for business risks.
- The Board may consult such other persons as it considers necessary.
- Management is to identify key business, operational and financial risks. The Board is to ensure that appropriate risk management policies are developed and strategies implemented to mitigate such risks.
- The Board is to ensure that there are no transactions which create risks which are not supported by an underlying physical transaction.
- The Board should regularly review the financial and operational performance of the group against budget and key performance indicators and specific risk management plans.
- The Board should ensure that due diligence has been carried out before approving business acquisitions and disposals, debt and equity raisings and significant capital expenditure.

AUDIT COMMITTEE

The Company has an Audit Committee. This position is consistent with recommendation 4.2 of the Australian Stock Exchange Corporate Governance Council ("CGC").

The Audit Committee considers all matters relating to the financial performance of the Group and takes advice from various external financial consultants when considered necessary.

The Audit Committee meets at least twice per year and is made up of the two non-executive, independent directors and the Chairman.

The appointment of the Audit Committee was completed in December 2005.

REMUNERATION

The Company has a Remuneration Committee. This position is consistent with recommendation 9.2 of the Australian Stock Exchange Corporate Governance Council ("CGC").

The Remuneration Committee considers all matters to ensure the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual

performance is defined. The Committee takes advice from various external consultants when considered necessary.

The Remuneration Committee meets at least once per year and is made up of the two non-executive, independent directors and the Chairman.

The appointment of the Remuneration Committee was completed in December 2005.

A. Directors' Remuneration

- As required by Article 7.3(a), increases to the fees of directors (not including the salary of an executive director) are to be determined, in aggregate, by the Company in general meeting.
- The remuneration payable to non-executive directors is determined by the Chairperson having regard to remuneration trends for companies of similar size.

B. Executive Remuneration

- The remuneration of the executive directors is to be determined annually by the Remuneration Committee.
- The remuneration of senior executives is determined by the Board.

SHAREHOLDER COMMUNICATIONS

The Board of Directors has established a communications and disclosure policy which deals in part with shareholder communications. This policy was approved by the Board on 21 September 2004 and has been posted on the website.

All shareholders are sent by mail notices of general meetings and the annual report. The venue for the annual general meeting is being held in Perth to afford the greatest concentration of shareholders the opportunity to attend and meet with directors.

Apart from direct mail information, shareholders can access the Company's website for links to the website of the major businesses of the Group, all recent announcements to the ASX including the Half Yearly report and the Chairperson's address, annual reports and the notice of annual general meeting and explanatory memoranda, if applicable.

CONTINUOUS DISCLOSURE

The Group has a specific policy on continuous disclosure which is referred to in the broader communications and disclosure policy. Relevant details in the continuous disclosure policy are set out below.

Holding Company Level

- Continuous disclosure is monitored by the entire Board and the Company Secretary.
- The Company Secretary has been nominated as the person responsible for communications with the ASX and is responsible for issuing a copy of the ASX Listing Rule 3.1, Guidelines and the Company's Continuous Disclosure Policy to the Executive Committee of every operating subsidiary division.
- Where any information comes to light within the Group which may need to be released to the market under ASX Listing Rule 3.1, all employees are obliged to immediately bring that information to the attention of a Board member or the Company Secretary.
- In consultation with appropriate personnel, a decision will then be taken by the Board about whether or not to disclose the information to the market or take any necessary steps

to protect its confidentiality. All information disclosed to the ASX is posted on the company's website at www.co2australia.com.au shortly after it is disclosed to the ASX.

- ❑ Until a decision as to whether or not to disclose information has been made, employees must treat the information as strictly confidential.

Subsidiary Company Level

- ❑ The Managing Director and Chief Financial Officer of all operating subsidiary companies are responsible for implementing the Group's Continuous Disclosure Policy to their operating subsidiary or division.
- ❑ The Managing Director and Chief Financial Officer are responsible for monitoring and the immediate reporting of all continuous disclosure events occurring in their business. At least once each month a written report of information which could be price sensitive must form part of the monthly management reporting package to Corporate Office.