



CO2 GROUP LIMITED  
ANNUAL REPORT  
2011

# OUR HIGHLIGHTS

In 2011 CO2 Group emerged as the only truly diversified Australian environmental services company. Blue chip organisations and governments are now making carbon offset strategies a key focus. CO2 Group now has the foundation in place to capitalise on this growth market.

---

PAGE  
**07** Net profit after tax  
of \$1.5 million

---

PAGE  
**07** Total revenue for FY2011  
of \$35 million

---

PAGE  
**07** \$17.9 million of cash on hand  
and no debt

---

PAGE  
**09** Total carbon sink  
plantings increased 25%  
to 22,300 hectares



Printed on paper that is made carbon neutral  
with FSC certified 100% recycled pulp.

---

PAGE  
**12** Carbon Farming Legislation  
passed in August 2011

---


PAGE  
**14** Successful diversification of  
CO2 Group's business with  
new operations launched  
– Yonderr and Carbon Banc

---

PAGE  
**12** Clean Energy Legislation  
passed in November 2011

---


PAGE  
**15** CO2 New Zealand secures  
\$10 million carbon project in  
November 2011



*Integrated belt plantings in a cropping program at 'Currawonga',  
Condobolin NSW planted in 2006/07 for Eraring Energy.*

# CONTENTS

Chairman's Overview	5
Results at a Glance	7
CEO Report	8
Carbon Market Overview	11
Year in Review	14
Directors' Report	21
Auditor's Independence Declaration	38
Corporate Governance Statement	39
Financial Performance	45
Directors' Declaration	97
Shareholder Information	98
Independent Auditor's Report to Members	100
Corporate Directory	102

A photograph of a man, Roger Todd, wearing a brown hat, a blue polo shirt, and khaki shorts, standing on a dirt road. He is smiling and looking towards the right. A black and tan dog, Reggie, is leaning over the side of a red vehicle, looking towards the camera. The background shows a dirt road stretching into the distance under a clear blue sky, with some trees and hills in the far distance.

*CO2 Australia landholder Roger Todd  
(and Reggie) at 'Wirrinun', Melrose NSW  
planted in 2009 for Eraring Energy.*

---

## The 2011 year witnessed significant progress on a number of important fronts.

Operationally, the company successfully executed its largest carbon sink development program to date; the operational foundation and processes established by our Management have provided your Board with a high level of confidence in your company's ability to significantly scale up our activities.

During the 2011 year, the regulatory landscape has changed positively with the passing of the Carbon Farming Initiative legislation in August and subsequently the Clean Energy (Carbon Tax) package of bills in November. The passage of this legislation is already beginning to result in increased sales opportunity; however I remind shareholders that the nature of our business means that our sales cycle is much longer than most companies.

Your company has placed increased strategic focus upon expanding its carbon offer in both the voluntary and compliance markets; the development of our environmental markets business which commenced trading in March 2011 has performed well and shareholders will see further expansion opportunities both in Australia and internationally during the 2012 financial year.

Financially the 2011 year recorded increased revenues, earnings and cash.

Revenues increased by 28% to \$35.4 million; earnings before interest and tax, depreciation and impairment (EBITDA) increased by \$1.3 million to \$2.7 million; long term contracted fee income has risen to in excess of \$2.0 million per annum on a rolling twelve month basis.

Importantly, your company has no debt with cash at balance date being \$17.9 million and the subsequent exercise of options in November increased your company's cash position to approximately \$34.5 million as at November 2011.

In summary, your company is operationally sound and positioned for a significant expansion of our primary carbon sink business. The radically improved regulatory environment is providing an expanding sales opportunity; those factors coupled to your company's strong financial position auger well for its profitable growth.

Finally, your Board thanks our Executive and Management team for their efforts during 2011 and expect and anticipate a greater contribution to shareholders into the future.



**Ian Trahar**  
Chairman  
CO2 Group Limited



*Seedlings are planted by hand to ensure ideal planting depth and compaction.*

# RESULTS AT A GLANCE

7

---

## Results at a Glance

	2011 (12 months)	2010 (15 months)	% Change
Total Sales Revenue	\$35.4m	\$27.7m	28%
EBITDA*	\$2.7m	\$1.4m	93%
Net Profit after Tax	\$1.5m	(\$3.3m)	NA**
Cash Reserves	\$17.9m	\$17.3m	3%
Earnings per Share (cents)	0.52	(1.2)	NA**

\* EBITDA also excludes the impairment charge from the prior period.

\*\* The result for the previous corresponding period was a loss. In these circumstances a percentage increase in profit or earnings per share is not applicable.

# 8 CEO REPORT



**Andrew Grant**  
Chief Executive Officer  
CO2 Group Limited

I thank our shareholders for their continued support during 2011 and also acknowledge the contribution that our customers and partners have made to CO2 Group this year. Our customer base continues to grow, driven in part by a greater focus that many companies now have on carbon offset strategies as well as the fact that our existing customers are investing more in strengthening their environmental credentials.

Last year I made mention of the fact that building a business which is tied to the emerging carbon economy requires a great deal of patience. I believe that this patience is now starting to pay off and the beneficiaries will be our shareholders, customers, our team, and of course the environment.

In Australia, the federal government's decision to implement policy that places a price on carbon has indeed been a catalyst for many organisations to become more focused on their carbon offset strategies. While government policy is not mission-critical for CO2 Group's business, it has certainly raised significant awareness of the rapidly growing carbon economy.

The passing of the Carbon Farming Initiative (CFI) legislation in August 2011 is also a positive development that will deliver long term growth to CO2 Group. This initiative allows landholders to participate in carbon reduction projects such as planting trees, increasing soil carbon and reducing on-farm emissions. It is one such initiative that has bi-partisan support and further evidence of the growing support for 'green' policy on both sides of the political spectrum.

During the year we took further steps to position the company as Australia's preeminent environmental services company. Whilst the planting and ongoing management of carbon sinks has been the cornerstone of CO2 Group's business, 2011 was the year where we have significantly broadened our service offering. This is reflected in the strong financial performance which the Chairman has summarised.

We have also expanded our international operations with the ongoing growth of our 45 percent-owned New Zealand business. We have secured new carbon sequestration projects and significantly expanded our long term carbon contract sales with major New Zealand Emission Trading Scheme (NZ-ETS) compliance parties. The New Zealand business is also engaged in the mapping of more than 220,000 hectares of pre-1990 forest land which is subject to deforestation obligations under the NZ-ETS. This makes CO2 New Zealand the largest land applicant to the New Zealand Government for pre-1990 forest allocations on behalf of its customers.

The implementation of the CFI legislation in Australia also provides a significant international growth platform which CO2 Group has started to capitalise upon. Large multinational organisations operating overseas can offset their carbon emissions by purchasing carbon credits created from the CFI. Early enquiries from large multinational corporations have been encouraging.

We launched our environmental trading division during the year – known as Carbon Banc™ – and this too has experienced significant growth. Revenue from March to October was in excess of \$11 million and customer enquiries are now at record levels. This platform provides

an access point for customers with an environmental obligation to typically illiquid emissions trading schemes. We believe that Carbon Banc™ will continue to be a key growth driver for CO2 Group and we are encouraged by the fact that we have grown this business from zero revenue seven months ago to a business that will be a major future revenue contributor.

As well as these initiatives CO2 Group has been engaged in other environmental services including mapping and forestry management inventory consulting, mine site rehabilitation work, broader environmental plantings and carbon accounting. While these account for a small percentage of the business in revenue terms, all offer upside potential for the company.

CO2 Group's core carbon sequestration business was the main contributor to the company's growth in 2011. Total estates under management increased 25 percent from 17,900 hectares to 22,300 hectares. These plantings continue to support long term, 30-50 year contracts, and all customers remain supportive of their respective projects and ongoing obligations.

CO2 Group is in strong shape and well placed for the year ahead. We have a strong cash position which gives us the necessary flexibility to grow and pursue our growth objectives which include:

- Continuing to grow our carbon estate at similar or greater growth rates than in prior years. Existing and new business opportunities position us well to achieve this;
- Capitalising on our new lines of business and more aggressively marketing these services to new and existing customers;
- Further expanding our New Zealand operations, and positioning CO2 Group for growth in new international markets;
- Continuing to focus on diversifying our business in terms of revenue spread, geographical location, and broadening our range of environmental services; and
- Ensuring we continue to manage our cost base and keep fixed costs broadly in line with current levels whilst still allowing us to pursue organic growth initiatives.

CO2 Group is in a unique position to capitalise on the opportunities ahead. With 500 large carbon emitters now actively looking at carbon offset strategies, and the growth potential that international markets present, I can confidently say that CO2 Group is still in the very early stages of its growth.

I would also like to thank the dedicated team at CO2 Group for their hard work and ardour during the year.

Your company is in great shape.



**Andrew Grant**  
Chief Executive Officer  
CO2 Group Limited



*Large remnant patch of mallee vegetation at 'Trelawney', Trundle NSW protected in 2011 for Woodside Energy Ltd.*

## INTERNATIONAL DEVELOPMENTS

Worldwide Carbon Markets are evolving, and will without doubt continue to evolve for decades to come.

It's now clear that the international negotiations, conducted within the United Nations system, are unlikely to deliver the type of globally coordinated, regulated market-based approach that was anticipated at the turn of the Century.

Instead, nations and trading blocs have moved to develop tailored responses to climate change, including various forms of emissions trading and carbon pricing mechanisms. These and many other proposals will no doubt be continually introduced and debated.

The two major reports produced for the Australian Government – the Garnaut Report Update and the Productivity Commission's Report "Carbon Emission Policies in Key Economies" – outline a wide variety of actions that are currently being undertaken by governments around the world to address climate change. These include explicit carbon pricing through taxes or trading; the introduction of regulations; government expenditures including subsidies; research and development programs; other (non-carbon) taxation measures; as well as public information.

Closest to Australia, the New Zealand Emissions Trading Scheme (NZ-ETS) remains in place, with the recent review advising the expansion of the Scheme. This is an extremely important development for the company, providing further regulatory confidence for the development of our 45 percent owned CO2 New Zealand business.

The recommendation is that 100% of New Zealand's industrial sector emissions will be covered by 2015 (see Table 1). The suggested timing for expanded coverage is similar to Australia's move from a fixed-price carbon 'tax' to a more fully-fledged emissions trading scheme.

**TABLE 1: COVERAGE OF NEW ZEALAND'S INDUSTRIAL SECTOR EMISSIONS**

Sector	2012	2013	2014	2015	2016	2017	2018	2019
Stationary energy, industrial processes and liquid fossil fuels	50%	67%	83%	100%	100%	100%	100%	100%
Waste and synthetic greenhouse gases	-	67%	83%	100%	100%	100%	100%	100%
Agriculture	-	-	-	50%	50%	67%	83%	100%

Further afield, US carbon markets are being developed on a state-by-state basis. Of note is California, which has introduced a cap-and-trade scheme beginning in January 2012 (the first compliance period commences in 2013). With the Californian economy being the world's eighth largest, it is expected to become the world's second largest carbon market by 2020, leading to an expected 15% reduction in emissions from the business-as-usual case.

The European Union's ETS remains the single largest carbon market, providing most of the demand from Certified Emission Reductions (CERs) produced through the Clean Development Mechanism. The EU has moved to reduce supply of CERs to the European Emissions Trading Scheme after 2012. They plan to do this by excluding CERs created from HFC reduction projects, and by limiting new project registrations eligible to create CERs for the European market to projects in Less Developed Countries. Clean Development Mechanism projects registered before 2012 will still be eligible.

# 12 AUSTRALIA

---

An important development this year has been the passage of the Government's Carbon Farming Initiative (CFI) in August. This has created a robust national regulatory framework for carbon offset projects that have been created by CO2 Group.

Projects registered within the CFI will be able to create carbon credits that can be used by companies liable to pay the carbon tax to meet their obligations. They will also provide a source of domestic credits that meet carbon neutrality requirements under the National Carbon Offset Standard (the Australian Government has also provided the basis for export of CFI credits).

In the absence of a domestic carbon price, the Treasury has estimated the size of the CFI market to be about 7,000,000 t CO<sub>2</sub>-equivalent each year through to 2020, given a medium level of global abatement effort.

The passage of the Clean Energy legislation introducing a price on carbon – initially through a fixed-price tax, then through an emissions trading scheme from 2015 – is another major development towards a transparent carbon market in Australia. The carbon price will apply to 500 facilities with emissions greater than 25,000 tonnes of CO<sub>2</sub>-equivalent per year. Large users of transport fuels will be able to opt-into the carbon price from July 2013, thus expanding the potential market for CO2 Group. Importantly, carbon credits created by CFI projects will be the only offset credits able to be used by liable parties during the early phases of the Scheme.

Governments are also utilising environmental approvals associated with large developments to manage future greenhouse gas emissions. Several large projects would be required to undertake specific actions to reduce emissions, should a national carbon compliance scheme cease.

Reforestation is an important initiative under direct action programs, and the Opposition has stated its intention to retain the Carbon Farming scheme if it forms government.

In summary, carbon markets remain highly prospective, developing in a manner similar to other commodities.



*Blue tongue lizard at 'Lee's', West Wyalong NSW planted in 2006 for Eraring Energy. Integrating trees into cleared landscapes provides important habitat for native wildlife.*

# 14 YEAR IN REVIEW

---

## A. REVIEW OF OPERATIONS

### i. On-Ground Results

During the 2011 reporting period, CO2 Group planted a total of 4,469 hectares of forest carbon sinks across New South Wales and Western Australia.

CO2 Group's land sourcing, acquisition capability, and market intelligence continues to be enhanced as the business expands. We are also aware of the importance of building a firm network of rural land agents, advisors and farming community partners. Our integrated land acquisition expertise, capability and reputation as a proven performer continues to grow in New South Wales and Western Australia – we currently have land purchased and optioned across both of these markets which represent 74% of the 2012 planting program requirement. A CO2 Group planting in Western Australia scheduled for 2012 is expected to be the largest integrated carbon sequestration planting ever established. The property will have 850 hectares integrated into its operations.

Additional land acquisitions were made across both the southern and northern wheat belts of Western Australia, as well as the central region of New South Wales. A key element of our integrated farming systems plantings was the enhancement of our landholder partnerships in New South Wales throughout 2011.

Weather conditions were generally favourable across the country for site preparations and planting during the year. However, dryer conditions have followed the plantings in the central region of New South Wales. Plantings in the southern wheat belt region of Western Australia received intermittent rainfall.

Seed production from the Group's orchards continues to increase. Further seed orchard developments have been successfully established in New South Wales.

### ii. Customers

CO2 Group has continued to expand its blue chip customer base throughout 2011, with the company entering into contracts to deliver carbon sequestration projects for Santos, Newcrest Mining and Bundaberg Brewed Beverages. We are extremely pleased to be partnering with these companies and all present growth opportunities. The advent of the Carbon Farming Initiative, and the passage of the Federal Government's Clean Energy Future package, has created new interest from a number of companies and investors.

CO2 Group has built its operations in the absence of a national emissions trading scheme in Australia. Interest has naturally increased from large emitters with an impending liability under the Clean Energy Future legislative package.

During FY2011, CO2 Group established carbon sinks for Woodside Energy, ACTEW Corporation and Newmont Mining. The company also managed plantations on behalf of other blue chip organisations including Wannon Water, Eraring Energy, Inpex Browse, Victorian Department of Sustainability and Environment, Qantas Airways, Big Day Out, Ripcurl Pro and many others. We have strong relationships with our customers, with new and exciting opportunities to build on these relationships.

During FY2011, CO2 Group continued to diversify its operations. One example is the launch of Yonderr, which provides carbon offsets to the voluntary carbon market, catering to individuals and organisations that purchase carbon offsets. Typically, voluntary carbon offsets are purchased for marketing reasons, to improve tender credentials, or to support corporate social responsibility.

### iii. CO2 New Zealand

CO2 New Zealand continues to achieve outstanding results for its customers within the New Zealand Emissions Trading Scheme (NZ-ETS), through the allocation of New Zealand Units (NZU) for Pre 1990 Forestry.

Owners of pre-1990 forest land in New Zealand are subject to deforestation obligations under the NZ-ETS. The decrease in land value for some pre-1990 forest landowners as a result of these rules will be partially offset by a one-off free allocation of NZUs from the Government.

CO2 New Zealand is currently involved in the mapping of more than 220,000 hectares, realising close to 5.7 million NZUs for customers. This makes CO2 New Zealand the largest land applicant to the New Zealand Government for Pre-1990 forest allocations on behalf of its customers.

Sales of carbon credits from these sources will occur against sales arrangements, mostly between January and March each year. CO2 New Zealand's portfolio of carbon credits has continued to grow, supporting new carbon sink projects as they are able to be sold to the project investor.

Following the government NZ-ETS review released in June, investor-related enquiry in New Zealand has increased markedly. This also follows the commitment of the Australian government to its Clean Energy Bill.

CO2 New Zealand in November announced one planting project with the lwi valued at \$10 million, and looks forward to securing additional projects over the coming months.

### iv. Carbon Banc™

CO2 Group has diversified its revenue base through the successful launch and ongoing growth of its environmental trading division, Carbon Banc™, launched in March of this year.

From March to the end of September 2011, Carbon Banc™ generated in excess of \$11 million in revenue. New customer enquiries are at record levels, and in September alone, the business secured \$4.6 million worth of new contracts.

With a strategy in place to diversify the Company's revenue base, Carbon Banc™ represents one of the most important initiatives to achieve this. As an environmental trading business, Carbon Banc™ provides an access point for customers with obligations under a number of state and federal market-based initiatives such as those associated with renewable energy targets. These initiatives typically produce illiquid markets, and Carbon Banc™ has helped to provide liquidity by attracting new trading customers.

Carbon Banc™ has been most active in the Small-scale Renewable Energy Scheme and the Large-scale Renewable Energy Target, where many new entrants have sought competitive pricing in exchange for certificates. Other environmental markets in which Carbon Banc™ trades include the NSW Greenhouse Gas Reduction Scheme & Energy Saving Scheme, the Large Renewable Energy Scheme and the Victorian Energy Efficiency Scheme.

In six months, Carbon Banc™ has partnered with more than 80 customers, as well as establishing trading relationships with some of Australia's major banks, large and medium sized enterprises, energy retailers and generators.

With the introduction of the Carbon Farming Initiative, Carbon Banc™ will continue to expand its operations to meet increased demand for compliance credits. The Initiative also allows Carbon Banc™ to trade CO2 Group's credits in established international carbon markets.

## v. Sustainable Business Practices

CO2 Group is committed to providing multiple solutions for its customers. We have a proven approach to the design and creation of forest carbon sinks, including:

- analysing the carbon sequestration potential of rural landscapes to identify higher yielding sites;
- developing unique commercial investment opportunities through innovative products and services;
- ensuring sustainable agricultural production while maintaining carbon performance;
- returning trees to cleared landscapes that are no longer viable as agricultural enterprises;
- selecting tree species best suited to current and future climates;
- implementing best practice in forest establishment standards; and
- offsetting 100% of the company's direct greenhouse gas emissions.

CO2 Group holds accreditations that require the company to monitor, interpret and report our own carbon emissions, putting in place appropriate, practical and cost-effective actions to reduce our footprint. We actively encourage staff and stakeholders to do the same.

During the year, CO2 Group offset 100% of the company's Scope 1 greenhouse gas emissions through internationally accredited carbon offsets.

Our commitment to sustainable business practices is demonstrated by the following:

### a) Environmental Excellence

In addition to the 22,300 hectares of carbon plantings the company has established, CO2 Group also protects more than 3,500 hectares of remnant native vegetation.

In the heavily cleared landscapes in which CO2 Group operates, remnants present vital refuges for native animals, as well as help to retain the original biodiversity of the area. Small patches of remnant vegetation represent plant communities that may be difficult to find elsewhere.

Remnant vegetation often exists as fragmented or isolated patches across the landscape. CO2 Group's carbon plantings establish links between these patches, considered by ecologists as being extremely important to improve the value of habitat and food source for native wildlife.

In addition to carbon sequestration, CO2 Group's plantings have also been used to reduce the risk of salinity, increase productivity through the reduction of water logging and supporting greater biodiversity on farms.

During 2011, CO2 Group established mallee eucalypt plantings in areas of Western Australia and New South Wales at particular risk of dryland salinity. Introducing deep-rooted perennials such as mallee eucalypts to risk areas assists in mitigating the effects of salinity through increasing ground water use, as well as preventing its damaging rise to the soil surface

## b) The Community

Since our inception, CO2 Group is committed to strengthening local communities. Developing deep and lasting relationships within the rural community comes with regularly communicating with our farming neighbours and related groups in rural Australia. We believe that this is vital to building successful relationships and encourage all our staff to participate in a range of local community forums.

As our customers' businesses grow and our operations expand, rural partnerships with farming families continue to develop – in fact, over 300 farming families across rural Australia are now involved in a range of programs with CO2 Group. These partnerships continue to provide employment opportunities for local communities and contract service providers as part of the site preparation, planting and maintenance phases of our carbon planting programs.

These programs also provide a direct financial injection into the farming enterprise, as landholders are paid for the area of land planted with trees. This strong focus on integration is aimed at implementing long term measures in rural landscapes to address a range of natural resource management issues. It will also have a direct influence on the resilience of rural landscapes at paddock, property and catchment scale.

By integrating CO2 Group's environmental plantings into existing farming and grazing systems, we continue to maintain our strong social licence to operate and have a positive influence on the long term sustainability of our partnering landholders and community. An estimated \$23.3 million has been invested in rural economies during the 2011 year.

To complement our business partnerships, CO2 Group has also sponsored a range of community-based programs. These include the Trundle Bush Tucker Festival, a long running community event aimed at creating culinary delights in traditional camp ovens over open fires. The company also actively supports local rural bush fire brigades, providing sponsorship for fire equipment and other resources within the areas we operate.

CO2 Group has also been a major sponsor of a range of community based conferences. We have been actively partnering within the Lachlan Catchment Management Authority and the Parkes and District Landcare Association to highlight the benefits of the carbon planting program and the potential for landholders to participate in the upcoming Carbon Farming Initiative. CO2 Group was a major sponsor of the NSW Landcare and Catchment Management Forum in Parkes, with staff invited to discuss the Company's operations and lead tours of several carbon plantings within the Parkes Landcare Association district. CO2 Group supported the 2011 Carbon Farming Expo and conference in Dubbo, providing landholders with a range of information, skills and tools to participate in the Carbon Farming Initiative.

CO2 Group has also been working closely with the Trundle Tree Change project and 'rent a farm house'. This is aimed at providing low cost accommodation in existing farmhouses to attract new families to the district, thus strengthening the community and saving local schools.

CO2 Group has also commenced a three-year sponsorship of Nuffield Australia, an organisation that awards scholarships to farmers in Australia. The objective is to increase practical farming knowledge and management skills. These scholarships give Australian citizens the opportunity to study farming practices in New Zealand, Europe, Asia, the Americas and other markets.

CO2 Group continues to facilitate understanding and awareness of the ongoing carbon debate at State and Federal political level. In order to inform politicians of the benefits of carbon plantings within the landscape, Michael McCormack, local Federal member for Riverina, accompanied staff on a tour of several integrated plantings in his electorate.

CO2 Group has been nominated as a finalist (one of three) for the Rural Development Award as part of the NSW/ACT Regional Achievement and Community Awards. These awards publicly acknowledge and pay tribute to individuals, communities, businesses and groups who are making a significant contribution to regional and rural areas. They recognise the contribution that businesses make to enhance the social, economic, commercial or environmental prosperity of their region.

## vi. Health & Safety

The health and safety of our people is CO2 Group's top priority. Some of our people and contractors work in remote conditions, presenting unique challenges. Their continued safety is of paramount importance to the company.

We constantly promote health and safety workplace awareness, endeavouring to provide as safe a workplace as practically possible. This is achieved through the continued development and reinforcement of CO2 Group's Health and Safety Management System:

- workplace health and safety policies and procedures are designed to comply with industry standards and to manage identified risks associated with activities undertaken and equipment used by CO2 Group employees;
- workplace health and safety risk assessment of each contracted work request identifying site specific risks and associated preventative actions, to minimise the frequency of incidents and the severity of impact should an incident occur;
- workplace health and safety communication via formal inductions and contractor education; and
- ongoing supervision and general duty of care to one's self and others.

Employees, contractors, suppliers and partners must all demonstrate a duty of care in workplace health, safety and welfare.

During 2011, CO2 Group engaged with more than 200 individual contract service providers who were directly involved in the establishment of CO2 Group plantings.

## vii. Research and Development

With the introduction of the Carbon Farming Initiative (CFI), CO2 Group has placed a strong emphasis on reviewing the technical features of the CFI and the way that they may be applied to existing and future forest carbon sinks. This effort has included undertaking reviews of the application of the legislation and regulations, review of CFI eligibility requirements, and a review of Methodology preparation and approvals processes. We have regularly provided the Department of Climate Change and Energy Efficiency with feedback on technical aspects of the CFI.

CO2 Group has also drafted and submitted a Methodology for consideration by the Domestic Offsets Integrity Committee. This Methodology is based on contemporary peer reviewed science and is consistent with a range of international methodologies including those approved under the Clean Development Mechanism (CDM) and Verified Carbon Standard (VCS). It leverages off the unique expertise developed by CO2 Group through a decade-long commitment to R&D and operational delivery of large-scale forest carbon projects.

The development and deployment of unique tree species and forest types continues to be an area of activity, particularly as the introduction of the CFI has the potential to open up a broader range of landscapes and forest types to commercialisation as forest carbon projects.

Delivery of a new species requires considerable research effort and investment, particularly around in-field evaluation of forest performance, development of detailed carbon accounting systems and the calibration and rigorous testing of forest growth models. In fact, this process can take several years. During FY2011, CO2 Group significantly advanced this evaluation process for a hardy eucalypt species endemic to Queensland that has potential application across large parts of northern Australia.

---

A major milestone achieved during the year has been the establishment of a number of diverse, mixed species plantings that have very high biodiversity value associated with them. This means that CO2 Group is now in a position to offer a range of forest types to customers for their carbon abatement needs, including complex forest types that have even greater biodiversity benefit than simpler species mixes. Over the coming year, our technical team will focus on further developing these highly bio-diverse plantings across a range of landscapes.

CO2 Group continues to deliver verified abatement from forests registered under the New South Wales Greenhouse Gas Abatement Scheme (NSWGGAS). We remain one of only two organisations that have successfully achieved this.

As part of our support to the CO2 New Zealand joint venture, CO2 Group staff have successfully realised large volumes of New Zealand Units (NZU's) under the New Zealand Emissions Trading Scheme on behalf of Maori landowners. This has involved conducting carbon accounting across the largest tract of planted forest in the southern hemisphere.

Establishment of genetically improved seed orchards will continue, with seven orchards now established spanning three species and capturing high performing genetic varieties. Seed production from these orchards is coming on line rapidly, with several large-volume seed harvests taking place during the year. This will allow for unique genetic breeding lines to be routinely planted across the carbon estate. Having selected for high sequestration potential, it is anticipated that the use of this improved seed will increase the rate of sequestration, at least during the early years of forest growth. Over time, this 'genetic gain' will be tested through formal provenance trials.



*Carbon plantings at 'Lee's';  
West Wyalong NSW planted in  
2006 for Eraring Energy.*

The Directors present their report together with the financial statements of CO2 Group Limited (referred to hereafter as the Group) consisting of CO2 Group Limited and the entities it controlled at the end of, or during, the year ended 30 September 2011.

## DIRECTORS

The following persons were directors of CO2 Group Limited during or since the end of the year ended 30 September 2011:

- Ian Norman Trahar
- Andrew William Thorold Grant
- Harley Ronald Whitcombe
- Dr Malcolm Brian Hemmerling
- Dr Christopher David Mitchell
- Paul John Favretto

## PRINCIPAL ACTIVITIES

The Group's principal activity during the course of the financial year has been the provision of environmental services primarily carbon sequestration i.e. the establishment of forest carbon sinks.

## REVIEW OF OPERATIONS

The Group has reported a profit for the year after taxation of \$1,459,727 (2010 15 month period: \$3,345,464 loss). Revenue increased by 28 percent over the previous 15 month period and margin was similar to the prior period, however in the previous reporting period there was a significant impairment charge relating to the intangible assets acquired as part of the business combination with The Oil Mallee Company of Australia Limited.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than the matters referred to above, during the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the Director's Report, financial statements or notes thereto.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 3 October 2011 the Group contributed a further NZ\$90,000 to the Joint Venture entity CO2 New Zealand Limited Partnership, of which the Group is a 45% owner. The payment was made pursuant to a capital call on the Joint Venture partners.

Since the end of the financial year there has been a significant increase in the issued capital of the Company due to the exercise of the listed options with an expiry date of 12 November 2011. At an exercise price of 12 cents, 149,103,431 options have been converted generating \$17,892,412.

The Group's cash position at 21 November 2011 as a result of the exercise of the listed options is \$34,524,093.

Other than the matters referred to above, no other matter or circumstance has arisen since 30 September 2011 that has significantly affected, or may significantly affect:

- (a) the consolidated entity's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the consolidated entity's state of affairs in future financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in these financial statements because the directors believe it would be likely to result in unreasonable prejudice to the Group.

## INFORMATION ABOUT DIRECTORS

### Ian Norman Trahar

B.Ec, MBA.  
Chairman.

#### Experience and expertise

Mr Trahar has a resource and finance background. He is a director and significant shareholder of Avatar Industries Limited, an unlisted public company. Ian is a member of the Australian Institute of Company Directors.

#### Other current listed company directorships

None.

#### Former directorships in last 3 years

Kresta Holdings Limited (ceased 14 March 2011).

#### Special responsibilities

Chair of the board.  
Member of the Audit Committee.  
Member of Remuneration Committee.

#### Interests in shares and options

206,791,564 ordinary shares in CO2 Group Limited.

### Andrew William Thorold Grant

BSc (Hons), Grad Dip Bus Mg. GAICD.  
Executive Director.

#### Experience and expertise

Mr Grant has been at the forefront of climate change science and carbon trading for 12 years. Leading the CO2 Group and its related entities since 2005, Mr Grant has grown the company into the leading carbon business in Australasia. Prior to that he was the National Head of Ernst and Young's environmental advisory division also fulfilling this same role at Arthur Anderson in previous years. Earlier, Mr Grant held the position as Executive Manager in Sustainable Packaging at Visy Industrial Packaging. When the New South Wales Government developed the Greenhouse Gas Reduction Scheme, Mr Grant was their lead advisor and for three years, from 2006 to 2009, he was Chairman of the Port Phillip Western Port Catchment Management Authority. Mr Grant has advised many large companies across Australia and has also undertaken design and audit roles in a variety of carbon trades. From 2004 to 2006 Mr Grant was an independent director of the Cooperative Research Centre (CRC) for Greenhouse Accounting and is currently a non-executive director of the Earthwatch Institute. Mr Grant has a First Class Honours Degree in Science and a Graduate Diploma of Business Management at Executive level. In 2011 he graduated from the Australian Institute of Company Directors.

#### Other current listed company directorships

None.

#### Former directorships in last 3 years

None.

#### Special responsibilities

Chief Executive Officer - CO2 Group Limited.  
Managing Director - CO2 Australia Limited.

#### Interests in shares and options

3,868,654 ordinary shares in CO2 Group Limited.

5,589,150 Performance Rights in the  
CO2 Group Limited Incentive Plan.

**Harley Ronald Whitcombe**

B.Bus, CPA.

Executive Director.

**Experience and expertise**

Mr Whitcombe has had many years' commercial and finance experience, providing company secretarial services to publicly listed companies. He is a member of the Australian Institute of Company Directors.

**Other current listed company directorships**

None.

**Former directorships in last 3 years**

None.

**Special responsibilities**

Chief Financial Officer of CO2 Group Limited & Company Secretary.

**Interests in shares and options**

11,387,157 ordinary shares in CO2 Group Limited.

**Dr Malcolm Brian Hemmerling**

PhD, BSc (Hons), Dip T (Sec).

Non-executive Director.

**Experience and expertise**

Currently a consultant go Government and private sectors, Dr Hemmerling has had extensive experience in leadership and management positions, having been the Commissioner for Consumer and Business Affairs in Adelaide, Chief Executive Officer of the Adelaide City Council, Chairman of the National Basketball League, Chief Executive Officer for The Sydney Organising Committee for the Olympic Games, Chief Executive Officer of the Australian Formula One Grand Prix in South Australia and Chief Executive Officer of Bob Jane TMarts. Dr Hemmerling has also been the head of the Premier's Cabinet Office in South Australia, non-executive Director of the South Australian Housing Trust and Chairman of the Playford Alive Steering Committee.

**Other current listed company directorships**

None.

**Former directorships in last 3 years**

None.

**Special responsibilities**

Chairman of Audit Committee.

Member of Remuneration Committee.

**Interests in shares and options**

575,625 ordinary shares in CO2 Group Limited.

1,500,000 options over ordinary shares in CO2 Group Limited.

**Dr Christopher David Mitchell**

PhD, BSc (Hons). GAICD.  
Executive Director.

**Experience and expertise**

Dr Mitchell has a PhD in biology from the University of Melbourne, is a graduate of the Australian Institute of Company Directors and has a 20 year involvement in Australian and international climate change research. He is an Adjunct Professor at the School of Environmental Science Murdoch University. Prior to joining CO2 Group full time Dr Mitchell was Foundation Director of the Centre for Australian Weather and Climate Research a partnership between CSIRO and the Bureau of Meteorology, and was CEO of the Cooperative Research Centre for Greenhouse Accounting. He chaired the Victorian Climate Change Minister's Reference Council on Climate Change Adaptation and is on the CSIRO's Environment and Natural Resources Sector Advisory Committee.

**Other current listed company directorships**

None.

**Former directorships in last 3 years**

None.

**Special responsibilities**

None.

**Interests in shares and options**

40,000 ordinary shares in CO2 Group Limited.  
3,000,000 options over ordinary shares in CO2 Group Limited.  
2,794,575 Performance Rights in the CO2 Group Limited Incentive Plan.

**Paul John Favretto**

LL.B.  
Non-executive Director.

**Experience and expertise**

Mr Favretto was previously Managing Director of Avatar Industries Limited. Before that Mr Favretto worked for 20 years in the financial services industry holding senior management positions with Citibank Limited (1976 to 1985) and Bankers Trust Australia Limited (1986 to 1994).

**Other current directorships**

None.

**Former directorships in last 3 years**

Managing Director of Avatar Industries Limited.

**Special responsibilities**

Chairman of Remuneration Committee.  
Member of Audit Committee.

**Interests in shares and options**

20,125,010 ordinary shares in CO2 Group Limited.

### Company Secretary

The company secretary is Mr Harley Ronald Whitcombe. Mr Whitcombe was appointed company secretary on 12 November 2001. He has held similar positions with a number of other publicly listed companies. Mr Whitcombe has been a member of CPA Australia for over 30 years.

### Meetings of Directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 September 2011, and the numbers of meetings attended by each director were:

	Full meetings of Directors		Meetings of Committees			
	A	B	Audit		Remuneration	
	A	B	A	B	A	B
I Trahar	9	9	2	2	2	2
A Grant	9	9	-	-	-	-
H Whitcombe	9	9	-	-	-	-
C Mitchell	9	9	-	-	-	-
M Hemmerling	9	8	2	2	2	2
P Favretto	9	7	2	2	2	2

A = Number of meetings held during the time the director held office or was a member of the committee during the period

B = Number of meetings attended

## REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share based compensation
- E Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*

### A Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

#### Alignment to shareholders' interests:

- attracts and retains high calibre executives.

#### Alignment to program participants' interests:

- rewards capability and experience
- provides recognition for contribution.

The Board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement provides further information on the role of this committee.

### Non-executive directors

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

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

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

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

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

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

The Remuneration Committee determines the remuneration of all non-executive directors, none of whom have service contracts with the company.

Dr Mitchell became an executive director of the company on 18 August 2008.

---

## B Details of remuneration

### Amounts of remuneration

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) of CO2 Group Limited and the Group are set out in the following tables.

The key management personnel of CO2 Group Limited includes the directors as listed below:

- Ian Norman Trahar  
(Chairman and Executive Director)
- Andrew William Thorold Grant  
(Chief Executive Officer and Executive Director)
- Harley Ronald Whitcombe  
(Executive Director and Company Secretary)
- Dr Christopher David Mitchell  
(Executive Director)
- Dr Malcolm Brian Hemmerling  
(Non-executive Director)
- Paul John Favretto  
(Non-executive Director)

In addition to the directors the following executives that report directly to the Chief Executive Officer are key management personnel:

- Aaron Soanes  
(Director and General Manager of Operations,  
CO2 Australia Limited)
- Ashley Shilkin  
(Commercial Manager, CO2 Australia Limited)
- Dr James Bulinski  
(Director, CO2 Australia Limited)

A Shilkin resigned from the position of Commercial Manager on 29 August 2011.

## KEY MANAGEMENT PERSONNEL AND OTHER EXECUTIVES OF THE GROUP

Year ending 30 September 2011	Short-term employee benefits				Post- employment benefits	Long-term benefits	Share- based payments	
Name	Cash salary and fees \$	Cash Bonus* \$	Non- monetary benefits \$	Other \$	Super- annuation \$	Long service leave \$	Options \$	Total \$
<b>Non-executive Directors</b>								
M Hemmerling	35,000	-	-	-	3,150	-	-	38,150
P Favretto	-	-	-	-	35,970	-	-	35,970
<b>Sub-total non-executive Directors</b>	<b>35,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39,120</b>	<b>-</b>	<b>-</b>	<b>74,120</b>
<b>Executive Directors</b>								
I Trahar	237,900	-	5,828	-	23,529	4,322	-	271,579
H Whitcombe	177,905	5,000	5,828	-	16,461	4,317	-	209,511
A Grant	360,738	36,697	24,233	-	35,769	6,597	24,757	488,791
C Mitchell	229,125	10,000	12,373	-	21,413	4,387	-	277,298
<b>Other Key Management personnel (Group)</b>								
A Soanes	220,538	5,000	-	-	20,298	4,178	-	250,014
A Shilkin	125,848	5,000	-	-	11,326	-	-	142,174
J Bulinski	164,732	5,000	-	-	15,276	3,270	-	188,278
<b>Total Key Management personnel compensation (Group)</b>	<b>1,551,786</b>	<b>66,697</b>	<b>48,262</b>	<b>-</b>	<b>183,192</b>	<b>27,071</b>	<b>24,757</b>	<b>1,901,765</b>

## KEY MANAGEMENT PERSONNEL AND OTHER EXECUTIVES OF THE GROUP

15 months ending 30 September 2010	Short-term employee benefits				Post- employment benefits	Long-term benefits	Share- based payments	
Name	Cash salary and fees \$	Cash bonus* \$	Non- monetary benefits \$	Other \$	Super- annuation \$	Long service leave \$	Options \$	Total \$
<b>Non-executive Directors</b>								
M Hemmerling	32,083	-	-	-	15,604	-	-	47,687
P Favretto	-	-	-	-	44,715	-	-	44,715
<b>Sub-total non-executive Directors</b>	<b>32,083</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>60,319</b>	<b>-</b>	<b>-</b>	<b>92,402</b>
<b>Executive Directors</b>								
I Trahar	348,615	-	-	5,869	33,669	6,545	-	394,698
H Whitcombe	350,653	-	-	5,869	31,559	6,310	-	394,391
A Grant	411,972	-	56,468	-	37,077	9,728	141,799	657,044
C Mitchell	268,750	-	-	-	24,188	5,915	-	298,853
<b>Other Key Management personnel (Group)</b>								
A Soanes	65,194	-	-	-	23,867	5,981	-	295,042
A Shilkin	147,520	-	-	-	13,277	3,327	-	164,124
J Bulinski	182,556	-	16,092	-	16,287	4,117	-	219,052
<b>Total Key Management personnel compensation (Group)</b>	<b>2,007,343</b>	<b>-</b>	<b>72,560</b>	<b>11,738</b>	<b>240,243</b>	<b>41,923</b>	<b>141,799</b>	<b>2,515,606</b>

\* Bonuses are granted at the complete discretion of the directors with reference to the achievement of perceived milestones in the development of the Group. The bonus to A Grant was paid on 27 February 2011. The bonuses to H Whitcombe, C Mitchell, A Soanes, A Shilkin and J Bulinski were paid on 15 April 2011.

## C Service agreements

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

As at the date of this Report there is no formal performance condition included in any directors' or executives' remuneration package. Service Agreements have been entered into by all executive directors and certain specified executives. Summarised below are the major terms of those agreements. The non-executive directors do not have service agreements.

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

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

### I Trahar, H Whitcombe, and C Mitchell Executive Directors:

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

### A Grant, Chief Executive Officer of CO2 Group Ltd and Managing Director of subsidiary CO2 Australia Limited:

- Term of agreement – no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer may terminate employment on giving six months notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to six months of base salary for the unexpired period of notice;
- In the event of redundancy, six months base salary is to be paid plus payment equivalent to three weeks of base salary for each completed year of service;
- One off issue of 7,400,000 listed options exercisable at \$0.12 granted on 3 September 2004, and expiring on 12 November 2011, which were exercised after 30 September 2011;
- From 1 February 2006 all running costs relating to Mr Grant's motor vehicle are paid by the company, including the monthly hire purchase payments on the vehicle.
- As part of Mr Grant's appointment as CEO on 18 July 2007, he was offered an executive option package which resulted in a maximum of 9,000,000 options being issued to him. These options were issued to Mr Grant for no consideration. This issue of options was approved by shareholders at the Company's AGM held on 8 November 2007;
- The key terms of the options issued to Mr Grant are summarised as follows:
  - Series 1 – 3,000,000 options, exercise price \$0.50, vested on 30 June 2008;
  - Series 1a – 1,000,000 options, exercise price \$0.60, vested on 30 June 2009;
  - Series 2 – 2,000,000 options, exercise price \$0.60, vested on 30 June 2009;
  - Series 2a – 1,000,000 options, exercise price \$0.70, vested on 30 June 2010;
  - Series 3 – 1,000,000 options, exercise price \$0.70, vested on 30 June 2010; and
  - Series 3a – 1,000,000 options, exercise price \$0.80, vesting on 30 June 2011.
- Series 1a, 2a and 3a will be issued if Series 1, 2 and 3 respectively are exercised by Mr Grant.
- All 9,000,000 unlisted options expired unexercised on 31 July 2011.

---

**A Soanes Director and Manager of Operations,  
CO2 Australia Limited:**

- Term of agreement – no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer or employee may terminate employment on giving one months notice;
- In the event of redundancy, six months base salary is to be paid plus payment equivalent to three weeks of base salary for each completed year of service;
- Issue of 1,000,000 options exercisable at \$0.12 granted on 15 November 2004, and expiring 12 November 2011. The options have been exercised post 30 September 2011.

**A Shilkin Commercial Manager, CO2 Australia Limited**

- Term of agreement – no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer or employee may terminate employment on giving one months notice;
- In the event of redundancy, six months base salary is to be paid plus payment equivalent to three weeks of base salary for each completed year of service;
- Issue of 2,000,000 options exercisable at \$0.33, expiring 28 February 2010 and issued upon commencement of employment. The issue of these options was not performance based. The options expired unexercised;
- Mr Shilkin resigned as Commercial Manager on 29 August 2011 but continues in a consulting role.

**J Bulinski Director, CO2 Australia Limited**

- Term of agreement no fixed term;
- Base salary which includes superannuation is reviewed annually (minimum increase of CPI);
- Employer or employee may terminate employment on giving one months notice;
- Issue of 1,000,000 options exercisable at \$0.40, expiring 15 November 2010 and issued on 15 November 2006. The issue of these options was not performance based. The options expired unexercised.

## D Share-based compensation

### Options

During the year, there were no shares in CO2 Group Limited granted under the CO2 Group Limited Employee Share Option Plan (which was approved by shareholders at the 2004 Annual General Meeting).

Key management personnel have not been issued with share options as part of their contracts of employment during the reporting period.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods, are as follows:

Key Management Personnel	Date vested and exercisable	Expiry Date	Exercise price	Value per option at grant date
A Grant *	3 September 2004	12 November 2011	\$0.12	\$0.23
A Soanes *	15 November 2004	12 November 2011	\$0.12	\$0.43
M Hemmerling & C Mitchell	20 November 2008	2 December 2012	\$0.52	\$0.05
A Soanes, A Shilkin, J Bulinski	20 November 2008	30 November 2012	\$0.49	\$0.04

\* Listed options

Details of options over ordinary shares in the company provided as remuneration to each director of CO2 Group Limited and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of CO2 Group Limited. Further information on the options is set out in note 38 to the financial statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2011	2010	2011	2010
Directors of CO2 Group Limited				
A Grant	-	-	-	1,000,000

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values of unlisted options at grant date are independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

#### Shares provided on exercise of options

To date, there have been no ordinary shares in the company provided as a result of the exercise of options to directors of CO2 Group Limited or other key management personnel of the Group, other than those referred to in the table below.

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	
		2011	2010
Directors of CO2 Group Limited			
M Hemmerling	13 November 2009	-	750,000
C Mitchell	11 November 2009	-	1,000,000
A Grant	2 December 2009	-	100,000

The amounts paid per ordinary share by each director and other key management personnel on the exercise of options at the date of exercise were as follows:

Exercise date	Amount paid per share
11 November 2009	\$0.32
13 November 2009	\$0.32
2 December 2009	\$0.12

No amounts are unpaid on any shares issued on the exercise of options.

## E Additional information

### Performance of CO2 Group Limited

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth for the last five financial periods:

	Year ended 30 September 2011 \$	15 months period ended 30 September 2010 \$	Year ended 30 June 2009 \$	Year ended 30 June 2008 \$	Year ended 30 June 2007 \$
Revenue	35,424,605	27,714,064	14,833,919	12,305,354	3,953,696
Net profit (loss) before tax	2,206,062	(4,701,603)	1,563,573	356,258	(3,824,230)
Net profit (loss) after tax	1,459,727	(3,345,464)	681,177	1,573,272	(3,685,784)
	30 September 2011	30 September 2010	30 June 2009	30 June 2008	30 June 2007
Share price at start of year	20c	34c	38c	17c	30c
Share price at end of year	16c	20c	34c	38c	17c
Dividend	-	-	-	-	-
Basic earnings per share	0.52cps	(1.20)cps	0.25cps	0.62cps	-1.79cps
Diluted earnings per share	0.42cps	(1.20)cps	0.18cps	0.38cps	- 1.79cps

Changes in the wealth of the business currently bears no relationship to the remuneration of key management personnel. On 31 August 2011, shareholders approved the CO2 Employee Incentive Plan. Under the Plan, eligible participants are granted Performance Rights to acquire ordinary shares in CO2 Group Limited, subject to satisfying any vesting conditions. The Plan commenced on 30 September 2011.

## LOANS TO DIRECTORS AND EXECUTIVES

Information on loans to directors and executives, including amounts, interest rates and repayment terms are set out in note 28 to the financial statements.

## SHARES UNDER OPTION

Unissued ordinary shares of CO2 Group Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Exercise price of options	Number under option
20 November 2008	2 December 2012	\$0.52	4,500,000
20 November 2008	30 November 2012	\$0.49	1,580,000
			<b>6,080,000</b>

No option holder has any right under the options to participate in any other share issue of the company or any other entity. No options have been exercised since the end of the financial year.

The company has in issue 30,150,190 convertible preference shares that have not been exercised. For further information relating to the convertible preference shares, please refer to note 26(c).

---

## INSURANCE OF OFFICERS

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

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

## NON-AUDIT SERVICES

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined at note 29 to the financial statements.

## DIVIDENDS – CO2 GROUP LIMITED

The Directors of CO2 Group Limited do not recommend the payment of a dividend for the year ending 30 September 2011 (2010: Nil).

---

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 38.

## AUDITOR

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors, pursuant to section 298(2) of the *Corporations Act 2001*.

A handwritten signature in black ink, appearing to read 'A. Grant', is written on a light-colored background.

**A. Grant**  
Director  
Melbourne  
25 November 2011

The Board of Directors  
CO2 Group Limited  
349 Moray Street  
South Melbourne, VIC 3205

25 November 2011

Dear Board Members

## CO2 Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of CO2 Group Limited.

As lead audit partner for the audit of the financial statements of CO2 Group Limited year ended 30 September 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Ian Sanders  
Partner  
Chartered Accountants

CO2 Group Limited (the Company) and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The company and its controlled entities together are referred to as the Group in this statement.

As has been noted in previous financial reports and on the company's web site the board acknowledges the Principles of Good Corporate Governance and Best Practice Recommendations set by the Australian Securities Exchange ("ASX") Corporate Governance Council. The board, since the last full year Financial Report, has continued to monitor those areas of the Best Practice Recommendations which had not been adopted. The board continues to hold the view that with the company's current size and extent and nature of operations that full adoption of the best practice recommendations is currently not practical. The board will continue to work towards full adoption of the recommendations in line with the growth and development of the company in the years ahead. The board does actively monitor the ASX corporate governance recommendations as the company changes in profile and size. *Principles of Good Corporate Governance and Best Practice Recommendations.*

The relationship between the board and senior management is critical to the Group's long term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

## Responsibilities

The responsibilities of the board include:

- providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives
- overseeing and monitoring:
  - organisational performance and the achievement of the Group's strategic goals and objectives
  - compliance with the company's Code of conduct (see page 41)
- progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half year financial reports and liaison with the company's auditors
- appointment, performance assessment and, if necessary, removal of the Chief Executive Officer
- enhancing and protecting the reputation of the organisation
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders

## THE ROLES OF THE BOARD AND MANAGEMENT

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

The board operates in accordance with the broad principles set out in its charter which is available from the corporate governance section of the company website at [www.co2australia.com.au](http://www.co2australia.com.au). The charter details the board's composition and responsibilities.

### Board composition

- The board shall comprise at least three and not more than ten directors. The size of the board will take account of the desired mix of skills and experience levels required to discharge its responsibilities;
- The current board has the broad experience and expertise of four executive directors and two non-executive directors. The composition of the board is not consistent with recommendation 2.1 of the ASX 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 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 Chairman is elected by the full board. As the current Chairman is an executive director, the company's practice is not consistent with recommendation 2.2 of CGC. The Chairman 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 in depth knowledge of the Group's business. For a company of this size, it would be difficult to attract an independent Chairman of this calibre and experience.

The board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective
- the size of the board is conducive to effective discussion and efficient decision making.

#### Directors' independence

The board has adopted specific principles in relation to directors' independence. These state that when determining independence, a director must be a non-executive and the board should consider whether the director:

- not be a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company
- within the last three years, not have been employed in an executive capacity by the company or any other Group member, or been a director after ceasing to hold any such employment
- within the last three years not have been a principal of a material professional adviser or a material consultant to the company or any other Group member, or an employee materially associated with the service provided
- not be a material supplier or customer of the company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must have no material contractual relationship with the company or a controlled entity other than as a director of the Group
- not have been on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the company or Group or 5% of the individual directors' net worth is considered material for these purposes.

In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

#### Term of office

The company's Constitution specifies that, apart from a Managing Director, one third of the board and/or any directors who have been in office for three or more years must retire from office at each annual general meeting ("AGM") and may seek re-election. Directors can hold office for a term of three years or up to the third AGM before having to retire and seek re-election.

#### Chair and chief executive officer (CEO)

The Chair is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the company's senior executives. In accepting the position, the Chair has acknowledged that it will require a significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of Chair.

The CEO is responsible for implementing Group strategies and policies. The board charter specifies that these are separate roles to be undertaken by separate people.

#### Commitment

The board held nine board meetings during the year. One of those meetings was held at operational sites of the company and a full tour of the facilities was included as part of the visit.

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 September 2011, and the number of meetings attended by each director is disclosed on page 25.

The commitments of non-executive directors are considered by the nomination committee prior to the directors' appointment to the board of the company and are reviewed each year as part of the annual performance assessment.

### Independent professional advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chair is required, but this will not be unreasonably withheld.

### Performance assessment

The Chairman 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.

### Board committees

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the remuneration and audit committees. The committee structure and membership is reviewed on an annual basis. A policy of rotation of committee members applies.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the company website. All matters determined by committees are submitted to the full board as recommendations for board decisions.

### Nomination committee

The company does not have a nomination committee. 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.

### Code of conduct

The company has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

In summary, the Code requires that at all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

The purchase and sale of company securities by directors and employees is not permitted during the periods between year and half year end and the release of the half yearly and annual financial results to the market. At all times, any transactions undertaken must be notified to the Company Secretary in advance.

The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

A copy of the Code and the trading policy are available on the company's website.

## Audit committee

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

### Dr M Hemmerling (Chairman)

Non-executive director

### Mr I Trahar

Executive director.

### Mr P Favretto

Non-executive director.

Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report on pages 22 - 25.

The structure of the audit committee is not consistent with recommendation 4.3 of the CGC in that it is not comprised solely of non-executive directors. The Company only has two non-executive directors, and the size of the full board is six members. As none of the independent directors are financial professionals, the board considered that the Chairman, who is also an executive director, should also be a member to ensure the Committee is balanced and has the desired technical expertise and industry knowledge.

The audit committee operates in accordance with a charter that is available on the company website.

The main responsibilities of the committee are to:

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

## External auditors

The company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. Deloitte Touche Tohmatsu is the external auditor of the Group.

An analysis of fees paid to the external auditors is provided in note 29 to the financial statements.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

## Continuous disclosure and shareholder communication

The company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the company's securities. These policies and procedures also include the arrangements the company has in place to promote communication with shareholders and encourage effective participation at general meetings. A summary of these policies and procedures is available on the company's website.

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

All shareholders receive a copy of the company's annual and half yearly reports, either via mail or by electronic means if they so wish. In addition, the company seeks to provide further opportunities for shareholders to participate through electronic means. Initiatives to facilitate this include making all company announcements, media briefings, details of company meetings, press releases for the last three years and financial reports for the last five years available on the company's website.

### Recognise and manage risk

The board, through the audit committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies are available on the company website. In summary, the company policies are designed to ensure strategic, operational, legal, reputational, and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of conduct (see page 16) is required at all times and the board actively promotes a culture of quality and integrity.

### Corporate reporting

The CEO and CFO have made the following certifications to the board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

### Remuneration committee

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

**Mr P Favretto**  
(Chairman) – Non-executive director.

**Dr M Hemmerling**  
Non-executive director

**Mr I Trahar**  
Executive director

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report on page 21.

The remuneration committee operates in accordance with its charter which is available on the company website. The remuneration committee advises the board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, and other senior executives.

The full board has retained full responsibility for determining the remuneration of non-executive directors. The full board elected to approve the issue of unlisted options to the two non-executive directors appointed in July 2005. The issue of the options was approved by shareholders at the general meeting after their appointment.

The issue of options to non-executive directors is not consistent with the guidelines to recommendation 9.3 of CGC, however the board considered the issue of options in the circumstances to be in the best interests of shareholders in lieu of more substantial cash fees.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading "Remuneration report". In accordance with group policy, participants in equity based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements. Details of this policy can be found on the company's website.



*CO2 Australia vehicle at  
'Mandalay', Condobolin NSW  
planted in 2005 for Origin Energy.*

## CONTENTS

<b>Financial statements</b>	<b>45</b>
Income statement	46
Statement of comprehensive income	47
Statement of financial position	48
Statement of changes in equity	49
Statement of cash flows	50
Notes to the financial statements	51
<b>Directors' declaration</b>	<b>97</b>
<b>Shareholder Information</b>	<b>98</b>
<b>Independent auditor's report to the members</b>	<b>100</b>
<b>Corporate Directory</b>	<b>102</b>

These financial statements cover the consolidated financial statements for the consolidated entity consisting of CO2 Group Limited and its subsidiaries. The financial statements are presented in the Australian currency.

CO2 Group Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

CO2 Group Limited  
ABN 50 009 317 846  
Lvl 11, 225 St George's Terrace  
Perth WA 6000

Registered postal address is:  
PO Box 7312  
Cloisters Square WA 6850

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on page 21.

The financial report was authorised for issue by the Directors on 25 November 2011.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: [www.co2australia.com.au](http://www.co2australia.com.au)

For queries in relation to our reporting please call 08 9321 4111 or e-mail [info@co2australia.com.au](mailto:info@co2australia.com.au).

## CONSOLIDATED INCOME STATEMENT FOR THE 12 MONTHS TO 30 SEPTEMBER 2011

Consolidated			
	Notes	Year to 30 September 2011 \$	15 months to 30 September 2010 \$
<b>Revenue from continuing operations</b>	5	35,424,605	27,714,064
Other income	6	87,376	133
Cost of environmental credits sold		(10,971,566)	-
Employee benefits expense	7	(4,226,413)	(4,800,177)
Depreciation and amortisation expense	7	(517,222)	(1,255,573)
Other expenses		(1,113,688)	(1,220,622)
Consulting expense		(338,409)	(252,034)
Legal fees		(249,462)	(311,366)
Travel		(666,651)	(860,909)
Insurance		(238,681)	(289,056)
Rent	7	(766,754)	(852,894)
Research and development		(245,886)	(259,299)
Marketing		(294,976)	(259,252)
Impairment loss	17	-	(5,515,497)
Plantation costs		(13,559,197)	(16,526,603)
Finance costs	7	(4,423)	(12,518)
Share of net (loss)/profit of associates and joint venture partnership accounted for using the equity method	23	(112,591)	-
<b>Profit/(loss) before income tax</b>		<b>2,206,062</b>	<b>(4,701,603)</b>
Income tax (expense)/benefit	8	(746,335)	1,356,139
<b>Profit/(loss) from continuing operations</b>		<b>1,459,727</b>	<b>(3,345,464)</b>
<b>Profit/(loss) for the period</b>		<b>1,459,727</b>	<b>(3,345,464)</b>
<b>(Loss) earnings per share:</b>		<b>Cents</b>	<b>Cents</b>
Basic (loss) profit per share	37	0.52	(1.20)
Diluted (loss) profit per share	37	0.42	(1.20)

The above consolidated income statement should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR TO 30 SEPTEMBER 2011

	Consolidated		
	Notes	Year to 30 September 2011 \$	15 months to 30 September 2010 \$
Profit/(loss) for the year		1,459,727	(3,345,464)
Other comprehensive income			
Exchange differences on translation of foreign operations	27	(47)	-
<b>Total comprehensive income for the year</b>		<b>1,459,680</b>	<b>(3,345,464)</b>

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2011

Consolidated			
	Notes	30 September 2011 \$	30 September 2010 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	17,886,159	17,365,076
Trade and other receivables	10	2,127,322	576,914
Inventories	11	6,913,289	7,243,536
Other current assets	12	1,531,297	198,535
Accrued income	13	606,258	479,849
<b>Total current assets</b>		<b>29,064,325</b>	<b>25,863,910</b>
<b>Non-current assets</b>			
Other financial assets - investments	14	313,593	313,593
Property, plant and equipment	15	4,401,526	4,727,437
Deferred tax assets	16	4,286,649	2,571,987
Intangible assets	17	1,599,608	1,404,251
<b>Total non-current assets</b>		<b>10,601,376</b>	<b>9,017,268</b>
<b>Total assets</b>		<b>39,665,701</b>	<b>34,881,178</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	18	5,296,864	5,348,841
Borrowings	19	8,639	48,048
Current tax liabilities	21	2,276,961	1,176,909
Provisions	20	541,229	473,431
Other current liabilities	23	10,225	-
Deferred income	22	14,270,346	12,256,820
<b>Total current liabilities</b>		<b>22,404,264</b>	<b>19,304,049</b>
<b>Non-current liabilities</b>			
Borrowings	24	16,140	24,837
Provisions	25	117,122	80,012
<b>Total non-current liabilities</b>		<b>133,262</b>	<b>104,849</b>
<b>Total liabilities</b>		<b>22,537,526</b>	<b>19,408,898</b>
<b>Net assets</b>		<b>17,128,175</b>	<b>15,472,280</b>
<b>EQUITY</b>			
Issued capital	26	30,829,938	30,658,480
Reserves	27	6,656,039	6,631,329
Accumulated losses		(20,357,802)	(21,817,529)
<b>Total equity</b>		<b>17,128,175</b>	<b>15,472,280</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2011

Consolidated	Notes	Issued capital \$	Foreign currency translation reserve \$	Option premium reserve \$	Financial assets revaluation reserve \$	Share-based payments reserve \$	Accumulated losses \$	Total Equity \$
Balance at 1 July 2009		30,014,166	-	1,670,705	63,278	4,755,817	(18,472,065)	18,031,901
Profit for the year as reported in the 2010 financial statements		-	-	-	-	-	(3,345,464)	(3,345,464)
Total comprehensive income for the period		-	-	-	-	-	(3,345,464)	(3,345,464)
Contributions of equity	26	644,314	-	-	-	-	-	644,314
Recognition of share based payments		-	-	-	-	141,529	-	141,529
Balance at 30 September 2010		30,658,480	-	1,670,705	63,278	4,897,346	(21,817,529)	15,472,280
Balance at 1 October 2010		30,658,480	-	1,670,705	63,278	4,897,346	(21,817,529)	15,472,280
Profit for the year as reported in the 2011 financial statements		-	-	-	-	-	1,459,727	1,459,727
Exchange differences on translation of foreign operations	27	-	(47)	-	-	-	-	(47)
Total comprehensive income for the year		-	(47)	-	-	-	1,459,727	1,459,680
Contributions of equity	26	171,458	-	-	-	-	-	171,458
Recognition of share based payments		-	-	-	-	24,757	-	24,757
Balance at Year to 30 September 2011		30,829,938	(47)	1,670,705	63,278	4,922,103	(20,357,802)	17,128,175

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR TO 30 SEPTEMBER 2011

Consolidated			
	Notes	Year to 30 September 2011 \$	15 months to 30 September 2010 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		38,916,519	36,798,034
Payments to suppliers and employees (inclusive of goods and services tax)		(37,141,634)	(28,882,860)
		1,774,885	7,915,174
Interest and finance costs paid		(4,423)	(12,518)
Income taxes paid		(1,360,945)	(44,579)
<b>Net cash inflow (outflow) from operating activities</b>	<b>36</b>	<b>409,517</b>	<b>7,858,077</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	15	(167,142)	(65,476)
Payments for investment in joint venture partnership		(102,367)	-
Payment of development costs		(323,128)	(431,190)
Loans to employees		(150,000)	-
Proceeds from sale of property, plant and equipment		14,555	25,144
Repayment of loans by employees		14,261	-
Interest received		702,035	646,345
<b>Net cash (outflow) inflow from investing activities</b>		<b>(11,786)</b>	<b>174,823</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities		171,458	644,313
Repayment of borrowings		(48,106)	(47,533)
<b>Net cash inflow (outflow) from financing activities</b>		<b>123,352</b>	<b>596,780</b>
<b>Net increase in cash and cash equivalents</b>		<b>521,083</b>	<b>8,629,680</b>
Cash and cash equivalents at the beginning of the year		17,365,076	8,735,396
<b>Cash and cash equivalents at end of year</b>	<b>9</b>	<b>17,886,159</b>	<b>17,365,076</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation of the financial report

This Annual Report provides financial results for the 12 month period to 30 September 2011, with a comparative period of 15 months (1 July 2009 to 30 September 2010).

The financial statements comprise the consolidated financial statements of the Group.

#### Compliance with IFRS

The financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law. Accounting Standards include Australian Accounting Standards. Compliance with the Australian Accounting Standards ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ("IFRS").

#### Early adoption of standards

The Company has not elected to early adopt any Standards that are not required to be applied in this accounting period.

#### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

### (b) Principles of consolidation

#### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of CO2 Group Limited ("company" or "parent entity") as at 30 September 2011 and the results of all subsidiaries for the year then ended. CO2 Group Limited and its subsidiaries together are referred to in this financial report as the Company or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are

currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(g)).

Intercompany transactions, balances and unrealised gains on transactions between subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Investments in subsidiaries are accounted for at cost in the separate financial statements of CO2 Group Limited.

#### (ii) Joint ventures

##### Joint venture entities

The interest in a joint venture partnership is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the partnership is recognised in the profit or loss, and the share of post acquisition movements in reserves is recognised in other comprehensive income.

Profits or losses on transactions establishing the joint venture partnership and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

### (c) Segment reporting

The 'management approach', under which segment information is presented is the same basis as that used for internal reporting purposes. The segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the board of directors.

Information reported to the Board of Directors for the purposes of resource allocation and assessment of performance is currently more specifically focused on 3 key reportable segments, being Carbon Sink Establishment, Environmental Offsets, and Other.

**(d) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

**(i) Sale of environmental credits**

Revenue from the sale of environmental credits is recognised when the Group has transferred to the buyer the significant risks and rewards of the ownership of the environmental credits.

**(ii) Project revenue**

Carbon sink project revenue is recognised in proportion to the work performed in relation to the product development and the various stages of completion of the carbon sinks. Work performed that has not been invoiced is recognised as revenue and the balance is held as accrued income. If payment has been received in excess of the stage of completion of the project, the liability is recognised in deferred income.

Management related income is recognised on an accrual basis in accordance with the substance of the relevant contract.

**(iii) Interest income**

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

**(iv) Dividends**

Dividends are recognised as income when the right to receive payment is established.<sup>1(l)</sup>

**(e) Income tax**

The income tax expense or benefit for the period is the tax payable or recoverable on the current period's taxable income based on the income tax rate that has been enacted or substantially enacted by the balance sheet date adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(i) Tax consolidation legislation**

CO2 Group Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, CO2 Group Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, CO2 Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 8.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

#### (f) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 15). Finance leases are capitalised at the lease's inception at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short term and long term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 30). Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight line basis over the period of the lease.

#### (g) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any

pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Company recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Transaction costs associated with business combinations (excluding the costs of issuing equity instruments or raising new borrowings) are expensed as incurred.

#### (h) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**(i) Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

**(j) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within 'other expenses'. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the income statement.

**(k) Inventories**

Inventory is stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The Group's asset development activities involve the development and management of carbon sinks under contract to third parties. It also involves the acquisition of forestry rights and other assets which are held to offer for resale to third parties.

**(l) Investments and other financial assets****Classification**

The Group classifies its investments in the following categories: environmental credits at FVTPL, loans and receivables and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

**(i) Environmental credits at fair value through profit or loss**

Environmental credits at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as other current assets.

**(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 10) and receivables in the statement of financial position.

**(iii) Available for sale financial assets**

Available for sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available for sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

**Recognition and derecognition**

Regular purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Loans and receivables are carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

#### Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets are subsequently carried at fair value. Gains or losses arising from changes in the fair value of available for sale assets are recorded through equity, unless there is an impairment.

Environmental credits at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'Environmental credits at FVTPL' category are presented in profit or loss within other income or other expenses in the period in which they arise.

Details on how the fair value of financial instruments is determined are disclosed in note 2.

#### Fair value

The fair values of environmental credits are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

#### Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that

the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is reclassified from equity and recognised in the profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

#### (m) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated. For carbon sinks held by the Group the economic benefits from the asset are consumed in a pattern which is linked to the production level of carbon credits. Such assets are depreciated on a unit of production basis. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- |                                     |                 |
|-------------------------------------|-----------------|
| • Plant and equipment               | 2 - 15 years    |
| • Leasehold improvements            | Length of Lease |
| • Vehicles                          | 3 - 30 years    |
| • Furniture, fittings and equipment | 5 years         |
| • Carbon sinks                      | 30 - 50 years   |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

**(n) Intangible assets****(i) Research and development**

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight line basis over its useful life.

**(ii) Other intangible assets**

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

**(iii) Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

**(iv) NGAC Accreditation**

The accreditation under the New South Wales Greenhouse Gas Abatement Scheme (NSWGGAS) allows the Group to generate revenues from any single project and is transferrable between projects at no significant additional cost. During 2011 the Carbon Farming Initiative (CFI) received Royal Assent and the Clean Energy Bill passed through the House of Representatives. The CFI has not yet commenced and the Group will review the options available once they are known. In the meantime, management continues the amortisation of the intangible asset on a unit of production basis.

**(o) Trade and other payables**

These amounts represent liabilities for goods and services measured initially at fair value provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(p) Borrowings**

Borrowings are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw down of the facility, are recognised as prepayments and amortised on a straight line basis over the term of the facility.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**(q) Provisions**

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

**(r) Employee benefits****(i) Short term obligations**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick

leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

**(ii) Other long term employee benefit obligations**

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**(iii) Share based payments**

The fair value of options granted to employees is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised on a straight line basis over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date of unlisted options is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

**(s) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

**(t) New accounting standards and interpretations**

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards and Interpretations is not expected to have any material impact in relation to the consolidated entity's and the company's financial report:

**(i) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)**

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

**(ii) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)**

AASB 9 addresses the classification and measurement of financial assets and is likely to affect the company's accounting for its financial assets. The standard is not applicable until 1 January 2013 and the company is yet to assess its full impact. However, initial indications are that they may affect the company's accounting for its available-for-sale investments. *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and is likely to affect the Group's accounting for its financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does

not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The Group has not yet decided when to adopt AASB 9.

(iii) AASB 2009-14 *Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement* (effective 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The group does not make any such prepayments. The amendment is therefore not expected to have any impact on the group's financial statements. The Group intends to apply the amendment from 1 October 2011.

(iv) AASB 2010-5 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. No material impact is expected on the Group's financial statements. The Group intends to apply the amendment from 1 October 2011.

(v) AASB 2010-6 *Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the AASB made amendments to AASB *Financial Instruments: Disclosures* which introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. - The Group will apply the amendments and make the additional disclosures from 1 October 2011. Comparative information does not need to be disclosed in the first year.

(vi) AASB 2010-8 *Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets* (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant

assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Group will apply the amendment from 1 October 2012. It is currently evaluating the impact of the amendment.

(vii) AASB 11 *Joint Arrangements* (effective from 1 January 2013)

Replaces AASB 131 *Interests in Joint Ventures*. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

(viii) AASB 12 *Disclosure of interests in other entities* (effective from 1 January 2013)

Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

(ix) AASB 127 *Separate Financial Statements (2011)* (effective 1 January 2013)

Amended version of AASB 127 which now only deals with the requirements for separate financial statements, which have been carried over largely unamended from AASB 127 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in AASB 10 *Consolidated Financial Statements*. The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with AASB 9 *Financial Instruments*. The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

(x) AASB 128 *Investments in Associates and Joint Ventures (2011)* (effective 1 January 2013)

This Standard supersedes AASB 128 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

(xi) AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards* (effective 1 January 2013) Contains consequential amendments to 20 other standards and 4 interpretations in light of the issuance of the new standards in August 2011 - AASB 10 'Consolidated Financial Statements', AASB 11 'Joint Arrangements', AASB 12 'Disclosure of Interests in Other Entities', AASB 127 'Separate Financial Statements' (2011) and AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011 7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'.

#### (u) Parent entity financial information

The financial information for the parent entity, CO2 Group Limited, disclosed in note 39 has been prepared on the same basis as the consolidated financial statements.

##### (i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of CO2 Group Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

##### (ii) Tax consolidation legislation

CO2 Group Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, CO2 Group Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, CO2 Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate CO2 Group Limited for any current tax payable assumed and are compensated by CO2 Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to CO2 Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

##### (iii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

##### (iv) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which it operates ('the function currency'). The consolidation financial statements are presented in Australian dollars, which is CO2 Group Limited's functional and presentation currency.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

## 2 FINANCIAL RISK MANAGEMENT

The Group's activities may expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group does not use derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures, as management considers this unnecessary given the nature and size of the Group's operations.

Risk management is carried out by a central treasury department (treasury) under policies approved by the board of directors. Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The group holds the following financial instruments:

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
<b>Financial assets</b>		
Cash and cash equivalents	17,886,159	17,365,076
Trade and other receivables	2,127,322	576,914
Other current assets	1,531,297	198,535
Other financial assets	6,913,289	7,243,536
Other financial assets - investments	313,593	313,593
	28,771,660	25,697,654
<b>Financial liabilities</b>		
Trade and other payables	5,296,864	5,348,841
Borrowings	24,779	72,885
	5,321,643	5,421,726

## 2 FINANCIAL RISK MANAGEMENT (continued)

### (a) Market risk

#### (i) Foreign exchange risk

The Group has commenced operations internationally via its joint venture and is exposed to foreign exchange risk arising from currency exposures with respect to the NZ dollar.

The group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollar, was as follows:

	NZD \$	NZD \$
Trade receivables	27,025	-

#### (ii) Price risk

The Group does not hold nor does it intend to hold in the future any such investments. The investments held by the Group are in unlisted securities and management considers that the price risk for these unlisted securities is immaterial in terms of the possible impact on the profit or loss or total equity.

Neither the Group nor the parent entity are exposed to commodity price risk.

#### (iii) Cash flow and fair value interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Consolidated	30 September 2011		30 September 2010	
	Weighted average interest rate %	Balance \$	Weighted average interest rate %	Balance \$
Deposits at call	5.2%	14,574,772	5.5%	16,087,414
Net exposure to cash flow interest rate risk	-	14,574,772	-	16,087,414

At 30 September 2011, if interest rates had increased by 70 or decreased by 100 basis points from the year end rates with all other variables held constant, post tax profit for the year would have been \$88,197 higher/\$125,996 lower (2010 changes of +70 /-100 bps: \$23,000 higher/\$26,000 lower), mainly as a result of higher/lower interest income from cash and cash equivalents.

## 2 FINANCIAL RISK MANAGEMENT (continued)

### (b) Credit risk

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

Trade accounts receivable consist mainly of a small number of large enterprises which have individual contracts for the supply of carbon sinks. With very few customers, of which all have significant financial standing, the Group is able to maintain very low levels of credit risk.

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

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

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	Consolidated	
	2011 \$	2010 \$
<b>Trade receivables</b>		
Counterparties with external credit rating (Moody's)	-	-
Counterparties without external credit rating*		
Group 1	-	-
Group 2	1,991,583	576,914
Group 3	-	-
	1,991,583	576,914
<b>Total trade receivables</b>	1,991,583	576,914
<b>Cash at bank and short term bank deposits</b>		
AA	17,886,159	17,365,076
	17,886,159	17,365,076

\* Group 1 - new customers (less than 6 months)

Group 2 - existing customers (more than 6 months) with no defaults in the past

Group 3 - existing customers (more than 6 months) with some defaults in the past. All defaults were fully recovered.

## 2 FINANCIAL RISK MANAGEMENT (continued)

### (c) Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

#### Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities consolidated – at 30 September 2011	Less than 6 months \$	6–12 months \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Total contractual cash flows \$	Carrying Amount (assets)/ liabilities \$
<b>Non-derivatives</b>							
Non-interest bearing	5,296,864	2,276,961	–	–	–	7,573,825	7,633,764
Fixed rate	–	8,639	16,140	–	–	24,779	24,779
<b>Total non-derivatives</b>	<b>5,296,864</b>	<b>2,285,600</b>	<b>16,140</b>	<b>–</b>	<b>–</b>	<b>7,598,604</b>	<b>7,658,543</b>
Consolidated - At 30 September 2010	Less than 6 months \$	6–12 months \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Total contractual cash flows \$	Carrying Amount (assets)/ liabilities \$
<b>Non-derivatives</b>							
Non-interest bearing	5,348,841	1,176,909	–	–	–	6,525,750	6,525,750
Fixed rate	–	48,048	24,837	–	–	72,885	72,885
<b>Total non-derivatives</b>	<b>5,348,841</b>	<b>1,224,957</b>	<b>24,837</b>	<b>–</b>	<b>–</b>	<b>6,598,635</b>	<b>6,598,635</b>

## 2 FINANCIAL RISK MANAGEMENT (continued)

### (d) Cash flow and fair value interest rate risk

As the Group has no significant interest bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

### (e) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Disclosure of fair value measurements are performed by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 September 2011.

Group – as at 30 September 2011	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Assets</b>				
<b>Financial assets at fair value through profit or loss</b>				
Trading derivatives	-	-	-	-
Trading securities	-	-	-	-
Derivatives used for hedging	-	-	-	-
<b>Available-for-sale financial assets</b>				
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Other	-	-	313,593	313,593
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>313,593</b>	<b>313,593</b>
<b>Liabilities</b>				
Derivatives used for hedging	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 2 FINANCIAL RISK MANAGEMENT (continued)

Group – as at 30 September 2010	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Assets</b>				
<b>Financial assets at fair value through profit or loss</b>				
Trading derivatives	-	-	-	-
Trading securities	-	-	-	-
<b>Derivatives used for hedging</b>	-	-	-	-
<b>Available-for-sale financial assets</b>				
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Other	-	-	313,593	313,593
<b>Total assets</b>	-	-	<b>313,593</b>	<b>313,593</b>
<b>Liabilities</b>				
Derivatives used for hedging	-	-	-	-
<b>Total liabilities</b>	-	-	-	-

The following tables present the changes in level 3 instruments for the year ended 30 September 2011:

Group	Financial assets at fair value through profit or loss \$	Available-for-sale financial assets \$	Total \$
Opening balance	-	313,593	313,593
Transfer into level 3	-	-	-
Other increases	-	-	-
Gains recognised in other comprehensive income	-	-	-
Gains recognised in profit or loss	-	-	-
Closing balance	-	313,593	313,593
Total gains for the period included in profit or loss that relate to assets held at the end of the reporting period	-	-	-
Opening balance	-	313,593	313,593

---

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### **i) Revenue recognition**

The Group's policy for recognising revenue from Carbon Sequestration Plantation Services is based on management's estimation of the stage of completion for these projects by reference to costs incurred compared to total estimated costs at completion. As at 30 September 2011, the Group has recognised \$606,258 (2010: \$479,849) as accrued income and \$14,270,346 (2010: \$12,256,820) as deferred income as a result of the application of this policy.

## 4 SEGMENT INFORMATION

### (a) Description of segments

#### Business Segments

The Group operates wholly within two reportable segments.

#### Carbon Sink Establishment

The establishment of accredited forest carbon sinks throughout Southern Australia on behalf of third parties, primarily for large domestic and international companies and state governments.

#### Environmental offsets (formerly Carbon Offsets)

The provision of abatement certificates generated from accredited forest carbon sinks owned by the Group, and trading in environmental credits (Renewable Energy Certificates) from March 2011.

#### Other

'Other' is the aggregation of the Group's other operating segments that are not separately reportable.

### (b) Segments

Year to 30 September 2011	Carbon sink establishment \$	Environmental offsets \$	Other \$	Consolidated \$
<b>Segment revenue</b>				
Sales to external customers	20,900,629	11,803,921	1,969,902	34,674,452
Total sales revenue	20,900,629	11,803,921	1,969,902	34,674,452
<b>Total segment revenue</b>	<b>20,900,629</b>	<b>11,803,921</b>	<b>1,969,902</b>	<b>34,674,452</b>
Other revenue				837,529
<b>Consolidated revenue</b>				<b>35,511,981</b>
<b>Segment profit</b>				
Segment profit	6,222,345	832,354	1,696,454	8,751,153
Central administration and directors' salaries				(6,545,091)
Profit before income tax				2,206,062
Income tax charge				(746,335)
<b>Profit for the year</b>				<b>1,459,727</b>
<b>Segment assets</b>				
Segment assets	11,219,019	4,519,814	717,677	16,456,510
Unallocated assets				23,209,191
<b>Total assets</b>				<b>39,665,701</b>

#### 4 SEGMENT INFORMATION (continued)

15 months to 30 September 2010	Carbon sink establishment \$	Carbon offsets \$	Other \$	Consolidated \$
<b>Segment revenue</b>				
Sales to external customers	24,921,036	455,390	1,644,600	27,021,026
Total sales revenue	24,921,036	455,390	1,644,600	27,021,026
<b>Total segment revenue</b>	<b>24,921,036</b>	<b>455,390</b>	<b>1,644,600</b>	<b>27,021,026</b>
Other revenue				693,172
<b>Consolidated revenue</b>				<b>27,714,198</b>
<b>Segment profit</b>				
Segment profit	7,803,031	24,923	648,127	8,476,081
Discount on acquisition of business				(5,515,497)
Central administration and directors' salaries				(7,662,187)
Loss before income tax				(4,701,603)
Income tax benefit				1,356,139
<b>Loss for the year</b>				<b>(3,345,464)</b>
<b>Segment assets</b>				
Segment assets	10,532,262	3,609,117	290,610	14,431,989
Unallocated assets				20,449,189
<b>Total assets</b>				<b>34,881,178</b>

Segment revenues, expenses, and assets are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of forest carbon sinks, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributed to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment assets do not include income taxes.

Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, share of profit of associates, investment revenue and finance costs, income tax expense, and gains or losses on disposal of associates and discontinued operations. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

## 5 REVENUE

	Consolidated	
	Year to 30 September 2011 \$	15 months to 30 September 2010 \$
<b>From continuing operations</b>		
<b>Sales revenue</b>		
Project development fees	20,900,629	24,921,036
Sale of environmental credits	11,803,920	455,390
Carbon sink project management fees	1,759,095	1,644,599
Fee for services	123,431	-
	<b>34,587,075</b>	<b>27,021,025</b>
<b>Other revenue</b>		
Interest	699,402	646,345
Office services	23,901	10,000
Crop share and adjustment	35,180	33,239
Rent	12,458	3,455
Other revenues	66,589	-
	<b>837,530</b>	<b>693,039</b>
	<b>35,424,605</b>	<b>27,714,064</b>

## 6 OTHER INCOME

	Consolidated	
	Year to 30 September 2011 \$	15 months to 30 September 2010 \$
Net gain on disposal of property, plant and equipment	5,130	133
Gain/(loss) on environmental credits FVTPL	82,246	-
	<b>87,376</b>	<b>133</b>

## 7 EXPENSES

	Consolidated	
	Year to 30 September 2011 \$	15 months to 30 September 2010 \$
<b>Net gains and expenses</b>		
<b>Profit before income tax includes the following specific expenses:</b>		
<b>Depreciation</b>		
Plant and equipment	78,496	90,159
Leasehold improvements	41,041	48,049
Plant and equipment under finance leases	31,380	69,275
Carbon sinks	332,712	409,786
<b>Total depreciation</b>	<b>483,629</b>	<b>617,269</b>
<b>Amortisation</b>		
Amortisation of NGAC accreditation	32,792	43,135
Other intangible assets	-	594,168
Patents and trademarks	801	1,001
<b>Total amortisation</b>	<b>33,593</b>	<b>638,304</b>
<b>Finance costs</b>		
Interest and finance charges	4,423	12,518
<b>Rental expense relating to operating leases</b>		
Minimum lease payments	766,754	852,894
<b>Total rental expense relating to operating leases</b>	<b>766,754</b>	<b>852,894</b>
<b>Research and development costs paid and expensed</b>	<b>245,886</b>	<b>259,299</b>
<b>Employee benefits expense</b>		
Equity-settled share based payments	24,757	141,529
Superannuation	323,293	370,468
Other employee benefits	3,878,363	4,288,180
	<b>4,226,413</b>	<b>4,800,177</b>

## 8 INCOME TAX EXPENSE

	Consolidated	
	Year to 30 September 2011 \$	15 months to 30 September 2010 \$
<b>(a) Income tax expense/(benefit)</b>		
Current tax	2,753,644	1,880,862
Under provision of income tax in previous year	(54,577)	(951,664)
Over provision of deferred tax in previous year	-	456,773
Deferred tax benefit	(1,952,732)	(2,742,110)
	746,335	(1,356,139)
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit (loss) before income tax expense	2,206,062	(4,701,603)
Tax at the Australian tax rate of 30% (2010 - 30%)	661,819	(1,410,481)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	169,273	505,851
Share based payments	7,427	42,459
Effect of tax concessions (research and development)	(30,000)	-
Sundry items	(7,072)	924
Difference in overseas tax rates	(535)	-
Under provision of income tax in previous year	(54,577)	(951,665)
Over provision of deferred tax in previous year	-	456,773
<b>Total income tax expense</b>	<b>746,335</b>	<b>(1,356,139)</b>

### (c) Tax consolidation legislation

CO2 Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(e).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, CO2 Group Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate CO2 Group Limited for any current tax payable assumed and are compensated by CO2 Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to CO2 Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables (see note 31).

## 8 INCOME TAX EXPENSE (continued)

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
<b>(d) Franking account</b>		
Franking account balance (tax paid basis)	1,441,462	80,519
Impact on franking account balance of dividends not recognised	-	-
	<b>1,441,462</b>	<b>80,519</b>

## 9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Cash at bank and in hand	3,310,731	1,277,662
Deposits at call	14,574,772	16,087,414
Other cash and cash equivalents	656	-
	<b>17,886,159</b>	<b>17,365,076</b>

### (a) Risk exposure

The Group's exposure to interest rate risk is discussed in note 2.

### (b) Cash at bank and on hand

Of the cash at bank and on hand, \$1,514,476 is non-interest bearing.

### (c) Cash not available for use

Included in deposits at call is an amount of \$275,487 (2010: \$275,487) which is held as security for bank facilities (note 24).

### (d) Deposits at call

Deposits at call are interest bearing.

## 10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Trade receivables	1,991,583	576,914
Loans to employees	135,739	-
	<b>2,127,322</b>	<b>576,914</b>

An employee is charged interest on a loan provided by the Group at 7.5% interest per annum, which is comparable to the average commercial rate of interest. The loan is provided for a maximum period of 12 months. Interest on the outstanding loan balance is payable monthly. The loan is unsecured.

### (a) Past due but not impaired

As of 30 September 2011, trade receivables of \$35,295 (2010: \$80,895) were past due but not impaired.

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
3 to 6 months	35,295	80,895
	<b>35,295</b>	<b>80,895</b>

### (b) Interest rate risk

Information about the Group's exposure to interest rate risk in relation to trade and other receivables is provided in note 2.

### (c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The average credit period on rendering of invoices is 30 days.

Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

## 11 CURRENT ASSETS – INVENTORIES

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Seed		
– at cost	164,117	193,169
Carbon sinks under development		
– at cost	6,749,172	7,050,367
	<b>6,913,289</b>	<b>7,243,536</b>

Carbon sinks under development relates to costs incurred on plantings for carbon sinks on behalf of customers. Inventories of \$134,000 (2010: \$132,500) are expected to be recovered after more than twelve months.

## 12 CURRENT ASSETS – OTHER CURRENT ASSETS

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Prepayments	242,775	155,426
Accrued interest	11,977	14,611
Deposits paid	30,998	27,488
Environmental credits at FVTPL	1,245,547	1,010
	<b>1,531,297</b>	<b>198,535</b>

Environmental credits have been purchased on the spot market. They do not represent carbon credits produced by the Group's carbon sinks.

## 13 CURRENT ASSETS – ACCRUED INCOME

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Accrued income from carbon sink development	160,378	479,849
Accrued income from carbon sink management	362,842	-
Accrued income from trading environmental credits	83,038	-
	<b>606,258</b>	<b>479,849</b>

## 14 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS – INVESTMENTS

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Available for sale investments	313,593	313,593
	<b>313,593</b>	<b>313,593</b>

The Group holds 1,898,735 fully paid unquoted ordinary shares and 1 converting performance share in Western Australian Resources Limited ("WAR"). The consideration paid for these shares was the Group's interest in mineral tenements. The investment represents an 11% (2010: 11%) shareholding in WAR. The fair value of the investment in WAR as estimated by management is \$313,593 (2010: \$313,593)

## 15 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Freehold land \$	Plant and equipment \$	Leasehold improvements \$	Leased plant & equipment \$	Carbon sinks \$	Total \$
<b>At 1 July 2009</b>						
Cost	709,799	417,888	252,160	287,370	4,201,540	5,868,757
Accumulated depreciation	–	(208,760)	(39,847)	(131,735)	(184,041)	(564,383)
<b>Net book amount</b>	<b>709,799</b>	<b>209,128</b>	<b>212,313</b>	<b>155,635</b>	<b>4,017,499</b>	<b>5,304,374</b>
<b>15 months to 30 September 2010</b>						
Opening net book amount	709,799	209,128	212,313	155,635	4,017,499	5,304,374
Additions	–	73,670	–	–	–	73,670
Disposals	–	(33,338)	–	–	–	(33,338)
Depreciation charge	–	(90,159)	(48,049)	(69,275)	(409,786)	(617,269)
<b>Closing net book amount</b>	<b>709,799</b>	<b>159,301</b>	<b>164,264</b>	<b>86,360</b>	<b>3,607,713</b>	<b>4,727,437</b>
<b>At 30 September 2010</b>						
Cost	709,799	467,356	252,160	308,487	4,201,540	5,939,342
Accumulated depreciation	–	(308,055)	(87,896)	(222,127)	(593,827)	(1,211,905)
<b>Net book amount</b>	<b>709,799</b>	<b>159,301</b>	<b>164,264</b>	<b>86,360</b>	<b>3,607,713</b>	<b>4,727,437</b>
<b>Year to 30 September 2011</b>						
Opening net book amount	709,799	159,301	164,264	86,360	3,607,713	4,727,437
Additions	–	117,046	50,096	–	–	167,142
Disposals	–	–	–	(9,424)	–	(9,424)
Depreciation charge	–	(78,496)	(41,041)	(31,380)	(332,712)	(483,629)
<b>Closing net book amount</b>	<b>709,799</b>	<b>197,851</b>	<b>173,319</b>	<b>45,556</b>	<b>3,275,001</b>	<b>4,401,526</b>
<b>At 30 September 2011</b>						
Cost	709,799	582,551	302,256	280,213	4,201,540	6,076,359
Accumulated depreciation	–	(384,700)	(128,937)	(234,657)	(926,539)	(1,674,833)
<b>Net book amount</b>	<b>709,799</b>	<b>197,851</b>	<b>173,319</b>	<b>45,556</b>	<b>3,275,001</b>	<b>4,401,526</b>

### (a) Recoverability of carbon sinks

During the period, the Group carried out a review of the recoverable amount of the carbon sinks used to generate carbon credits. The review confirmed that the carbon sinks were not impaired. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The carbon sinks have not been subject to a revaluation as a result of this review and continue to be held at cost.

## 16 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
<b>The balance comprises temporary differences attributable to:</b>		
Tax losses	25,425	263,495
Provisions	197,505	166,033
Accruals	14,137	12,301
Available-for-sale-investment	(57,989)	(57,989)
Carbon sinks	4,472,723	2,499,869
Intangible assets	48	47
Depreciable assets	18,181	10,054
Accrued interest	(1,096)	(4,383)
Research & development	(382,285)	(317,440)
	4,286,649	2,571,987
<b>Net deferred tax assets</b>	<b>4,286,649</b>	<b>2,571,987</b>
<b>Movements:</b>		
Opening balance at 1 October 2010 and 1 July 2009	2,571,987	512,525
Credited/(charged) to the income statement (note 8)	1,952,732	2,742,109
Utilisation of tax losses	(183,493)	(225,874)
Under (over) provision of deferred tax in previous year	(54,577)	(456,773)
<b>Closing balance at 30 September</b>	<b>4,286,649</b>	<b>2,571,987</b>

Movements – Consolidated	Tax losses \$	Provisions \$	Intangibles & research & development \$	Accruals \$	Carbon Sinks & depreciable assets \$	Accrued income & available-for-sale investments \$	Total \$
<b>At 1 July 2009</b>	674,323	145,802	(1,655,451)	20,182	1,388,262	(60,593)	512,525
(Charged) credited to the income statements							
– to profit or loss	–	21,068	1,337,759	(96,066)	1,476,253	3,095	2,742,109
Under (over) provision of deferred tax in previous year	(184,955)	(837)	223	88,184	(354,513)	(4,875)	(456,773)
Utilisation of tax losses	(225,874)	–	–	–	–	–	(225,874)
<b>At 30 September 2010</b>	<b>263,494</b>	<b>166,033</b>	<b>(317,469)</b>	<b>12,300</b>	<b>2,510,002</b>	<b>(62,373)</b>	<b>2,571,987</b>
<b>At 1 October 2010</b>	263,494	166,033	(317,469)	12,300	2,510,002	(62,373)	2,571,987
(Charged) credited to the income statements	–	31,472	(64,845)	1,837	1,980,980	3,288	1,952,732
Under (over) provision of deferred tax in previous year	(54,577)	–	–	–	–	–	(56,824)
Utilisation of tax losses	(183,493)	–	–	–	–	–	(181,246)
<b>At 30 September 2011</b>	<b>25,424</b>	<b>197,505</b>	<b>(382,314)</b>	<b>14,137</b>	<b>4,490,982</b>	<b>(59,085)</b>	<b>4,286,649</b>

## 17 NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Development costs \$	Patents, trademarks and other rights \$	Other intangible assets \$	NGAC accreditation \$	Total \$
<b>At 1 July 2009</b>					
Cost	627,009	3,072	6,305,663	408,380	7,344,124
Accumulated amortisation and impairment	-	(668)	(195,998)	(20,596)	(217,262)
<b>Net book amount</b>	<b>627,009</b>	<b>2,404</b>	<b>6,109,665</b>	<b>387,784</b>	<b>7,126,862</b>
<b>15 months to 30 September 2010</b>					
Opening net book amount	627,009	2,404	6,109,665	387,784	7,126,862
Development costs recognised as an asset	431,190	-	-	-	431,190
Impairment charge	-	-	(5,515,497)	-	(5,515,497)
Amortisation charge	-	(1,001)	(594,168)	(43,135)	(638,304)
<b>Closing net book amount</b>	<b>1,058,199</b>	<b>1,403</b>	<b>-</b>	<b>344,649</b>	<b>1,404,251</b>
<b>At 30 September 2010</b>					
Cost	1,058,199	3,005	6,305,663	408,380	7,775,247
Accumulated amortisation and impairment	-	(1,602)	(6,305,663)	(63,731)	(6,370,996)
<b>Net book amount</b>	<b>1,058,199</b>	<b>1,403</b>	<b>-</b>	<b>344,649</b>	<b>1,404,251</b>
<b>Year 30 September 2011</b>					
Opening net book amount	1,058,199	1,403	-	344,649	1,404,251
Development costs recognised as an asset	323,129	-	-	-	323,129
Other charge	(94,178)	-	-	-	(94,178)
Amortisation charge	-	(801)	-	(32,793)	(33,594)
<b>Closing net book amount</b>	<b>1,287,150</b>	<b>602</b>	<b>-</b>	<b>311,856</b>	<b>1,599,608</b>
<b>At 30 September 2011</b>					
Cost	1,381,328	3,072	790,166	408,380	2,582,946
Other charge	(94,178)	-	-	-	(94,178)
Accumulated amortisation and impairment	-	(2,470)	(790,166)	(96,524)	(889,160)
<b>Net book amount</b>	<b>1,287,150</b>	<b>602</b>	<b>-</b>	<b>311,856</b>	<b>1,599,608</b>

## 18 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Trade payables	1,642,678	1,182,909
Accrued expenses	2,873,141	3,374,673
PAYG payable	110,701	134,931
Goods and services tax (GST) payable	670,344	656,328
	<b>5,296,864</b>	<b>5,348,841</b>

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 19 CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Lease liabilities (note 30)	8,639	48,048
<b>Total current borrowings</b>	<b>8,639</b>	<b>48,048</b>

### (a) Security and fair value disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 24.

### (b) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 2.

## 20 CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Employee benefits	541,229	473,431
	<b>541,229</b>	<b>473,431</b>

## 21 CURRENT LIABILITIES – CURRENT TAX LIABILITIES

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Income tax	2,276,961	1,176,909
	<b>2,276,961</b>	<b>1,176,909</b>

## 22 CURRENT LIABILITIES – DEFERRED INCOME

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Deferred income from carbon sink development	13,972,534	11,937,432
Deferred income on carbon sink management	292,812	319,388
Deferred income from trading environmental credits	5,000	-
	<b>14,270,346</b>	<b>12,256,820</b>

## 23 CURRENT LIABILITIES – OTHER CURRENT LIABILITIES

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Investments accounted for using the equity method	10,225	-
	<b>10,225</b>	<b>-</b>

The Parent Entity has a 45% interest in the CO2 New Zealand Limited Partnership, which is resident in New Zealand and the principal activity of which is to assist large emitters to manage their carbon liability under the New Zealand Emissions Trading Scheme.

The interest in the CO2 New Zealand Limited Partnership is accounted for in the financial statements using the equity method of accounting.

On 3 October 2011 the Parent Entity contributed a further NZ\$90,000 by way of a call on capital to the Limited Partnership.

## 24 NON-CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
<b>Secured</b>		
Lease liabilities (note 30)	16,140	24,837
<b>Total secured non-current borrowings</b>	<b>16,140</b>	<b>24,837</b>
<b>Total non-current borrowings</b>	<b>16,140</b>	<b>24,837</b>

### (a) Secured liabilities and assets pledged as security

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Lease liabilities	24,779	72,885
<b>Total secured liabilities</b>	<b>24,779</b>	<b>72,885</b>

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

## 24 NON-CURRENT LIABILITIES – BORROWINGS (continued)

The Group has a \$100,000 (2010: \$100,000) facility on its company credit cards and has been required to provide a guarantee facility of \$175,487 (2010: \$175,487) in respect of office leases. The Group maintains a term deposit with the bank to secure these facilities.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
<b>Current</b>		
Floating charge		
Deposits at call	275,487	275,487
<b>Total current assets pledged as security</b>	<b>275,487</b>	<b>275,487</b>
<b>Non-current</b>		
Finance lease		
Plant and equipment	45,556	86,360
<b>Total non-current assets pledged as security</b>	<b>45,556</b>	<b>86,360</b>
<b>Total assets pledged as security</b>	<b>321,043</b>	<b>361,847</b>

### (b) Risk exposures

Information about the entity's exposure to interest rate and foreign currency changes is provided in note 2.

## 25 NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Employee benefits – long service leave	117,122	80,012
	<b>117,122</b>	<b>80,012</b>

## 26 ISSUED CAPITAL

### (a) Share capital

	Consolidated and Parent Entity		Consolidated and Parent Entity	
	30 September 2011 Number of shares	30 September 2010 Number of shares	30 September 2011 \$	30 September 2010 \$
<b>Ordinary shares</b>				
Fully paid	280,347,888	278,919,065	30,829,637	30,658,179
Convertible preference shares	30,150,190	30,150,190	301	301
	<b>310,498,078</b>	<b>309,069,255</b>	<b>30,829,938</b>	<b>30,658,480</b>
<b>Total consolidated contributed equity</b>			<b>30,829,938</b>	<b>30,658,480</b>

### (b) Movements in ordinary share capital:

Date	Details	Number of shares	\$
1 July 2009	Opening balance	276,466,454	30,013,865
29 October 2009	Exercise listed options	120,000	14,400
5 November 2009	Exercise listed options	401,000	48,120
11 November 2009	Exercise unlisted options	1,000,000	320,000
13 November 2009	Exercise unlisted options	500,000	160,000
13 November 2009	Exercise listed options	81,611	9,794
17 November	Exercise unlisted options	250,000	80,000
2 December 2009	Exercise listed options	100,000	12,000
<b>30 September 2010</b>	<b>Closing balance</b>	<b>278,919,065</b>	<b>30,658,179</b>
1 October 2010	Opening balance	278,919,065	30,658,179
28 March 2011	Exercise listed options	38,460	4,615
4 July 2011	Exercise listed options	400,000	48,000
13 July 2011	Exercise listed options	100,000	12,000
22 July 2011	Exercise listed options	100,000	12,000
5 August 2011	Exercise listed options	327,063	39,248
12 August 2011	Exercise listed options	425,299	51,035
27 September 2011	Exercise listed options	38,000	4,560
<b>30 September 2011</b>	<b>Closing balance</b>	<b>280,347,887</b>	<b>30,829,637</b>

## 26 ISSUED CAPITAL (continued)

### (c) Movements in convertible preference share capital:

Date	Details	Number of shares	\$
30 June 2009	Opening balance	30,150,190	301
30 September 2010 & 30 September 2011	Closing balance	30,150,190	301

### (d) Convertible preference shares

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

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

### (e) Options

Information relating to the Group's Employee Option Plan and options issued to employees and executives of the Group, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 38.

In total the Group had in issue 154,525,921 (2010: 155,954,763) listed share options and 6,080,000 (2010: 16,850,000) unlisted share options at 30 September 2011.

### (f) Capital risk management

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

## 27 RESERVES

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Share based payments reserve	4,922,103	4,897,346
Option premium reserve	1,670,705	1,670,705
Foreign currency translation reserve	(47)	-
Financial assets revaluation reserve	63,278	63,278
	<b>6,656,039</b>	<b>6,631,329</b>
<b>Movements:</b>		
<b>Share based payments reserve</b>		
Opening balance	4,897,346	4,755,817
Equity settled share based payment	24,757	141,529
Balance 30 September	<b>4,922,103</b>	<b>4,897,346</b>
<b>Movements:</b>		
<b>Foreign currency translation reserve</b>		
Balance 1 October	-	-
Currency translation differences arising during the year :	(47)	-
Balance 30 September	<b>(47)</b>	<b>-</b>

### (a) Nature and purpose of reserves

#### (i) Share-based payments reserve

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- in the parent entity – the fair value of shares and options issued to employees of subsidiaries.

#### (ii) Option premium

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

#### (iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign operations are recognised in other comprehensive income as described in note 1 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

#### (iv) Financial assets revaluation reserve

Changes in the fair value of assets classified as available for sale financial assets are taken to the financial assets revaluation reserve. Amounts are recognised in profit and loss when the associated assets are sold or impaired.

## 28 KEY MANAGEMENT PERSONNEL DISCLOSURES

### (a) Directors

The following persons were Directors of CO2 Group Limited during the financial year:

#### (i) Chairman – Executive

I N Trahar

#### (ii) Executive Directors

A W T Grant (Chief Executive Officer)

H R Whitcombe

Dr C D Mitchell

#### (iii) Non-executive Directors

Dr M B Hemmerling

P J Favretto

### (b) Other Key Management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
A J Soanes	Director and General Manager Operations	CO2 Australia Limited
A Shilkin (resigned 29 August 2011)	Commercial Manager, CO2 Australia Limited	CO2 Australia Limited
Dr J Bulinski	Director	CO2 Australia Limited

All of the above persons were also key management persons during the 15 month period ended 30 September 2010.

### (c) Key Management personnel compensation

	Consolidated	
	Year to 30 September 2011 \$	15 months to 30 September 2011 \$
Short-term employee benefits	1,666,745	2,091,641
Post employment benefits	183,192	240,243
Long term benefits	27,071	41,923
Share based payments	24,757	141,799
	1,901,765	2,515,606

Detailed remuneration disclosures are provided in the remuneration report on pages 26 to 35.

## 28 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

### (d) Equity instrument disclosures relating to key management personnel

#### (i) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of CO2 Group Limited and other key management personnel of the Group, including their personally related parties, are set out below.

#### 2011

Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
<b>Directors of CO2 Group Limited</b>							
I N Trahar	67,737,796	-	-	22,222,222	89,960,018	89,960,018	-
H R Whitcombe	4,145,157	-	-	-	4,145,157	4,145,157	-
A W T Grant	12,868,654	-	-	(9,000,000)	3,868,654	3,868,654	-
M B Hemmerling	1,500,000	-	-	-	1,500,000	1,500,000	-
C D Mitchell	3,000,000	-	-	-	3,000,000	3,000,000	-
P J Favretto	7,624,478	-	-	-	7,624,478	7,624,478	-
<b>Other Key Management personnel of the Group</b>							
A J Soanes	1,500,000	-	-	-	1,500,000	1,500,000	-
A Shilkin	429,500	-	-	-	429,500	429,500	-
J Bulinski	1,400,000	-	-	(1,000,000)	400,000	400,000	-

All vested options are exercisable at any time.

#### 2010 (15 months)

Name	Balance at start of the period	Granted as compensation	Exercised	Other changes	Balance at end of the period	Vested and exercisable	Unvested
<b>Directors of CO2 Group Limited</b>							
I N Trahar	67,737,796	-	-	-	67,737,796	67,737,796	-
H R Whitcombe	4,145,157	-	-	-	4,145,157	4,145,157	-
A W T Grant	13,293,654	-	(100,000)	(325,000)	12,868,654	11,868,654	1,000,000
M B Hemmerling	3,000,000	-	(750,000)	(750,000)	1,500,000	1,500,000	-
C D Mitchell	4,000,000	-	(1,000,000)	-	3,000,000	3,000,000	-
P J Favretto	7,499,478	-	-	125,000	7,624,478	7,624,478	-
<b>Other key management personnel of the Group</b>							
A J Soanes	1,500,000	-	-	-	1,500,000	1,500,000	-
A Shilkin	2,424,500	-	-	(1,995,000)	429,500	429,500	-
J Bulinski	1,400,000	-	-	-	1,400,000	1,400,000	-

## 28 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

### (ii) Share holdings

The numbers of shares in the company held during the financial year by each director of CO2 Group Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

#### 2011

Name	Balance at the start of the year	Granted during reporting year as compensation	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of CO2 Group Limited – Ordinary shares</b>					
I N Trahar	116,831,546	-	-	-	116,831,546
H R Whitcombe	7,742,000	-	-	-	7,742,000
A W T Grant	100,000	-	-	-	100,000
M B Hemmerling	575,625	-	-	-	575,625
C D Mitchell	40,000	-	-	-	40,000
P J Favretto	12,500,522	-	-	-	12,500,522
<b>Other Key Management personnel of the Group – Ordinary shares</b>					
A J Soanes	-	-	-	-	-
A Shilkin	-	-	-	-	-
J Bulinski	-	-	-	-	-

#### 2010 (15 months)

Name	Balance at the start of the period	Granted during the period as compensation	Received during the period on the exercise of options	Other changes during the period	Balance at the end of the period
<b>Directors of CO2 Group Limited - Ordinary shares</b>					
I N Trahar	116,831,546	-	-	-	116,831,546
H R Whitcombe	7,742,000	-	-	-	7,742,000
A W T Grant	-	-	100,000	-	100,000
M B Hemmerling	75,000	-	750,000	(249,375)	575,625
C D Mitchell	-	-	1,000,000	(960,000)	40,000
P J Favretto	12,500,522	-	-	-	12,500,522
<b>Other Key Management personnel of the Group – Ordinary shares</b>					
A J Soanes	-	-	-	-	-
A Shilkin	-	-	-	-	-
J Bulinski	-	-	-	-	-

### e) Loans to Key Management personnel

There are no loans made to directors of CO2 Group Limited and other key management personnel.

## 29 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:

	Consolidated	
	Year to 30 September 2011 \$	15 months to 30 September 2010 \$
<b>(a) Audit services</b>		
Deloitte Touche Tohmatsu		
Audit and review of financial reports	59,150	101,145
Non-audit services		
Other non-audit services - assurance services for Yonderr Pty Ltd	10,000	-
<b>Total auditors' remuneration</b>	<b>69,150</b>	<b>101,145</b>

## 30 COMMITMENTS

### (i) Non-cancellable operating leases

Operating leases relate to four office facilities, each with different terms: 6 years with no option to renew; 2 years with 2 options for a further 3 years; 2 years 3 months with no option to renew; and 2 years with no option to renew. The operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. There are also fixed increase dates annually. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

The Group also leases eleven motor vehicles under operating leases with a term of three years, with no option to purchase the vehicle at the expiry of the lease period.

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	588,607	632,327
Later than one year but not later than five years	1,422,651	1,645,786
Later than five years	72,308	160,684
Commitments not recognised in the financial statements	2,083,566	2,438,797

### (ii) Finance leases

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

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Commitments in relation to finance leases are payable as follows:		
Within one year	10,755	51,766
Later than one year but not later than five years	16,822	27,576
Minimum lease payments	27,577	79,342
Future finance charges	(2,798)	(6,457)
Recognised as a liability	24,779	72,885
Total lease liabilities	24,779	72,885
Representing lease liabilities:		
Current (note 19)	8,639	48,048
Non-current (note 24)	16,140	24,837
	24,779	72,885

The weighted average interest rate implicit in the leases is 9.9% (2010 - 8.2%).

## 31 RELATED PARTY TRANSACTIONS

### (a) Parent entities

The parent entity within the Group and the ultimate Australian parent entity is CO2 Group Limited.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 32.

### (c) Key management personnel

Disclosure relating to key management personnel are set out in note 28.

## 32 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries.

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2011 %	2010 %
CO2 Australia Limited*	Australia	Ordinary	100	100
Carbon Banc Limited*	Australia	Ordinary	100	100
Carbon Estate Pty Ltd*	Australia	Ordinary	100	100
CO2 New Zealand Limited**	Australia	Ordinary	100	100
Mallee Land Company Pty Ltd*	Australia	Ordinary	100	100
Mallee Carbon Limited*	Australia	Ordinary	100	100
Blue Leafed Mallee Limited*	Australia	Ordinary	100	100
Carbon Sinks Services Pty Ltd*	Australia	Ordinary	100	100
The Oil Mallee Company of Australia Limited *	Australia	Ordinary	100	100
Yonderr Pty Ltd *	Australia	Ordinary	100	-
Carbon Sink Services New Zealand Limited	New Zealand	Ordinary	100	-

\* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 33.

### 33 DEED OF CROSS GUARANTEE

All companies in the Group except Carbon Sink Services New Zealand Limited (“CSSNZ”) are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors’ report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The balance sheet and income statement of the closed group is the same as that of the consolidated entity but excludes CSSNZ. Set out below is an income statement and statement of financial position of CSSNZ.

	30 September 2011 \$	30 September 2010 \$
<b>Income statement</b>		
Revenue from continuing operations	27,025	-
Other expenses	(220)	-
<b>Profit (loss) before income tax</b>	<b>26,805</b>	-
income tax (expense) benefit	(7,488)	-
<b>Profit for the year</b>	<b>19,317</b>	-
<b>Current assets</b>		
Cash and cash equivalents	1,356	-
Trade and other receivables	31,079	-
<b>Total current assets</b>	<b>32,435</b>	-
<b>Total assets</b>	<b>32,435</b>	-
<b>Current liabilities</b>		
Trade and other payables	5,629	-
Current tax liabilities	7,488	-
<b>Total current liabilities</b>	<b>13,117</b>	-
<b>Total liabilities</b>	<b>13,117</b>	-
<b>Net assets</b>	<b>19,318</b>	-
<b>Equity</b>		
Issued capital	1	-
Retained earnings	19,317	-
<b>Total equity</b>	<b>19,318</b>	-

### 34 ECONOMIC DEPENDENCY

The Group is dependent upon large contracts with a limited number of customers.

### 35 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 3 October 2011 the Group contributed a further NZ\$90,000 to the Joint Venture entity CO2 New Zealand Limited Partnership, of which the Group is a 45% owner. The payment was made pursuant to a capital call on the Joint Venture partners.

Since the end of the financial year there has been a significant increase in the issued capital of the Company due to the exercise of the listed options with an expiry date of 12 November 2011. At an exercise price of 12 cents, 149,103,431 options have been converted generating \$17,892,412.

Other than the matters referred to above, there has been no matter or circumstance that has arisen since 30 September 2011 that has significantly affected, or may significantly affect:

- the consolidated entity's operations in future financial periods, or
- the results of those operations in future financial periods, or
- the consolidated entity's state of affairs in future financial periods.

### 36 RECONCILIATION OF PROFIT (LOSS) AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	Year to 30 September 2011 \$	15 months to 30 September 2010 \$
Profit (loss) for the period	1,459,727	(3,345,464)
Depreciation and amortisation	517,223	1,255,573
Impairment loss	-	5,515,497
Net (gain) loss on sale of non-current assets	(5,130)	(133)
Share of losses of joint venture partnership not received as dividends or distributions	112,591	-
Equity settled share based payments	24,757	141,529
Interest income received	(702,035)	(646,345)
Change in operating assets and liabilities		
(Increase) decrease in trade debtors and receivables	(1,427,037)	(313,394)
Decrease (increase) in inventories	330,247	(4,158,739)
(Increase) decrease in other current assets	(1,332,763)	37,482
(Increase) decrease in deferred tax assets	(1,714,662)	(2,070,030)
(Increase) decrease in other operating assets	15,814	165,030
(Decrease) increase in trade creditors	(39,657)	3,909,879
(Decrease) increase in other operating liabilities	1,965,482	6,627,653
Increase (decrease) in provision for income taxes payable	1,100,052	658,745
Increase (decrease) in deferred tax liabilities	-	10,567
Increase (decrease) in other provisions	104,908	70,227
<b>Net cash (outflow) inflow from operating activities</b>	<b>409,517</b>	<b>7,858,077</b>

## 37 EARNINGS PER SHARE

	Consolidated	
	Year to 30 September 2011 Cents	15 months to 30 September 2010 Cents
<b>(a) Basic earnings per share</b>		
From continuing operations	0.52	(1.20)
Total basic earnings per share attributable to the ordinary equity holders of the company	0.52	(1.20)
<b>(b) Diluted earnings per share</b>		
From continuing operations	0.42	(1.20)
Total diluted earnings per share attributable to the ordinary equity holders of the company	0.42	(1.20)

	Consolidated	
	Year to 30 September 2011 \$	15 months to 30 September 2010 \$
<b>(c) Reconciliations of earnings used in calculating earnings per share</b>		
<b>Basic earnings per share</b>		
Profit (loss) from continuing operations	1,459,727	(3,345,464)
	1,459,727	(3,345,464)
<b>Diluted earnings per share</b>		
Profit (loss) from continuing operations	1,459,727	(3,454,464)
Profit (loss) attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	1,459,727	(3,454,464)

	Consolidated	
	Year to 30 September 2011 Number	15 months to 30 September 2010 Number
<b>(d) Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	279,187,426	278,203,542
<b>Adjustments for calculation of diluted earnings per share:</b>		
Shares deemed to be issued for no consideration in respect of share options and convertible preference shares	64,827,794	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	344,015,220	278,203,542

### (e) Information concerning the classification of securities

6,080,000 unlisted share options are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of calculating diluted earnings per share.

## 38 SHARE-BASED PAYMENTS

### (a) Employee Option Plan

The Group has an employee option plan and to date 1,580,000 unlisted options have been granted under this plan. Additionally, the Group has granted listed and unlisted options to certain employees under their contracts of employment.

Options granted on this basis carry no dividend or voting rights.

Once vested, the options can be exercised at any time at the discretion of the employee.

The exercise price of unlisted options is based on the weighted average price at which the company's shares are traded on the Australian Securities Exchange during the five trading days immediately before the options are granted.

Set out below are summaries of options granted under contracts of employment and the employee option plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Lapsed during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated entity – 2011								
3 September 2004	12 November 2011	\$0.12	7,300,000	-	-	-	7,300,000	7,300,000
15 September 2004	12 November 2011	\$0.12	166,667	-	-	-	166,667	166,667
15 November 2004	12 November 2011	\$0.12	1,000,000	-	-	-	1,000,000	1,000,000
15 November 2005	12 November 2011	\$0.12	300,000	-	-	-	1,000,000	300,000
15 November 2006	15 November 2010	\$0.40	1,000,000	-	-	(1,000,000)	-	-
21 June 2007	21 June 2011	\$0.55	500,000	-	-	(500,000)	-	-
8 November 2007	31 July 2011	\$0.50	3,000,000	-	-	(2,000,000)	-	-
8 November 2007	31 July 2011	\$0.60	3,000,000	-	-	(3,000,000)	-	-
8 November 2007	31 July 2011	\$0.70	2,000,000	-	-	(2,000,000)	-	-
8 November 2007	31 July 2011	\$0.80	1,000,000	-	-	(1,000,000)	-	-
20 November 2008	2 December 2012	\$0.52	4,500,000	-	-	-	4,500,000	4,500,000
20 November 2008	30 November 2012	\$0.49	1,580,000	-	-	-	1,580,000	1,580,000
<b>Total</b>			<b>25,346,667</b>	<b>-</b>	<b>-</b>	<b>(10,500,000)</b>	<b>14,846,667</b>	<b>14,846,667</b>
Weighted average exercise price			\$0.41	\$-	\$-	\$0.59	\$0.28	\$0.28

## 38 SHARE-BASED PAYMENTS (continued)

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Lapsed during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated entity – 2010								
3 September 2004	12 November 2011	\$0.12	7,400,000	–	(100,000)	–	7,300,000	7,300,000
15 September 2004	12 November 2011	\$0.12	166,667	–	–	–	166,667	166,667
15 November 2004	12 November 2011	\$0.12	1,000,000	–	–	–	1,000,000	1,000,000
16 November 2005	16 November 2009	\$0.32	2,500,000	–	(1,750,000)	(750,000)	–	–
8 March 2006	28 February 2010	\$0.33	2,000,000	–	–	(2,000,000)	–	–
15 November 2006	12 November 2011	\$0.12	300,000	–	–	–	300,000	300,000
15 November 2006	15 November 2010	\$0.40	1,000,000	–	–	–	1,000,000	1,000,000
21 June 2007	21 June 2011	\$0.55	500,000	–	–	–	500,000	500,000
8 November 2007	31 July 2011	\$0.50	3,000,000	–	–	–	3,000,000	3,000,000
8 November 2007	31 July 2011	\$0.60	3,000,000	–	–	–	3,000,000	3,000,000
8 November 2007	31 July 2011	\$0.70	2,000,000	–	–	–	2,000,000	2,000,000
8 November 2007	31 July 2011	\$0.80	1,000,000	–	–	–	1,000,000	–
20 November 2008	2 December 2012	\$0.52	4,500,000	–	–	–	4,500,000	4,500,000
20 November 2008	30 November 2012	\$0.49	1,580,000	–	–	–	1,580,000	1,580,000
<b>Total</b>			<b>29,946,667</b>	<b>–</b>	<b>(1,850,000)</b>	<b>(2,750,000)</b>	<b>25,346,667</b>	<b>24,346,667</b>
Weighted average exercise price			\$0.39	\$–	\$0.31	\$0.33	\$0.41	\$0.38

13,250,000 options expired during the periods covered by the above tables.

The unlisted share options outstanding at the end of the financial year had a weighted average exercise price of \$0.51 (2010: \$0.40) and a weighted average remaining contractual life of 428 days (2010: 503 days). The listed share options outstanding at the end of the financial year had an exercise price of \$0.12 (2010: \$0.12) and a weighted average remaining contractual life of 43 days (2010: 408 days).

## 38 SHARE-BASED PAYMENTS (continued)

### (b) Expenses arising from share-based payment transactions

Total expenses arising from share based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated	
	Year to 30 September 2011 \$	15 months to 30 September 2010 \$
Option expense	24,757	141,529
	24,757	141,529

## 39 PARENT ENTITY FINANCIAL INFORMATION

### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent Entity	
	30 September 2011 \$	30 September 2010 \$
Current assets	23,408,089	15,408,753
Non-current assets	458,611	4,636,787
<b>Total assets</b>	<b>23,866,700</b>	<b>20,518,589</b>
Current liabilities	6,846,672	1,661,893
Non-current liabilities	6,378	5,352
<b>Total liabilities</b>	<b>6,853,050</b>	<b>1,667,245</b>
<b>Shareholders' equity</b>		
Issued capital	30,829,938	30,658,480
Reserves	6,681,085	6,656,328
Accumulated losses	(20,497,373)	(18,936,513)
	17,013,650	18,378,295
<b>Profit or loss for the year</b>	<b>(1,560,860)</b>	<b>(2,287,652)</b>
<b>Total comprehensive income</b>	<b>(1,560,860)</b>	<b>(2,287,652)</b>

---

**(b) Guarantees entered into by the parent entity**

There are cross guarantees given by CO2 Group Limited and all its subsidiaries as described in note 33. No deficiencies of assets exist in any of these companies. The parent company has given no other guarantees.

**(c) Contingent liabilities of the parent entity**

The parent entity did not have any contingent liabilities as at 30 September 2011 or 30 September 2010. For information about guarantees given by the parent entity, please see above.

**(d) Contractual commitments for the acquisition of property, plant or equipment**

As at 30 September 2011, the parent entity had no contractual commitments for the acquisition of property, plant or equipment.

# DIRECTORS' DECLARATION

97

In the directors' opinion:

- (a) the financial statements and notes set out on pages 19 to 69 are:
  - (i) in compliance with the *Corporations Act 2001* and International Financial Reporting Standards as stated in note 1(a) to the financial statements, and
  - (ii) give a true and fair view of the consolidated entity's financial position as at 30 September 2011 and of its performance for the 12 months ended on that date, and
- (b) the financial statements and notes set out on pages 19 to 69 are also in accordance with the international financial reporting standards issued by the International Accounting Standards Board
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and
- (d) at the date of this declaration, the company is within the class of companies affected by the ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.
- (e) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 33 will be able to meet any obligations or liabilities to which they are, or may become, subject to virtue of the deed of cross guarantee in note 33.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.



**Andrew Grant**  
Director  
Melbourne  
25 November 2011

The shareholder information set out below was applicable as at 16 November 2011.

## A. DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

Holding	Ordinary shares
1 - 1,000	193
1,001 - 5,000	679
5,001 - 10,000	385
10,001 - 100,000	821
100,001 and over	250
	<b>2,328</b>

There were 599 holders of less than a marketable parcel of ordinary shares.

## B. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Rank	Name	Ordinary shares	
		Number held	Percentage of issued shares
1	Gabor Holdings Pty Ltd (Tricorp A/C)	104,575,625	24.35
2	Avatar Industries Pty Ltd	89,960,018	20.95
3	Crestpark Investments Pty Ltd	23,276,545	5.42
4	Ms Susan Elizabeth Wallwork	14,545,188	3.39
5	Gabor Holding Pty Ltd	10,904,046	2.54
6	Favcor Pty Limited (Favretto Family A/C)	10,215,624	2.38
7	Pinnacle Superannuation Pty Ltd (PJF S?F A/C)	9,909,386	2.31
8	City Lane Pty Ltd (The Whitcombe Family A/C)	9,674,557	2.25
9	Penson Australia Nominees Pty Ltd (Argonaut Account)	6,810,003	1.59
10	Lopez Enterprises Pty Ltd (The McAuliffe Super Fund A/C)	3,981,000	0.93
11	MRC Services Pty Ltd (Cooper Family A/C)	3,557,693	0.83
12	Mr Andrew William Thorold Grant	3,554,410	0.83
13	Mrs Gail Evelyn Robertson & Mrs Tricia Maree Salter (GKT Super Funds A/C)	3,239,998	0.75
14	Mr Geoffrey Norman Barnesby-Johnson & Ms Catherine Jane Halvorsen	3,000,000	0.70
15	Mr Harry Carter & Mrs Judith Carter (Carter Family Super Fund A/C)	2,725,625	0.63
16	Mr Michael Thomas Cullen (Cullen Family A/C)	2,700,000	0.63
17	Nareenen Pty Limited (The Leijer Family A/C)	2,425,626	0.56
18	Narrow Lane Pty Ltd (Super Fund A/C)	2,080,000	0.48
19	Mrs Susan Kay Trahar	1,959,121	0.46
20	Leisure Homes Pty Ltd (Leisure Homes Staff S/F)	1,756,600	0.41
	<b>Total Top 20 Holders of Ordinary Fully Paid Shares</b>	<b>310,851,065</b>	<b>72.38</b>
	<b>Total Remaining Holders Balance</b>	<b>118,600,254</b>	<b>27.62</b>

---

## C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

Ordinary shares		
Gabor Holdings Pty Ltd (and associates)	206,791,564	48.15%
Crestpark Investments Pty Ltd	23,276,545	6.54%

## Independent Auditor's Report to the members of CO2 Group Limited

### Report on the Financial Report

We have audited the accompanying financial report of CO2 Group Limited, which comprises the statement of financial position as at 30 September 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 45 to 97.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of CO2 Group, would be in the same terms if given to the directors as at the time of this auditor's report.

### *Opinion*

In our opinion, the financial report of CO2 Group Limited is in accordance with the *Corporations Act 2001*, including:

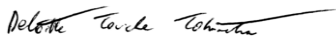
- (a) giving a true and fair view of the consolidated entity's financial position as at 30 September 2011 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 26 to 35 of the directors' report for the year ended 30 September 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion the Remuneration Report of CO2 Group Limited for the year ended 30 September 2011, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Ian Sanders  
Partner  
Chartered Accountants  
Melbourne, 25 November 2011

# 102 CORPORATE DIRECTORY

---

## **Directors**

Ian Norman Trahar

B.Ec, MBA

Chairman

Andrew William Thorold Grant

BSc (Hons), Grad Dip Bus Mg, MAICD

Chief Executive Officer

Harley Ronald Whitcombe

B.Bus, CPA

Executive Director

Dr Malcolm Brian Hemmerling

PhD, BSc (Hons), Dip T (Sec), FAICD

Non-executive Director

Dr Christopher David Mitchell

PhD, BSc (Hons), GAICD

Executive Director

Paul John Favretto LL.B.

Non-executive Director

## **Secretary**

Harley Ronald Whitcombe

B.Bus, CPA

## **Principal registered office in Australia**

Level 11, 225 St Georges Terrace

Perth, Western Australia 6000

Telephone: (08) 9321 4111

Facsimile: (08) 9321 4411

## **Share registry**

Computershare Investor Services Pty Limited

GPO Box D 182

Perth, Western Australia 6000

Telephone: (08) 9323 2000

Facsimile: (08) 9323 2033

## **Auditor**

Deloitte Touche Tohmatsu

Chartered Accountants

550 Bourke Street

Melbourne, Victoria 3000

## **Bankers**

Australia and New Zealand Banking Group Limited

77 St Georges Terrace

Perth, Western Australia 6000

## **Stock exchange listings**

CO2 Group Limited shares are listed on the Australian Securities Exchange.

Home Exchange – Perth.

ASX Code – COZ

## **Website address**

[www.co2australia.com.au](http://www.co2australia.com.au)



*Integrated belt planting at 'Pinevale',  
Matong NSW planted in 2008 for  
Qantas Airways*



**Recycled**

Supporting responsible use  
of forest resources

www.fsc.org Cert no. SCS-COC-001045  
© 1996 Forest Stewardship Council



Printed on paper that is made carbon neutral  
with FSC certified 100% recycled pulp.

