



Our Ref: CO2 ASX Announce 2012 Full Year Report (373)

7 December 2012

ANNOUNCEMENT 373

Market Announcements Office
Australian Securities Exchange
Level 6
20 Bridge Street
SYDNEY NSW 2000

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Dear Sir,

Enclosed is CO2 Group Limited's Final Report for the Full Year 30 September 2012.

As previously advised to the market, 2012 saw the Company achieve its best trading result with reported earnings before interest and tax (EBIT) of \$7.05 million – up from \$2.2 million in 2011 – and net profit of \$4.9 million, up from \$1.5 million in 2011.

Yours sincerely,
CO2 Group Limited

A handwritten signature in black ink, appearing to read 'Harley Whitcombe'.

Harley Whitcombe
Company Secretary

CO2 Group Limited

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CO2 Group Limited is a corporate authorised representative ("CAR") (Number 420079) of Valuestream Investment Management Limited (ACN 094 107 034 AFSL 246621). The Group's licence numbers are: CO2 Group Limited (CAR # 420079); Carbon Banc Limited (CAR # 420080); CO2 Australia Limited (CAR # 420081).

CREATING A BETTER CLIMATE

CO2 GROUP LIMITED - ANNUAL REPORT 2012



CO₂

Creating a better climate

A red ladder leans against a clear blue sky over a vast, flat, orange-brown desert landscape. The ladder is positioned on the left side of the frame, extending from the bottom left towards the top left. The sky is a uniform light blue, and the ground is a flat, textured expanse of orange-brown earth with some sparse, small green plants.

OUR HIGHLIGHTS

The strategy of the company has been to focus on our deep knowledge of carbon markets, commercialise our intellectual property and identify opportunities for expansion and organic growth. This has enabled the company to extend its operations into international markets, increase its business offerings and to identify emerging market opportunities.

The results of this diversification and expansion are reflected in our revenue growth and associated record profit.



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PROFIT TRIPLES

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SIGNIFICANT GROWTH
AND STILL DEBT FREE

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CHAIRMAN'S OVERVIEW

The 2012 year evidenced your company's most successful financial performance to date.

Key Highlights:

- Revenues increased by 81 per cent to \$64.3 million
- Earnings before interest, tax and depreciation increased by 180 per cent to \$7.55 million
- Net profit after tax increased from \$1.46 million in 2011 to \$4.92 million
- Zero debt
- Cash reserves increased by 56 per cent to \$28.0 million
- Return on shareholders funds increased from 8.0 per cent in 2011 to 11.0 per cent in 2012.

Importantly this financial performance witnessed strong contributions over the company's four core activities being:

- Project Development
- Carbon Trading
- Environmental Services
- Management Fee Income.

Shareholders are referred to the segment accounting disclosures contained in this report.

The regulatory environment remained challenging for most of the year as perceived political uncertainty created business uncertainty in acting upon carbon obligations.

The market conditions for your company's business model and activities remain positive and we anticipate greater transaction volumes in the ensuing year.

Finally, on behalf of the company's shareholders, I would like to thank our Executives and Operations team for strong financial performance.



Ian Trahar
Chairman
CO2 Group Limited

RESULTS AT A GLANCE: A RECORD YEAR

	2012	2011	% Change
Total Sales Revenue	\$64.3m	\$35.4m	81%
EBITDA	\$7.55m	\$2.7m	180%
Net Profit after Tax	\$4.9m	\$1.5m	237%
Cash Reserves	\$28m	\$17.9m	56%
Earnings per Share (cents)	1.19	0.52	129%

CEO MESSAGE: A MATURE, DIVERSIFIED & SUCCESSFUL BUSINESS

CO2 Group is pleased to report to its investors a strong financial result for the 2011/2012 financial year delivering a record profit of \$7.05 million (earnings before interest and tax).

Highlights of the year include:

- Significant growth in our environmental markets trading business
- Securing a direct investment project in New Zealand
- The establishment of CO2 Asia and the commercialisation of a strong portfolio of Clean Development Mechanism Projects
- A landmark study for the Government of Tasmania assessing the carbon value of the forests of Tasmania
- Record growth in area established and under management in our Australian Carbon Forest estate
- The adoption by the Australian Government of Legislation to price carbon emissions in the Australian Economy and
- Securing a \$4 million grant from the Federal Government for biodiversity plantings across our estate.

The strategy of the company over the past two years has been to focus on our deep knowledge of carbon markets, commercialising our intellectual property and identifying opportunities for expansion and organic growth. This has enabled the company to extend its operations into international markets, increase its business offerings and to identify emerging market opportunities. The results of this diversification and expansion are reflected in our revenue growth and associated record profit.

CO2 Group has developed a highly professional, collaborative and flexible workforce displaying technical excellence, creativity and ingenuity.

In addition, the company has continued to drive efficiencies in the service delivery model reducing costs whilst meeting the contractual obligations of our clients. This includes procuring quality seedlings, selecting appropriate properties, establishing our plantings to very high standards and ongoing day to day management of the Forestry Estate.

The past twelve months reflects outstanding operational performance delivering a record year for hectares planted, which was achieved ahead of time and under budget.

With the advent of carbon pricing, the company has been engaged by liable parties to provide technical and commercial advice. A major work program that remains ongoing involves the transition of our clients' existing projects into the Carbon Farming Initiative. All of our clients have sought this transition and we look forward to completing this complex technical program.

New capital investment in Carbon Forests by existing and potential clients is challenging in a period of political uncertainty. Deal flow is expected to improve once the Carbon Pricing Legislation is viewed by the market as long-term, or the detail on the Federal Opposition's Policy regarding direct action is revealed. As such we anticipate that the 2012/2013 year will be a period of stabilisation for CO2 Group. Nevertheless, the company remains committed to the carbon forestry business and we are confident that it will be a substantial contribution to the carbon economy.



Andrew Grant
Chief Executive Officer
CO2 Group Limited





'Belmore', Merriwagga, NSW

THE CARBON MARKET: AN EVOLVING LANDSCAPE

International Developments

As prefaced in our previous reports, individual nations and trading blocs continue to develop a variety of responses to climate change. Over time these responses create dynamics in different parts of the market – the global carbon market is now being built from the ground up rather than the top down.

Reviewing international developments, Australia's Climate Commission produced a report summarising international action on Climate Change. This review showed that the move to regulate greenhouse gas continues to become more widespread, and emissions trading and carbon pricing feature in many national responses to the abatement challenge. Alongside emissions trading are renewable energy targets, electricity pricing policies and fuel efficiency standards. Australia's largest trading partner, China, has started to implement emissions trading; China will pilot different forms of emissions trading across seven cities and provinces. Most advanced in its preparation, Guangdong province, with a population of more than 100 million people, will cover 42 per cent of emissions which have been capped at 660 million tonnes. The market will be the world's fifth largest after Europe, California, South Korea and Australia. Beyond Guangdong, emissions trading is planned for the provinces of Hubei and the city and province of Beijing, as well as Chongqing, Shanghai, Shenzhen and Tianjin, with linkages between them developing from 2016.

Towards the end of the reporting year the Australian Government announced that Australia's carbon pricing scheme would link to the European Union's Emissions Trading Scheme, the world's largest carbon market. For CO2 Group, the steady internationalisation of carbon as a commodity will continue to bring attractive growth opportunities. Concurrent with these carbon market developments during 2011, we were confronted with the challenge of over-supply, resulting in low prices. From an Australian perspective, the low Certified Emission Reductions (CER) and European Union Allowances (EUA) spot prices are the result of several factors:

- continued low economic growth in Europe, leading to fewer emissions than forecast and hence less demand
- the structure of the EU carbon market - generous National Allocation Plans and national governments wishing to raise revenue are exacerbating over-supply of government issued allowances
- a rush towards issuance within the Clean Development Mechanism, a response to Europe limiting the use of CERs from new projects to Less Developed Countries after 2012
- the high Australian dollar.

With the EU seeking ways to curtail supply, parts of China starting to develop emissions trading schemes and Korea introducing emissions trading in 2015, it is likely that the current dynamics of the carbon market will not be locked in place for the foreseeable future. The volatility in exchange rates also continues to affect the carbon market. But domestic carbon forest sinks continue to offer a stability hedge in carbon prices.

Closer to Australia, the New Zealand Emissions Trading Scheme has moved to closely reflect the international CER price. This pricing outcome is a direct result of government policies, which allow liable parties to meet 100 per cent of their obligations from imported permits. The net effect of the current scheme is that the New Zealand Government has effectively achieved its greenhouse gas abatement through non-domestic action.

Australia

The Australian Parliament passed legislation to price carbon emissions in the Australian economy. The cost will be borne by large industrial emitters of greenhouse gases. Although generally referred to as 'the carbon tax' the strategic design of the carbon pricing mechanism is in fact very close to an Emissions Trading Scheme with an introductory fixed carbon permit price period.

Australia's carbon price legislation has been in development for several years, and a key milestone was the announcement of a mechanism and timetable that would allow Australia's emissions trading scheme to link to the European Union Emissions Trading Scheme. This development increases the potential size of the market for CO2 Group's products and services, and is likely to encourage the Market to view carbon pricing legislation as a long-term commercial reality.

Linkages between markets will change carbon price dynamics; while much attention has been paid to current spot prices, the renewed action around climate change internationally is likely to have an important effect on prices in the medium term.

Although there is much commentary on carbon policy and much willingness in the Market to offer predictions, CO2 Group remains committed to the carbon forestry business, and our strong, diverse portfolio of international operations that will enable us to operate successfully across a wide range of eventualities.



'Shanklin', Trundle, NSW

OUR PLAN IN ACTION: A RECORD PLANTING YEAR

The 2012 reporting period was a record planting year; CO2 Group planted over 4,500 hectares of carbon forest sinks across New South Wales and Western Australia and completed projects for a number of clients, including organisations that are not liable under the carbon price legislation.

The past twelve months reflects outstanding operational performance delivering a record year for hectares planted, achieved ahead of time and under budget. The Group has continued to drive efficiencies in the service delivery model through procuring quality seedlings, selecting appropriate properties, establishing our plantings to very high standards and ongoing day to day management of the Forestry Estate.

CO2 Group's land sourcing, acquisition capability, and market intelligence continue to develop as the business expands. In 2012 we built on our sound business relationships with the rural network including rural real estate agents, advisors, farming community partners, the legal profession and catchment management authorities, and saw a dramatic increase in interest in our integrated land acquisition program with farmers and graziers. Since the introduction of the CFI legislation in late 2011, the number of farming community members looking to participate in the CFI has increased by 600 per cent, bringing a steady supply of land for future carbon sink projects.

In 2012 we formed new partnerships and continued to develop the solid relationships with our existing landholders, particularly as we transition the early plantings into the new Carbon Farming Initiative (CFI). Our integrated farming systems plantings estate grew with significant communication about the CFI with our farming partners. Land purchased in 2011 gave us a head start for the 2012 planting year, and all necessary land was secured by early 2012. An additional 730 hectares of plantable land was purchased, and a further 750 hectares is under option for a potential 2013 planting program.

The sites acquired for the 2012 program were concentrated in New South Wales and Western Australia, with a successful expansion into several new districts. Weather conditions remained favourable across the country for site preparations and planting during the year. Seed production from the Group's orchards continues to increase, with further seed orchard developments successfully established in New South Wales.

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 In 2012 we built on our sound business relationships with the rural network ... and saw a dramatic increase in interest in our integrated land acquisition program



'Shanklin', Trundle, NSW

A DIVERSIFIED BUSINESS MODEL

Carbon Banc™

Carbon Banc, CO2 Group's Environmental Trading Division, has continued on its exciting growth path in revenue and customer numbers, cementing the business as a major contributor to the revenue base and future diversification of the Group.



In the year to September 2012, revenue increased 223 per cent to \$35 million and has been driven by a continuing trend among market participants and large corporate liable entities to outsource procurement and environmental credit management functions. The positive results were achieved in a climate of uncertainty around the stability of both state and federal government renewable energy policies.

Carbon Banc has continued to expand its client base, especially in the Small-scale Renewable Energy Scheme where existing clients have generated many new leads and channels resulting in new trading partners. Customer loyalty remains high with the total number of customers exceeding 130 and retention rates at 90 per cent.

With the Australian Carbon market now established, Carbon Banc is perfectly placed to assist existing and new customers as a truly outsourced procurement function, combining transactional and advisory services in local and international carbon markets.

Australian Financial Services Licence

In April 2012, CO2 Group gained access to an Australian Financial Services Licence. By becoming a corporate authorised representative of Valuestream Investment Management (AFSL No 246621) CO2 Group is able to deal in a range of derivatives across the carbon trading markets.

Under the legislative package passed by the Australian Parliament in 2011, emissions units (carbon credits) are now classed as financial products. From 1 July 2012, trading in derivatives of carbon credits or provision of financial advice on investment in carbon projects requires an Australian Financial Services Licence.

Being an AFSL licence holder enhances CO2 Group's capacity to provide quality carbon management services to clients and enables CO2 Australia Ltd and Carbon Banc Ltd, wholly-owned subsidiaries of CO2 Group, to provide investment advice and carbon trading services to companies seeking to reduce costs.

Yonderr

In July 2011 CO2 Group launched Yonderr, a unique website that gives individuals and businesses a simple way to voluntarily offset carbon emissions.



Yonderr gives people who care about climate change a way to reduce their carbon footprint in three simple clicks without riffling through power bills or calculating kitchen waste. Our customers simply select the amount of carbon they want to offset, or select a business offset package that reflects the size of the business. Yonderr is designed to make it as easy as possible for individuals and businesses to make a positive contribution.

Revenue from Yonderr supports various carbon offset projects, including planting native forests in Australia, supporting wind farms in India and providing funding for landfill gas plants in the USA. All Yonderr projects are fully accredited under the Verified Carbon Standard or NSW Greenhouse Gas Reduction Scheme.

During the year, Yonderr was featured on Channel 10's The Project as well as Melbourne's Herald Sun following the offsetting of several flights of guests to a wedding in Melbourne.

CO2 New Zealand

CO2 New Zealand successfully designed an integrated farm forestry plan for the Te Runanga o Ngati Awa farm in the Bay of Plenty region. The innovative plan combines traditional farming operations with commercial softwood forestry, highly valued indigenous plantings and eucalypt carbon sequestration plantations. This project has involved regional and local authorities and looks to mitigate the environmental impacts of flooding, silting and waterway pollution for the adjoining urban areas.



We secured new carbon credit management contracts through the year, and took advantage of opportunities to transact carbon credits in the market. This was positive for the business and gave our clients a means of direct access to market prices.

The New Zealand Government's approach to carbon afforestation as a means of meeting its published 2020 emissions reduction is at odds with its own action, being the 100 per cent allowance of Kyoto units by compliance parties. CO2 New Zealand projects focus on a medium to long-term outcome, but the impact of short-term prices on long-term projects has been disappointing. Almost unrestricted import of international units into New Zealand has weakened the New Zealand Emissions Trading Scheme (NZ-ETS), but CO2 New Zealand continues to achieve outstanding results for its customers 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. We look forward to securing further carbon related contracts in the coming year.

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 take place through 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 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 has announced a significant planting project with a group of Maori landowners – the Central North Island Iwi Collective, formed to settle claims to forest lands in New Zealand. CO2 New Zealand is helping the Iwi to secure its allocation of pre-1990 New Zealand Units for its combined Treaty Settlement forested lands with forest mapping, carbon accounting and carbon project registration.

CO2 Asia

In August 2012, CO2 Group announced its international expansion plans with the establishment of CO2 Asia, a joint venture agreement with a Singapore-based carbon and renewable energy specialist, Asia Energy Development Partners (AEDP).



To date CO2 Asia has secured a number of major contracts that will generate approximately 15 million Certified Emission Reduction Units (CERs) over a 21 year period, currently valued at more than A\$50 million. The company also has a strong pipeline of future prospects.

The establishment of CO2 Asia provides CO2 Australia with access to new and emerging markets in Europe and South East Asia. Most importantly, it will help CO2 Australia to support our clients in meeting their compliance needs in Australia and New Zealand.

Western Australian Resources Limited

In September 2012 CO2 Group was successful in its takeover of Western Australia Resources Limited (WARL), an Australian aquaculture development company. WARL will establish large scale integrated marine protein production operations in Australia, farming prawns and fish predominantly for Asian export markets.



CO2 Group has extensive expertise in the establishment of greenfield agricultural projects. Through its active involvement in the development of the carbon industry in Australia over the past eight years, CO2 Group is adept at navigating the various regulatory and operational requirements in establishing large scale agricultural projects in Australia.

CO2 Australia

Carbon pricing became reality in Australia, and our clients looked to us for technical and commercial advice to help them through the transition period. We retained all of our existing customers and secured significant new business from organisations that are liable under the new and evolving legislation. Clients are uncertain about the future of carbon pricing in a period of political uncertainty, and value our deep knowledge of carbon markets to develop a commercial and compliant solution.



CO2 Australia has continued to develop new and extensive relationships across liable industry groups and investors following the introduction of the Federal Government's Clean Energy Future package and associated Carbon Farming Initiative. A major technical work program is in progress to transition all of our existing clients into the CFI. We have also prepared many investment proposals tailored to individual client needs and drivers, and we see excellent project development opportunities in our portfolio of blue chip organisations.

The final planting season of the Woodside project has been successfully completed, and the CO2 Australia estate under management is now 26,400 hectares across four states.

In September we released the findings of a study commissioned by the Tasmanian Government's Climate Change Office. The purpose of the Tasmanian Forest Carbon Study was to estimate the volume of carbon stored in the State's forest estates, covering more than three million hectares and 95 different forest types. This first of its kind in Australia, the comprehensive carbon study provides a complete carbon accounting system that can be used for complex and large scale carbon accounting for forest systems now and in the future. The study found that current carbon stocks in Tasmania's forests contain around three to four billion tonnes of carbon, six times Australia's average greenhouse gas emissions, and potential future greenhouse gas abatement worth tens of millions of dollars. Development and growth in the carbon markets provides interesting prospects for commercial carbon forest projects in Tasmania.

Tahbilk, Victoria's oldest family owned winery, engaged CO2 Australia to assist in delivering an on-ground carbon accounting and biodiversity assessment for mixed species environmental plantings. Tahbilk is strongly committed to reducing the environmental impact on its extensive landholdings, and after restoring more than 100 hectares across the Goulburn River region, its stakeholders wanted to explore economic carbon sequestration. Following the assessment agricultural activities have ceased in sensitive areas and natural vegetation has been planted for local wildlife. The results are being used to calculate greenhouse offset requirements and design features of future tree plantings.

INPEX has advised it intends to exercise its option to extend the Carbon Sequestration Plantation Services Deed with CO2 Australia for up to an additional 45 years, with both parties extremely pleased with project design and performance.

In August 2012 the Federal Government announced the removal of a floor price in the Australian emissions trading scheme and a link to the European Union Trading System from 1 July 2015. This news has been welcomed by CO2 Australia and established a stronger floating price signal for the Australian market that will create greater investment certainty for our clients liable under the legislation. Meanwhile, Yonderr dealing volumes continue to grow, and provide valuable insight into market trends and individual and organisation buying behaviours in the voluntary carbon market.

All of our brands have registered trade marks.

Research and Development: Our Competitive Advantage

With the introduction of the Carbon Farming Initiative (CFI), CO2 Group has placed a strong emphasis on transitioning its existing carbon forest estate to the CFI in order to create Australian Carbon Credit Units (ACCUs) during the coming 12 months. This transition program has involved reviewing the technical features of the CFI, reviewing the application of the CFI legislation and regulations, reviewing key CFI eligibility requirements, drafting a Carbon Farming Initiative Methodology, preparation and submission of applications around CFI registration and verification processes, and close liaison with key agencies including the Department of Climate Change and Energy Efficiency and the Clean Energy Regulator (CFI Administrator).

As part of the CFI transition program, the company achieved a major milestone during the year, with the Domestic Offsets Integrity Committee (DOIC) formally endorsing CO2 Group's Carbon Farming Initiative Methodology 'Reforestation and Afforestation'. CO2 Group is the first and only private entity to have achieved methodology endorsement, with this significant achievement coming after 18 months of intensive expert review by the DOIC and its advisers. The Reforestation and Afforestation Methodology is also the first endorsed Methodology to reference in-field carbon accounting approaches meaning that, unlike any other endorsed Methodology to date, it can be directly applied across a very wide range of forests and forest management situations throughout Australia.

Endorsement now paves the way for CO2 Group and its large client base to fully participate in the Carbon Farming Initiative and start to generate significant volumes of Australian Carbon Credit Units (ACCUs) from its large carbon forest holdings. ACCUs can be used to manage emissions liabilities under the Australian Carbon Pricing Mechanism (ACPM) and the Reforestation and Afforestation Methodology endorsement is retrospective, meaning that all of the carbon that has been sequestered from 1 July 2010 can be claimed.

With this endorsement in hand, CO2 Group is now actively working on CFI project recognition processes and has been developing applications to the Clean Energy Regulator for registration of projects under the CFI. Preparation for a large field-based carbon measurement program, based on the Reforestation & Afforestation Methodology, is now well advanced and this will be rolled out over much of the carbon estate in the coming months. The outcomes will form the basis for carbon claims under the CFI.

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

Another major milestone achieved during the year has been the establishment of a number of diverse, mixed species plantings with very high biodiversity value. This means that CO2 Group is now in a position to offer a range of forest types to fulfil 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 biodiverse plantings across a range of landscapes.

As part of CO2 Groups advisory services, the landmark Tasmanian Forest Carbon Study was completed on behalf of the Tasmanian government. This study estimated current carbon stocks across all of Tasmania's three million hectares of public and private forests, forecast carbon stocks under a range of alternate forest and land management scenarios, and identified pathways to commercialising carbon abatement. The study has delivered unique intellectual property, including the Forest Carbon Modelling Framework, a powerful carbon accounting tool able to model carbon stocks for complex forest systems at the whole-of-state level.

We will continue to establish genetically improved seed orchards, with seven orchards now established spanning three species and capturing high performing genetic varieties. Seed production from these orchards is progressing 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 group's carbon estate. Having been 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.

Sustainable Business Practices: Leading the Way

CO2 Group is committed to providing multiple sustainable solutions for our customers, and 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 and management standards
- offsetting 100 per cent of the company's direct greenhouse gas emissions.

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

Environmental Excellence: Creating Solutions, Shaping the Future

In addition to the 26,400 hectares of carbon plantings the company has established, CO2 Group protects more than 4,200 hectares of remnant native vegetation. This gives vital refuge to native animals in heavily cleared landscapes and helps 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 2012, CO2 Group established mallee eucalypt plantings in 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.

CO2 Group was successful in securing \$3.8 million of funding through the Commonwealth government's Biodiversity Fund for two biodiversity enhancement projects. The projects are located in the central region of New South Wales and the south coast region of Western Australia.

Both projects will research, map, design and implement targeted biodiversity enhancements across Australia's largest commercial forest carbon sink estate. Delivered across four properties in New South Wales and four properties in Western Australia, all of which are located within Australia's highly fragmented wheat-sheep belt, the projects directly address key objectives of the Biodiversity Fund.

This project will demonstrate the integration of biodiversity outcomes with large-scale commercial carbon plantings, creating a unique partnership between a commercial entity and the government. A partnership of this nature and scale has not been attempted outside the not-for-profit sector.

Western Australia Project

The properties that constitute the Western Australia project lie within the Fitzgerald Biosphere, a region recognised for its high level of endemism but subject to considerable native vegetation fragmentation and other processes threatening to biodiversity conservation. The sites nominated offer tangible steps toward establishment of vital corridors between Lake Magenta Nature Reserve and Fitzgerald National Park and between Sterling Range National Park, Corackerup National Park and Fitzgerald National Park. These links will contribute to the capacity of the reserves to continue to function and facilitate biodiversity conservation in face of uncertain climatic challenges ahead. The project will contribute to Gondwana link's Fitz-Stirling Functional Landscape Plan, the Carnaby's black cockatoo recovery plan and also assist with the conservation of a range of other nationally and regionally

significant conservation targets such as western whipbird, mallee fowl, tammar wallaby, western mouse and black gloved wallaby. Specific flora of conservation significance may contribute to the revegetation and restoration actions.

We aim to improve the core feeding habitat requirements for Carnaby's black cockatoo (*Calyptorhynchus latirostris*) over those parts of the CO2 Australia estate that overlap with the known range of this species. This will complement the Carnaby's black cockatoo recovery plan by inclusion of locally-occurring Carnaby's black cockatoo preferred feed-species into landscape and rehabilitation plans within known habitat areas, and prevention of the clearing of preferred roosting and nesting tree species.

We will protect and repair identified nesting hollows and identified roosting sites, and evaluate other elements such as the introduction of water resources.

New South Wales Project

Two of the four properties adjoin conservation reserves in central New South Wales. These properties will contribute to consolidation of the regional conservation estate as well as enhancing connectivity between some reserves. The reserves that will benefit from the project include Goonoo National Park, Goonoo State Conservation Area, Pillaga State Conservation Area and Pillaga West State Conservation Area. Conservation target species include the black glossy cockatoo, mallee fowl and sugar glider. Specific flora of conservation significance may contribute to the revegetation and restoration actions. The remaining two properties offer an opportunity to consolidate a chain of remnant vegetation stands stretched along a 100 km north-south traverse in an otherwise highly fragmented landscape of the Upper Central West and Plains of New South Wales.

We aim to improve the core feeding habitat requirements for the Glossy Black-Cockatoo (*Calyptorhynchus lathami halmaturinus*) over those parts of the CO2 Australia estate that overlap with the known range of this species. This will complement the Glossy Black Cockatoo Conservancy Guidelines recommending locally-occurring preferred feed tree species being included in landscape and rehabilitation plans within known habitat areas, and prevention of the clearing of preferred roosting and nesting tree species.

We will also protect and repair any identified nesting hollows and roosting sites, and evaluate for example the need to introduce water resources.

THE COMMUNITY

CO2 Group has been committed to strengthening local communities from the beginning. We have developed deep and lasting relationships within the rural community by 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 of 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 individual farms – landholders are paid for the land that is 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 2012 year.

To complement our business partnerships, CO2 Group has also sponsored a range of community-based programs and conferences. These include the Trundle Bush Tucker Festival, a long running community event 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.

We have actively partnered 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 has also been working closely with the Trundle Tree Change project and 'rent a farmhouse'. These projects provided low cost farmhouse accommodation to attract new families to the district, 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 one of three finalists 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 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.

— We 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 2012 year

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 are pleased to note that we recorded a zero rate of lost time incidents for all employees and contractors for the 2012 year.

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
- 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
- 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 2012, CO2 Group engaged with more than 200 individual contract service providers who were directly involved in the establishment of CO2 Group plantings.

CO2 Group is undertaking a comprehensive review of its Health and Safety Management System. This process is at an advanced stage with implementation phase of the reviewed system to commence during the next reporting period.

—
We recorded a zero rate of lost time incidents for all employees and contractors for the 2012 year



DIRECTORS' REPORT

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 2012.

Directors

The following persons were directors of CO2 Group Limited during or since the end of the year ended 30 September 2012:

Ian Norman Trahar

Andrew William Thorold Grant

Harley Ronald Whitcombe

Dr Malcolm Brian Hemmerling

Dr Christopher David Mitchell

Paul John Favretto

Principal activities

CO2 Group is a leading carbon solutions company dedicated to creating a better climate. With a suite of innovative sustainability businesses in Australia, New Zealand and Asia, CO2 Group offers commercially astute low cost solutions to organisations, landholders and individuals with tailored strategies to manage carbon liabilities, assess carbon project feasibility, use carbon credits and manage carbon compliance, data collection and reporting. The Group designs, develops and manages greenhouse abatement projects, establishes carbon forests to secure an ongoing supply of carbon credits, and is forming long-term carbon credit supply agreements and carbon trading solutions.

Review of operations

The Group has reported a profit for the year after taxation of \$4,912,698 (2011: \$1,459,727). Revenue increased by 81 per cent over the previous year resulting from the first full 12 month period of trading in environmental credits.

In accordance with 258F of the Corporations Act 2001, CO2 Group reduced its share capital by \$7,104,625 by cancelling share capital that was lost or not represented by available assets.

For more information on the Group's operations, please refer to the CEO's message earlier in this report.

Matters subsequent to the end of the financial year

There has been no matter or circumstance that has arisen since 30 September 2012 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.



'Mandalay', Condoblin, NSW

INFORMATION ON 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 Pty Ltd, 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

214,673,321 ordinary shares in CO2 Group Limited.

Harley Ronald Whitcombe

B.Bus, CPA. Executive Director.

Experience and expertise

Mr Whitcombe has had many years of 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

12,013,259 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 to government and the private sector, Dr Hemmerling has 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 T Martins, and the head of the Premier's Cabinet Office in South Australia. Dr Hemmerling is currently a non-executive director of the South Australian Housing Trust Board, non-executive director of the South Australian Affordable Housing Board, Chairman of the Playford Alive Steering Committee and General Manager for Playford Council.

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.

Dr Christopher David Mitchell

PhD, BSc (Hons). 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 CSIRO 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

971,525 ordinary shares in CO2 Group Limited.

1,863,050 Performance Rights in the CO2 Group Limited Incentive Plan.

Andrew William Thorold Grant

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

Experience and expertise

Mr Grant has been at the forefront of climate change science and carbon trading for 13 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 Andersen 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 the 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 Parks Victoria and 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

5,121,982 ordinary shares in CO2 Group Limited.

3,726,100 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

None.

Special responsibilities

Chairman of remuneration committee.

Member of audit committee.

Interests in shares and options

20,730,720 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 2012, and the numbers of meetings attended by each director were:

	Full meetings of Directors		Meetings of Committees			
			Audit		Remuneration	
	A	B	A	B	A	B
I Trahar	11	11	2	2	1	1
A Grant	11	11	-	-	-	-
H Whitcombe	11	10	-	-	-	-
C Mitchell	11	10	-	-	-	-
M Hemmerling	11	9	2	2	1	1
P Favretto	11	11	2	2	1	1

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 Directors are pleased to present your company's 2012 remuneration report which sets out remuneration information for CO2 Group Limited's non-executive directors, executive directors and other key management personnel.

Principles used to determine the nature and amount of remuneration

NON-EXECUTIVE DIRECTOR REMUNERATION POLICY

The shareholders of CO2 Group Limited on 24 February 2012 approved, for the purposes of the ASX Listing Rules and CO2 Group's Constitution, an increase in the maximum aggregate directors fees of \$400,000, 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 at the time of appointing the two non-executive directors compared 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 of the consolidated entity. Based on this assessment, it was the board's view that the remuneration packages, including the issue of options to Dr Hemmerling, was 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 in lieu of a higher cash director's fee is consistent with this objective.

To retain a person of the quality and experience of Dr Hemmerling, the board believed that it was appropriate to issue the options.

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

EXECUTIVE REMUNERATION POLICY AND FRAMEWORK

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:

- competitive and reasonable, enabling the company to attract and retain key talent
- aligned to the company's strategic and business objectives and the creation of shareholder value
- performance linkage/alignment of executive compensation
- transparent, and acceptable to shareholders.

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 makes recommendations to the board 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.

The executive remuneration and reward framework has three components:

- base pay and benefits, including superannuation
- short-term performance incentives, and
- long-term incentives through participation in the CO2 Employee Incentive Plan.

The combination of these comprises an executive's total remuneration. The Group intends to conduct a review of the incentive plans during the year ending 30 September 2013 to ensure continued alignment with financial and strategic objectives.

Base pay and benefits

Executives receive their base pay and benefits structured as a total employment cost (TEC) package which may be delivered as a combination of cash and prescribed non financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any executives' contracts.

Short-term incentives

If the Group achieves a pre-determined profit target set by the remuneration committee, a short-term incentive (STI) pool is available to executives and other eligible participants. The target is currently 20 % ROCE, modified to exclude bank balances and deferred income from the average capital employed, and interest income and profit on sale of fixed assets from EBIT. The bonus is calculated as 10% of the EBIT above the ROCE threshold.

Cash incentives (bonuses) are payable on 15 November each year. Using a profit target ensures variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan. The distribution of the STI pool is at the discretion of the Chairman and CEO.

Long-term incentives

Long-term incentives are provided to certain employees via the CO2 Group Limited Employee Incentive Plan which was approved by shareholders at the 2010 annual general meeting.

The CO2 Group Limited Employee Incentive Plan is designed to provide long-term incentives (LTI) for executives to deliver long-term shareholder returns. Under the plan, participants are granted performance rights which only vest if certain performance conditions are met and the employees are still employed by the Group at the end of the vesting period. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

There are three tranches of performance rights each with a different vesting condition. The first tranche is dependent upon the employee still being employed by the Group on 30 September 2012. The second tranche will vest on 1 February 2013 should the audited results for this financial year produce an average ROCE of 25% or greater. The ROCE calculation is modified to exclude bank balances and deferred income from the average capital employed, and interest income and profit on sale of fixed assets from EBIT. The final tranche of performance rights will vest on 1 February 2014 if the average ROCE for the 24 month period to 30 September 2013 is 25 per cent or greater.

VOTING AND COMMENTS MADE AT THE COMPANY'S 2011 ANNUAL GENERAL MEETING

The Group received more than 98 per cent of 'yes' votes on its remuneration report for the 2011 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors, the key management personnel (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)
- Paul Thomas
(Sales Director, CO2 Australia Limited) Appointed 30 January 2012
- Dr James Bulinski
(Director, CO2 Australia Limited)

A Shilkin resigned from the position of Commercial Manager, ceasing to be classified as key management personnel, on 29 August 2011.

Key management personnel and other executives of the Group

Year ending 30 September 2012

	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total \$
	Cash salary and fees \$	Cash bonus* \$	Non monetary benefits \$	Super-annuation \$	Long service leave \$	Performance rights \$	
Non-executive directors							
M Hemmerling	45,878	-	-	8,251	-	-	54,129
P Favretto	10,004	-	-	43,951	-	-	53,955
Sub-total (Non-executive directors)	55,882	-	-	52,202	-	-	108,084
Executive directors							
I Trahar	243,431	-	-	23,529	4,459	-	271,419
H Whitcombe	303,608	46,800	-	27,325	4,450	-	382,183
A Grant	414,952	93,600	26,303	55,956	7,256	521,654	1,119,721
C Mitchell	224,100	46,800	11,011	39,135	4,387	260,827	586,260
Other key management personnel (Group)							
A Soanes	216,394	42,120	-	20,700	4,178	130,413	413,805
J Bulinski	180,000	46,800	7,221	16,200	3,270	130,413	383,904
P Thomas (Appointed 30 January 2012)	153,787	-	-	13,841	2,626	-	170,254
Total key management personnel compensation (Group)	1,792,154	276,120	44,535	248,888	30,626	1,043,307	3,435,630

*STI Bonus paid on 15 November 2012.

Year ending 30 September 2011

	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total \$
	Cash salary and fees \$	Cash bonus* \$	Non monetary benefits \$	Super-annuation \$	Long service leave \$	Options \$	
Non-executive directors							
M Hemmerling	35,000	-	-	3,150	-	-	38,150
P Favretto	-	-	-	35,970	-	-	35,970
Sub total (Non-executive directors)	35,000	-	-	39,120	-	-	74,120
Executive directors							
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
Other key management personnel (Group)							
A Soanes	220,538	5,000	-	20,298	4,178	-	250,014
J Bulinski	164,732	5,000	-	15,276	3,270	-	188,278
A Shilkin (Resigned 29 August 2011)	125,848	5,000	-	11,326	-	-	142,174
Total key management personnel compensation (Group)	1,551,786	66,697	48,262	183,192	27,071	24,757	1,901,765

* These bonuses were granted at the complete discretion of the directors with reference to the achievement of perceived milestones in the development of the Group. They were not paid from the STI pool. 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.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
	2012	2011	2012	2011	2012	2011
Executive directors of CO2 Group Limited						
I Trahar	100%	100%	-%	-%	-%	-%
H Whitcombe	88%	100%	12%	-%	-%	-%
A Grant	45%	100%	8%	-%	47%	-%
C Mitchell	48%	100%	8%	-%	44%	-%
Other key management personnel of the Group						
A Soanes	58%	100%	10%	-%	32%	-%
J Bulinski	54%	100%	12%	-%	12%	-%
P Thomas	100%	-%	-%	-%	-%	-%

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 Remuneration Committee will continue to 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)
- Mr Mitchell was granted 2,794,575 Performance Rights in the CO2 Group Limited Employee Incentive Plan on 30 September 2011
- 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 per cent 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 11 November 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. All 9,000,000 options lapsed unexercised on 31 July 2011
- 5,589,150 Performance Rights in the CO2 Group Limited Employee Incentive Plan, granted 30 September 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 were exercised 11 November 2011
- 1,397,287 Performance Rights in the CO2 Group Limited Employee Incentive Plan, granted 30 September 2011.

P THOMAS

Sales 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
- A performance related bonus of 1 per cent of contract value of establishment fees for new investments in carbon forests providing the gross contribution margin (GCM) is a minimum of 50 per cent
- A variable bonus at the discretion of the Chief Executive Officer if contracts entered into are below the GCM target.

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
- 1,397,287 Performance Rights in the CO2 Group Limited Employee Incentive Plan, granted 30 September 2011.

Share-based compensation

The terms and conditions of performance rights affecting remuneration in the current or a future reporting period are as follows:

Key Management Personnel	Grant date	Expiry date	Exercise price	Value per Right at grant date	Performance achieved	% Vested
A Grant	30 September 2011	30 September 2012	\$ -	\$0.16	Y	100
C Mitchell	30 September 2011	30 September 2012	\$ -	\$0.16	Y	100
A Soanes	30 September 2011	30 September 2012	\$ -	\$0.16	Y	100
J Bulinski	30 September 2011	30 September 2012	\$ -	\$0.16	Y	100
A Grant	30 September 2011	1 February 2013	\$ -	\$0.16	Y	0
C Mitchell	30 September 2011	1 February 2013	\$ -	\$0.16	Y	0
A Soanes	30 September 2011	1 February 2013	\$ -	\$0.16	Y	0
J Bulinski	30 September 2011	1 February 2013	\$ -	\$0.16	Y	0
A Grant	30 September 2011	1 February 2014	\$ -	\$0.16	N	0
C Mitchell	30 September 2011	1 February 2014	\$ -	\$0.16	N	0
A Soanes	30 September 2011	1 February 2014	\$ -	\$0.16	N	0
J Bulinski	30 September 2011	1 February 2014	\$ -	\$0.16	N	0

Rights granted under the plan carry no dividend or voting rights.

There are three tranches of performance rights. The first tranche's performance condition is that the individual is still employed at 30 September 2012, and was achieved by all Key Management Personnel and the shares vested. The second performance condition of 25 per cent ROCE for this financial year has also been achieved, however the Performance Rights do not vest until 1 February 2013. The final tranche is dependent on a ROCE of 25 per cent for the 24 months ending 30 September 2013.

The assessed fair value at grant date of rights 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 rights 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. After taking into account all these factors, the value of the rights at grant date was independently assessed to be the share price on that day, 16 cents.

The performance rights are not classed as options. There were no options over ordinary shares in the company provided to any director or key management personnel of the parent entity or the Group during the year (2011: Nil).

Shares provided on exercise of options

During the financial year, the directors of CO2 Group Limited and other Key Management Personnel exercised 12 cent listed options before their expiry on 12 November 2011 as detailed in the table below.

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	Value at exercise date *
Directors of CO2 Group Limited			
I Trahar	11 November 2011	89,960,018	\$4,498,001**
H Whitcombe	11 November 2011	3,645,157	\$182,258**
A Grant	11 November 2011	3,868,654	\$193,433
P Favretto	11 November 2011	7,624,478	\$381,224**
Other key management personnel of the Group			
A Soanes	11 November 2011	1,000,000	\$50,000

* The value at the exercise date of options that were granted as part of remuneration and were exercised during the year has been determined as the intrinsic value of the options at that date.

** Not employment related

The listed options exercised by Mr. Trahar, Mr. Whitcombe and Mr. Favretto had not been granted as remuneration.

Exercise date	Amount paid per share
11 November 2011	\$0.12

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

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 2012 \$	Year ended 30 September 2011 \$	15 month period ended 30 September 2010 \$	Year ended 30 June 2009 \$	Year ended 30 June 2008 \$
Revenue	64,263,790	35,424,605	27,714,064	14,833,919	12,305,354
Net profit (loss) before tax	7,045,442	2,206,062	(4,701,603)	1,563,573	356,258
Net profit (loss) after tax	4,912,698	1,459,727	(3,345,465)	681,177	1,573,272
	30 September 2012	30 September 2011	30 September 2010	30 June 2009	30 June 2008
Share price at start of year	16c	20c	34c	38c	17c
Share price at end of year	10c	16c	20c	34c	38c
Dividend	-	-	-	-	-
Basic earnings per share	1.19cps	0.52cps	(1.20)cps	0.25cps	0.62cps
Diluted earnings per share	1.12cps	0.42cps	(1.20)cps	0.18cps	0.38cps

Changes in the wealth of the business prior to the 2012 financial year bear 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.

Share options granted to directors and the most highly remunerated officers

No options have been granted during the financial year.

Shares under option

There are no unissued ordinary shares of CO2 Group Limited under option at the date of this report.

The company has on 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).

Shares issued on achievement of performance hurdles

The following ordinary shares of CO2 Group Limited were issued during the year ended 30 September 2012 on the achievement of hurdles set by the CO2 Group Limited Employee Incentive Plan, as detailed earlier in this Remuneration Report. No further shares have been issued since that date.

Date Rights vested	Issue price of shares	Number of shares issued
26 September 2012	\$0.10	4,571,864

Of the 4,571,864 ordinary shares referred to above, 845,762 were issued to employees other than Key Management Personnel.

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 2012 (2011: 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 37.

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. *Corporations Act 2001.*



Andrew William Thorold Grant
Director
Melbourne
6 December 2012

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

6 December 2012

Dear Board Members

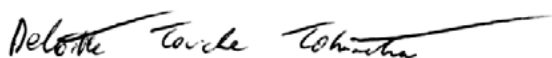
Auditor's Independence Declaration to **CO2 Group Limited**

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 for the financial year ended 30 September 2012, 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 review.

Yours sincerely,



DELOITTE TOUCHE TOHMATSU



Ian Sanders
Partner
Chartered Accountants

CORPORATE GOVERNANCE STATEMENT

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 website the board acknowledges the Principles of Good Corporate Governance and Best Practice Recommendations set by the Australian Stock 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. They comply with the ASX Corporate Governance Principles and 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 40)
 - » progress in relation to the company's diversity objectives and compliance with its diversity policy
- monitoring financial performance including approval of the annual and half-year financial statements 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. 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 per cent of annual turnover of the company or Group or 5 per cent of the individual director's 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 eleven 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 2012, and the number of meetings attended by each director is disclosed on page 26.

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.

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 and 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.

Safeguard integrity in financial reporting

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

1. Dr M Hemmerling (Chairman) - Non-executive director
2. Mr P Favretto - Non-executive director
3. Mr I Trahar - Executive director.

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
- 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 Stock 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 40) 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 statements 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 director's attendance at remuneration committee meetings are set out in the director's report on page 26.

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 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.



'Mandalay', Bogan Gate, Parkes, NSW

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Independent auditor's report to the members

These financial statements are the consolidated financial statements of 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
Lvl 11, 225 St George's Terrace
Perth WA 6000

Registered postal address:

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 6 December 2012.

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

For queries in relation to our reporting please call 08 9321 4111 or email questions@co2australia.com.au.

Consolidated income statement For the year to 30 September 2012

	Notes	Consolidated	
		Year to 30 September 2012	Year to 30 September 2011
		\$	\$
Revenue from continuing operations	5	64,263,790	35,424,605
Other income	6	(358,441)	87,376
Cost of environmental credits sold		(35,135,183)	(10,971,566)
Employee benefits expense		(5,843,919)	(4,226,413)
Depreciation and amortisation expense	7	(502,854)	(517,222)
Other expenses		(1,158,364)	(1,113,688)
Consulting expense		(488,723)	(338,409)
Legal fees		(159,280)	(249,462)
Travel		(652,403)	(666,651)
Insurance		(241,790)	(238,681)
Rent		(836,866)	(766,754)
Research and development	7	(343,688)	(245,886)
Marketing		(522,342)	(294,976)
Aquaculture concept		(261,518)	-
Plantation costs		(10,844,374)	(13,559,197)
Finance costs	7	(4,654)	(4,423)
Share of net profit/(loss) of associates and joint venture partnership accounted for using the equity method	35	136,051	(112,591)
Profit before income tax		7,045,442	2,206,062
Income tax expense	8	(2,132,744)	(746,335)
Profit for the period		4,912,698	1,459,727
Earnings per share:		Cents	Cents
Basic profit per share	38	1.19	0.52
Diluted profit per share	38	1.12	0.42

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 2012

		Consolidated	
		Year to 30 September 2012	Year to 30 September 2011
	Notes	\$	\$
Profit for the year		4,912,698	1,459,727
Other comprehensive income Exchange differences on translation of foreign operations	27	1,347	(47)
Total comprehensive income for the year		4,914,045	1,459,680

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

Consolidated balance sheet

As at 30 September 2012

	Notes	Consolidated	
		30 September 2012	30 September 2011
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	9	27,984,424	17,886,159
Trade and other receivables	10	2,227,971	2,127,322
Inventories	11	5,763,004	6,913,289
Other current assets	12	629,302	1,531,297
Accrued income	13	100,584	606,258
Total current assets		36,705,285	29,064,325
Non-current assets			
Investments accounted for using the equity method	14	198,389	-
Other financial assets-investments	15	9,354	313,593
Property, plant and equipment	16	4,042,529	4,401,526
Deferred tax assets	17	5,825,033	4,286,649
Intangible assets	18	3,840,169	1,599,608
Exploration and evaluation		98,832	-
Total non-current assets		14,014,306	10,601,376
Total assets		50,719,591	39,665,701
LIABILITIES			
Current liabilities			
Trade and other payables	19	2,260,091	5,296,864
Borrowings	20	16,080	8,639
Current tax liabilities	22	869,564	2,276,961
Provisions	21	600,820	541,229
Other current liabilities		-	10,225
Deferred income	23	4,078,492	14,270,346
Total current liabilities		7,825,047	22,404,264
Non-current liabilities			
Borrowings	24	-	16,140
Provisions	25	57,145	117,122
Total non-current liabilities		57,145	133,262
Total liabilities		7,882,192	22,537,526
Net assets		42,837,399	17,128,175
EQUITY			
Issued capital	26	43,785,575	30,829,938
Reserves	27	5,574,102	6,656,039
Accumulated losses		(6,522,278)	(20,357,802)
Total equity		42,837,399	17,128,175

The above consolidated balance sheet should be read in conjunction with the accompanying notes

Consolidated statement of changes in equity For the year ended 30 September 2012

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 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 30 September 2011		30,829,938	(47)	1,670,705	63,278	4,922,103	(20,357,802)	17,128,175
Balance at 1 October 2011		30,829,938	(47)	1,670,705	63,278	4,922,103	(20,357,802)	17,128,175
Profit for the year as reported in the 2012 financial statements		-	-	-	-	-	4,912,698	4,912,698
Exchange differences on translation of foreign operations	27	-	1,347	-	-	-	-	1,347
Total comprehensive income for the year		-	1,347	-	-	-	4,912,698	4,914,045
Contributions of equity	26	17,892,412	-	-	-	-	-	17,892,412
Shares issued on acquisition of subsidiary	26	1,710,664	-	-	-	-	-	1,710,664
Adjustment to financial assets revaluation reserve on acquisition of subsidiary	27	-	-	-	(88,018)	-	-	(88,018)
Capital reduction s258 Corporations Act		(7,104,625)	-	-	-	-	7,104,625	-
Performance rights issued to employees	27	457,186	-	-	-	(457,186)	-	-
Recognition of share-based payments		-	-	-	-	1,280,121	-	1,280,121
Lapsed options in share-based payments reserve		-	-	-	-	(1,818,201)	1,818,201	-
Balance at 30 September 2012		43,785,575	1,300	1,670,705	(24,740)	3,926,837	(6,522,278)	42,837,399

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

Consolidated statement of cash flows

For the year to 30 September 2012

	Notes	Consolidated	
		Year to 30 September 2012	Year to 30 September 2011
		\$	\$
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		58,114,292	38,916,519
Payments to suppliers and employees (inclusive of goods and services tax)		(61,451,599)	(37,141,634)
		(3,337,307)	1,774,885
Interest and finance costs paid		(4,654)	(4,423)
Income taxes paid		(5,020,536)	(1,360,945)
Net cash inflow (outflow) from operating activities	37	(8,362,497)	409,517
Cash flows from investing activities			
Payments for property, plant and equipment	16	(109,083)	(167,142)
Payments for investment in joint venture partnership		(72,563)	(102,367)
Payments for intangible assets		(83,562)	-
Payment of development costs		(624,278)	(323,128)
Loans to employees		-	(150,000)
Proceeds from sale of property, plant and equipment		39,342	14,555
Repayment of loans to employees		-	14,261
Net cash inflow on acquisition of subsidiary	32	276,858	-
Interest received		1,150,333	702,035
Net cash inflow (outflow) from investing activities		577,047	(11,786)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		17,892,412	171,458
Repayment of borrowings		(8,697)	(48,106)
Net cash inflow from financing activities		17,883,715	123,352
Net increase in cash and cash equivalents		10,098,265	521,083
Cash and cash equivalents at the beginning of the year		17,886,159	17,365,076
Cash and cash equivalents at end of year	9	27,984,424	17,886,159

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

NOTES TO THE FINANCIAL STATEMENTS

I 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 general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, and the Corporations Act 2001. CO2 Group Limited is a for profit entity for the purpose of preparing the financial statements.

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

(i) 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 Australian Accounting Standards ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards (IFRS).

(ii) 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.

(iii) 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 2012 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 deconsolidated 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(i)).

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

Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 35.

Joint venture entities

The interest in a joint venture partnership is accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of the partnership is recognised in profit or loss, and the share of post-acquisition movements in reserves is recognised in other comprehensive income. Details relating to the partnership are set out in note 35.

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. 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) 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 functional currency'). The consolidated 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).

(E) 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.

(F) GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets.

(G) 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 stand alone 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.

(H) 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 16). 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 profit or loss on a straight-line basis over the period of the lease.

(I) 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 and the amount of any minority interests in the acquiree over the fair value 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.

(J) 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.

(K) CASH AND CASH EQUIVALENTS

For the purpose of presentation in the consolidated 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 consolidated balance sheet.

(L) 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.

(M) 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.

(N) 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 consolidated balance sheet.

(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 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

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. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

If there is objective evidence of impairment 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 removed from equity and recognised in profit or loss.

(O) 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 forest 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 forest 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(j)).

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

(P) 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) Goodwill

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash

generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments.

(V) 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. Under the CFI the Group will continue to generate revenues from its existing projects, accordingly the NGAC accreditation will continue to be amortised on a unit of production basis.

(Q) 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.

(R) 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 consolidated balance sheet 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.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

(S) 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 each 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.

(T) 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 reporting 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 reporting 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.

(U) 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 consolidated balance sheet.

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.

(v) 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) 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.

(ii) 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 four 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*'.

(iii) AASB 9 *Financial Instruments*, 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 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.

(iv) 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

(v) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011 7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

The Group's investment in the joint venture partnership will be classified as a joint venture under the new rules. As the Group already applies the equity method in accounting for this investment, AASB 11 will not have any impact on the amounts recognised in its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a 'partial disposal' concept. The Group is still assessing the impact of these amendments.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 September 2014.

(vi) AASB 13 *Fair Value Measurement* and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 September 2014.

(vii) AASB 2011-9 *Amendments to Australian Accounting Standards: Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the consolidated balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 October 2012.

(viii) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. *The Corporations Act* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

(ix) AASB 2011-5 *Amendments to Australian Accounting Standards Extending Relief from Consolidation, the Equity Method and*

Proportionate Consolidation and AASB 2011-6 *Amendments to Australian Accounting Standards Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation Reduced Disclosure Requirements* (Effective from 1 July 2011 and 1 July 2013 respectively)

AASB 2011-5 and AASB 2011 6 provide relief from consolidation, the equity method and proportionate consolidation to not for profit entities and entities reporting under the reduced disclosure regime under certain circumstances. They will not affect the financial statements of the Group (or the parent entity). The amendments apply from 1 July 2011 and 1 July 2013 respectively.

(x) AASB 2012 3 *Amendments to Australian Accounting Standard Offsetting Financial Assets and Financial Liabilities* and AASB 2012-2 *Disclosures Offsetting Financial Assets and Financial Liabilities* (effective 1 January 2014 and 1 January 2013 respectively)

In June 2012, the AASB approved amendments to the application guidance in AASB 132 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 January 2013. When they become applicable, the Group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The Group intends to apply the new rules for the first time in the financial year commencing 1 October 2013.

(xi) AASB 2012-5 *Amendments to Australian Accounting Standard arising from Annual Improvements 2009 2011 cycle* (effective for annual periods beginning on or after 1 January 2013)

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The Group will apply the amendments from 1 October 2013. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(W) PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, CO2 Group Limited, disclosed in note 40 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 stand alone 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.

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 2012	30 September 2011
	\$	\$
Financial assets		
Cash and cash equivalents	27,984,424	17,886,159
Trade and other receivables	2,227,971	2,127,322
Other current assets	629,302	1,531,297
Other financial assets-investments	9,354	313,593
	30,851,051	21,858,371
Financial liabilities		
Trade and other payables	2,260,091	5,296,864
Borrowings	16,080	24,779
Other financial liabilities	869,564	2,276,961
	3,145,735	7,598,604

(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 dollars, was as follows:

	30 September 2012	30 September 2011
	\$	\$
Trade receivables	-	27,025
Trade payables	732	-

(ii) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified in Other financial assets investments as available-for-sale investments. The Group is not exposed to commodity price risk.

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

(iii) Cash flow and fair value interest rate risk

Cash deposits at variable rates expose the Group to cash flow interest rate risk. The Group does not have borrowings issued at fixed rates which would expose the Group to fair value interest rate risk.

As at the end of the reporting period, the Group had the following variable rate deposits:

Consolidated	30 September 2012		30 September 2011	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	\$	\$	%	\$
Deposits at call	5.1%	25,992,698	5.2%	14,574,772
Net exposure to cash flow interest rate risk		25,992,698		14,574,772

At 30 September 2012, 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 \$169,055 higher/\$241,507 lower (2011 changes of +70/-100 bps: \$88,197 higher/\$125,996 lower), mainly as a result of higher/lower interest income from cash and cash equivalents.

(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. (see notes 34 and 40 for details).

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	
	2012 \$	2011 \$
Trade receivables		
<i>Counterparties with external credit rating (Moody's)</i>	-	-
<i>Counterparties without external credit rating *</i>		
Group 1	-	-
Group 2	2,172,002	1,991,583
Group 3	-	-
Total trade receivables	2,172,002	1,991,583

* 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.

(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.(note 9)

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 2012	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
	\$	\$	\$	\$	\$	\$	\$

Non-derivatives

Non-interest bearing	1,390,527	869,564	-	-	-	2,260,091	2,260,091
Fixed rate	16,080	-	-	-	-	16,080	16,080
Total non-derivatives	1,406,607	869,564	-	-	-	2,276,171	2,276,171

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
	\$	\$	\$	\$	\$	\$	\$

Non-derivatives

Non-interest bearing	5,296,864	2,276,961	-	-	-	7,573,825	7,573,825
Fixed rate	-	8,639	16,140	-	-	24,779	24,779
Total non-derivatives	5,296,864	2,285,600	16,140	-	-	7,598,604	7,598,604

(D) FAIR VALUE MEASUREMENTS

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 2012.

At 30 September 2012	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives	348,695	-	-	348,695
Trading securities	-	-	-	-
Derivatives used for hedging	-	-	-	-
Available-for-sale financial assets				
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Other	-	-	-	-
Total assets	348,695	-	-	348,695
Liabilities				
Derivatives used for hedging	-	-	-	-
Trading Derivatives	-	-	-	-

At 30 September 2011	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives	1,245,547	-	-	1,245,547
Trading securities	-	-	-	-
Derivatives used for hedging	-	-	-	-
Available-for-sale financial assets				
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Other	-	-	313,593	313,593
Total assets	1,245,547	-	313,593	1,559,140
Liabilities				
Derivatives used for hedging	-	-	-	-
Trading Derivatives	-	-	-	-

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The Level 3 balance at 30 September 2011 relates to the Group's investment in Western Australian Resources Limited, which became a wholly-owned subsidiary during the year to 30 September 2012.

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.

(A) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(p). The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of assumptions. Refer to note 18 for details of these assumptions and the potential impact of changes to the assumptions. As at 30 September 2012 there has been no impairment of goodwill.

(B) CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

(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 2012, the Group has recognised \$50,909 (2011: \$523,220) as accrued income and \$3,605,984 (2011: \$14,265,346) as deferred income as a result of the application of this policy.

(ii) Development costs

Management continually evaluates the commercial and technical feasibility of projects, together with the ability to complete the project and generate revenues. As at 30 September 2012, the Group has capitalised \$1,911,427 as development costs as a result of following this policy.

4 Segment information

(A) DESCRIPTION OF SEGMENTS

Business Segments

The Group operates wholly within two reportable segments.

Carbon Forest Sink Establishment

The establishment of accredited carbon forest 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 carbon forest 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 2012	Carbon sink establishment	Environmental offsets	Other	Consolidated
	\$	\$	\$	\$
Segment revenue				
Sales to external customers	22,501,732	38,072,916	2,425,888	63,000,536
Total sales revenue	22,501,732	38,072,916	2,425,888	63,000,536
Other revenue	-	-	1,263,254	1,263,254
Total segment revenue	22,501,732	38,072,916	3,689,142	64,263,790
Consolidated revenue				64,263,790

Segment profit

Segment profit	10,301,741	2,548,555	1,547,349	14,397,645
Central administration and directors' salaries				(7,352,203)
Profit before income tax				7,045,442
Income tax charge				(2,132,744)
Profit for the year				4,912,698

Segment assets

Segment assets	10,413,178	4,635,090	739,184	15,787,452
Unallocated assets				34,932,139
Total assets	-	-	-	50,719,591

Year to 30 September 2011	Carbon sink establishment	Environmental offsets	Other	Consolidated
	\$	\$	\$	\$
Segment revenue				
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
Other revenue	-	-	837,529	837,529
Total segment revenue	20,900,629	11,803,921	2,807,431	35,511,981
Consolidated revenue				35,511,981

Segment profit

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)
Profit for the year				1,459,727

Segment assets

Segment assets	11,219,019	4,519,814	717,677	16,456,510
Unallocated assets				23,209,191
Total assets				39,665,701

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 carbon forest 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 2012	Year to 30 September 2011
	\$	\$
From continuing operations		
Sales revenue		
Project development fees	22,501,732	20,900,629
Sale of environmental credits	38,072,916	11,803,920
Carbon sink project management fees	2,033,326	1,759,095
Fee for services	392,562	123,431
	63,000,536	34,587,075
Other revenue		
Interest	1,219,228	699,402
Office services	13,415	23,901
Crop share and agistment	30,611	35,180
Rent	-	12,458
Other income	-	66,589
	1,263,254	837,530
	64,263,790	35,424,605

6 Other income

	Consolidated	
	Year to 30 September 2012 \$	Year to 30 September 2011 \$
Net gain on disposal of property, plant and equipment	30,736	5,130
Gain/(loss) on environmental credits FVTPL	(389,177)	82,246
	(358,441)	87,376

7 Expenses

Net gains and expenses. Profit before income tax includes the following specific expenses:

	Consolidated	
	Year to 30 September 2012 \$	Year to 30 September 2011 \$
DEPRECIATION		
Plant and equipment	88,822	78,496
Leasehold improvements	69,596	41,041
Plant and equipment under finance leases	19,037	31,380
Carbon sinks	283,016	332,712
Total depreciation	460,471	483,629
AMORTISATION		
Patents and trademarks	602	801
NGAC	26,220	32,792
Software	15,561	-
Total amortisation	42,383	33,593
Total depreciation and amortisation	502,854	517,222
FINANCE COSTS		
Interest and finance charges	4,654	4,423
Total finance costs expensed	4,654	4,423
RENTAL EXPENSE RELATING TO OPERATING LEASES		
Minimum lease payments	836,866	766,754
Total rental expense relating to operating leases	836,866	766,754
RESEARCH AND DEVELOPMENT COSTS		
Research and development costs paid and expensed	343,688	245,886
Total research and development costs paid and expensed	343,688	245,886
EMPLOYEE BENEFITS EXPENSE		
Equity settled share-based payments	1,280,121	24,757
Superannuation	385,900	323,293
Other employee benefits	4,177,898	3,878,363
Total employee benefits expense	5,843,919	4,226,413

8 Income tax expense

(A) Income tax expense:

	Consolidated	
	Year to 30 September 2012 \$	Year to 30 September 2011 \$
Current Tax	3,744,086	2,753,644
Deferred tax	(1,530,075)	(1,952,732)
Adjustments for current tax of prior periods	(81,267)	(54,577)
	2,132,744	746,335

(B) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated	
	Year to 30 September 2012 \$	Year to 30 September 2011 \$
Profit before income tax expense	7,045,442	2,206,062
Tax at the Australian tax rate of 30% (2011: 30%)	2,113,633	661,819
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	59,385	169,273
Share-based payments	-	7,427
Effect of tax concessions (research and development)	(30,000)	(30,000)
Sundry items	57,486	(7,072)
Difference in overseas tax rates	13,507	(535)
Under provision of income tax in previous year	(81,267)	(54,577)
Total income tax expense	2,132,744	746,335

(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(g). 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.

(D) Franking account

	Consolidated	
	Year to 30 September 2012 \$	Year to 30 September 2011 \$
Franking account balance (tax paid basis)	7,338,967	1,441,462
Impact on franking account balance of dividends not recognised	-	-
	7,338,967	1,441,462

9 Current assets - Cash and cash equivalents

Income tax expense:	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Cash at bank and in hand	1,991,628	3,310,731
Deposits at call	25,992,698	14,574,772
Other cash and cash equivalents	98	656
	27,984,424	17,886,159

(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, \$826,623 is non-interest bearing, and \$1,165,005 is in accounts that earn interest.

(C) CASH NOT AVAILABLE FOR USE

Included in deposits at call is an amount of \$275,487 (2011: \$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 2012 \$	30 September 2011 \$
Trade receivables	2,172,002	1,991,583
Loans to employees	55,969	135,739
	2,227,971	2,127,322

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. Interest on the outstanding loan balance is payable monthly. The loan is unsecured.

(A) PAST DUE BUT NOT IMPAIRED

As of 30 September 2012, trade receivables of \$5,317 (2011: \$35,295) were past due but not impaired.

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
3 to 6 months	5,317	35,295
	5,317	35,295

(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.

II Current assets - Inventories

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Seed - at cost	255,227	164,117
Carbon sinks under development - at cost	5,507,777	6,749,172
	5,763,004	6,913,289

Carbon forest sinks under development relates to costs incurred on plantings for carbon sinks on behalf of customers. Inventories of \$129,000 (2011: \$134,000) are expected to be recovered after more than twelve months.

I2 Current assets - Other current assets

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Prepayments	159,504	242,775
Accrued interest	84,665	11,977
Deposits paid	36,438	30,998
Environmental credits at FVTPL	348,695	1,245,547
	629,302	1,531,297

Environmental credits have been purchased on the spot market. They do not represent carbon credits produced by the Group's carbon sinks. All credits generated from the Group's plantations were sold during the financial year.

13 Current assets – Accrued income

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Accrued income from carbon sink development	50,909	160,378
Accrued income from Kansai plantations	14,667	–
Accrued income from carbon sink management	–	362,842
Accrued income from trading environmental credits	35,008	83,038
	100,584	606,258

14 Non-current assets – Investments accounted for using the equity method

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Interest in joint venture partnership (note 35)	198,389	–
	198,389	–

(A) INTEREST IN JOINT VENTURE PARTNERSHIP

The interest in the CO2 New Zealand Limited Partnership is accounted for in the consolidated financial statements using the equity method of accounting and is carried at cost by the parent entity.

15 Non-current assets – Other financial assets-investments

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Available-for-sale investments	9,354	313,593
	9,354	313,593

16 Non-current assets – Property, plant and equipment

	Freehold land \$	Plant and equipment \$	Leasehold improvements \$	Leased plant & equipment \$	Carbon sinks \$	Total \$
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AT 1 OCTOBER 2010

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)
Net book amount	709,799	159,301	164,264	86,360	3,607,713	4,727,437

YEAR TO 30 SEPTEMBER 2011

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)
Closing net book amount	709,799	197,851	173,319	45,556	3,275,001	4,401,526

AT 30 SEPTEMBER 2011

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)
Net book amount	709,799	197,851	173,319	45,556	3,275,001	4,401,526

16 Non-current assets – Property, plant and equipment (continued)

	Freehold land \$	Plant and equipment \$	Leasehold improve- ments \$	Leased plant & equipment \$	Carbon sinks \$	Total \$
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AT 1 OCTOBER 2011

Opening net book amount	709,799	197,851	173,319	45,556	3,275,001	4,401,526
Additions	-	84,442	25,640	-	-	110,082
Disposals	-	-	-	(8,608)	-	(8,608)
Depreciation charge	-	(88,822)	(69,596)	(19,037)	(283,016)	(460,471)
Closing net book amount	709,799	193,471	129,363	17,911	2,991,985	4,042,529

AT 30 SEPTEMBER 2012

Cost	709,799	666,993	327,896	168,090	4,201,540	6,074,318
Accumulated depreciation	-	(473,522)	(198,533)	(150,177)	(1,209,555)	(2,031,789)
Net book amount	709,799	193,471	129,363	17,911	2,991,985	4,042,529

(A) RECOVERABILITY OF CARBON SINKS

During the period, the Group carried out a review of the recoverable amount of the carbon forest 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.

17 Non-current assets – Deferred tax assets

	Consolidated	
	30 September 2012 \$	30 September 2011 \$

THE BALANCE COMPRISES TEMPORARY DIFFERENCES ATTRIBUTABLE TO:

Tax losses	-	25,425
Provisions	197,390	197,505
Accruals	5,768	14,137
Available-for-sale investment	-	(57,989)
Carbon sinks	5,688,436	4,472,723
Intangible assets	48	48
Depreciable assets	424,351	18,181
Accrued interest	75,702	(1,096)
Research & development	(566,662)	(382,285)
Net deferred tax assets	5,825,033	4,286,649

MOVEMENTS:

Opening balance at 1 October 2010 and 2011	4,286,649	2,571,987
Credited/(charged) to the income statement	1,530,075	1,952,732
Credited/(charged) to equity	57,989	-
Utilisation of tax losses	(32,388)	(183,493)
Under (over) provision of deferred tax in previous year	(17,292)	(54,577)
Closing balance at 30 September	5,825,033	4,286,649

17 Non-current assets – Deferred tax assets (continued)

Movements-Consolidated	Tax losses \$	Provisions \$	Intangibles & research & develop- ment \$	Accruals \$	Carbon sinks & deprecia- ble assets \$	Accrued income & available for sale invest- ments \$	Total \$
At 1 September 2010 (Charged)/credited	263,494	166,033	(317,469)	12,300	2,510,002	(62,373)	2,571,987
- To profit or loss	-	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)	-	-	-	-	-	(54,577)
Utilisation of tax losses	(183,493)	-	-	-	-	-	(183,493)
At 30 September 2011	25,424	197,505	(382,314)	14,137	4,490,982	(59,085)	4,286,649
At 1 October 2011	25,424	197,505	(382,314)	14,137	4,490,982	(59,085)	4,286,649
- To profit or loss	-	(116)	(184,376)	(8,369)	1,621,465	101,471	1,530,075
Under (over) provision of deferred tax in previous year	6,964	-	-	-	418	(24,674)	(17,291)
Utilisation of tax losses	(32,389)	-	-	-	-	-	(32,389)
Directly to equity	-	-	-	-	-	57,989	57,989
At 30 September 2012	-	197,389	(566,690)	5,768	6,112,865	75,701	5,825,033

18 Non-current assets – Intangible assets

	Development costs \$	Patents, trademarks & other rights \$	Other intangible assets \$	NGAC accreditation \$	Total \$
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AT 1 OCTOBER 2010

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)
Net book amount	1,058,199	1,403	-	344,649	1,404,251

YEAR TO 30 SEPTEMBER 2011

Opening net book amount	1,058,199	1,403	-	344,649	1,404,251
Development costs recognised as an asset	323,129	-	-	-	323,129
Impairment charge	(94,178)	-	-	-	(94,178)
Amortisation charge	-	(801)	-	(32,793)	(33,594)
Closing net book amount	1,287,150	602	-	311,856	1,599,608

AT 30 SEPTEMBER 2011

Cost	1,381,328	3,072	790,166	408,380	2,582,946
Valuation	(94,178)	-	-	-	(94,178)
Accumulated amortisation	-	(2,470)	(790,166)	(96,524)	(889,160)
Net book amount	1,287,150	602	-	311,856	1,599,608

18 Non-current assets – Intangible assets (continued)

	Develop- ment costs \$	Goodwill \$	Patents, trademarks and other rights \$	Computer software \$	Other intangible assets \$	NGAC accredita- tion \$	Total \$
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YEAR 30 SEPTEMBER 2012

Opening net book amount	1,287,150	-	602	-	-	311,856	1,599,608
Development costs recognised as an asset	624,277	-	-	-	-	-	624,277
Additions	-	-	-	99,124	-	-	99,124
Acquisition through business combination	-	1,559,543	-	-	-	-	1,559,543
Amortisation charge	-	-	(602)	(15,561)	-	(26,220)	(42,383)
Closing net book amount	1,911,427	1,559,543	-	83,563	-	285,636	3,840,169

AT 30 SEPTEMBER 2012

Cost	2,005,605	1,559,543	3,072	99,124	790,166	408,380	4,865,890
Accumulated amortisation and impairment	(94,178)	-	(3,072)	(15,561)	(790,166)	(122,744)	(1,025,721)
Net book amount	1,911,427	1,559,543	-	83,563	-	285,636	3,840,169

18 Non-current assets – Intangible assets (continued)

(A) IMPAIRMENT TESTS FOR GOODWILL

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to operating segment and country of operation.

Goodwill relates entirely to the acquisition of Western Australian Resources Limited during the year. Management has assessed the future cash flows of this segment and consider that there is no impairment.

19 Current liabilities – Trade and other payables

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Trade payables	1,076,805	1,642,675
Accrued expenses	722,364	2,873,144
PAYG payable	135,387	110,701
Goods and services tax (GST) payable	237,130	670,344
Other payables	88,405	-
	2,260,091	5,296,864

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

20 Current liabilities – Borrowings

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Lease liabilities (note 30)	16,080	8,639
Total secured current borrowings	16,080	8,639
Total current borrowings	16,080	8,639

(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.

21 Current liabilities – Provisions

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Employee benefits	600,820	541,229
	600,820	541,229

22 Current liabilities – Current tax liabilities

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Income tax	869,564	2,276,961
	869,564	2,276,961

23 Current liabilities – Deferred income

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Government grants	185,160	-
Deferred income from carbon sink development	3,102,288	13,972,534
Deferred income on carbon sink management	503,696	292,812
Deferred income from trading environmental credits	287,348	5,000
Other payables	4,078,492	14,270,346

24 Non-current liabilities – Borrowings

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
SECURED		
Lease liabilities (note 30)	-	16,140
Total secured non-current borrowings	-	16,140
Total non-current borrowings	-	16,140

(A) SECURED LIABILITIES AND ASSETS PLEDGED AS SECURITY

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

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Lease liabilities	16,080	24,779
Total secured liabilities	16,080	24,779

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.

The Group has a \$100,000 (2011: \$100,000) facility on its company credit cards and has been required to provide a guarantee facility of \$1 75,487 (2011: \$1 75,487) 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:

24 Non-current liabilities – Borrowings (continued)

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
CURRENT		
Deposits at call	275,487	275,487
Total current assets pledged as security	275,487	275,487
NON-CURRENT		
<i>Finance lease</i>		
Plant and equipment	17,912	45,556
Total non-current assets pledged as security	17,912	45,556
Total assets pledged as security	293,399	321,043

(B) RISK EXPOSURES

Information about the Group's exposure to interest rate and foreign exchange risk is provided in note 2.

25 Non-current liabilities – Provisions

CONSOLIDATED 2012 NON-CURRENT	Employee benefits - long service leave	Total \$
Carrying amount at start of year – 1 October 2011	117,122	117,122
Charged/(credited) to the profit or loss	(59,977)	(59,977)
Carrying amount at end of year – 30 September 2012	57,145	57,145

26 Issued capital

(A) SHARE CAPITAL

	30 Sept 2012 Number of shares	30 Sept 2011 Number of shares	30 Sept 2012 \$	30 Sept 2011 \$
Ordinary shares				
Fully paid	448,278,714	280,347,888	43,785,274	30,829,637
Convertible preference shares	30,150,190	30,150,190	301	301
Total contributed equity	478,428,904	310,498,078	43,785,575	30,829,938

(B) MOVEMENTS IN ORDINARY SHARE CAPITAL:

Date	Details	Number of shares	\$
1 October 2010	Opening balance	278,919,066	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
30 September 2011	Balance	280,347,888	30,829,637
1 October 2011	Opening balance	280,347,888	30,829,637
21 October 2011	Exercise listed options	150,000	18,000
26 October 2011	Exercise listed options	1,529,417	183,530
2 November 2011	Exercise listed options	831,200	99,744
9 November 2011	Exercise listed options	2,170,449	260,454
16 November 2011	Exercise listed options	15,931,263	1,911,752
21 November 2011	Exercise listed options	128,191,102	15,382,932
25 November 2011	Exercise listed options	300,000	36,000
31 December 2011	Section 258F Capital Reduction*	-	(7,104,625)
31 August 2012	Acquisition of WARL	14,208,282	1,704,994
7 September 2012	Acquisition of WARL	46,687	5,602
26 September 2012	Performance rights	4,571,864	457,186
28 September 2012	Acquisition of WARL	562	67
30 September 2012	Closing balance	448,278,714	43,785,274

* In accordance with 258F of the Corporations Act 2001, the Group reduced its share capital by cancelling share capital that was lost or not represented by available assets.

26 Issued capital (continued)

(C) MOVEMENTS IN CONVERTIBLE PREFERENCE SHARE CAPITAL:

Date	Details	Number of shares	\$
30 September 2011 & 30 September 2012	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 39.

27 Reserves

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Share-based payments reserve	3,926,837	4,922,103
Option premium reserve	1,670,705	1,670,705
Foreign currency translation reserve	1,300	(47)
Financial assets revaluation reserve	(24,740)	63,278
	5,574,102	6,656,039

MOVEMENTS: SHARE-BASED PAYMENTS RESERVE

Opening balance	4,922,103	4,897,346
Equity settled share-based payment	1,280,121	24,757
Issue of shares held by the CO2 Employee Share Trust to employees	(457,186)	-
Lapsed options	(1,818,201)	-
Balance 30 September	3,926,837	4,922,103

27 Reserves (continued)

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
MOVEMENTS: FOREIGN CURRENCY TRANSLATION RESERVE		
Opening balance	(47)	-
Currency translation differences arising during the year :	1,347	(47)
Balance 30 September	1,300	(47)
MOVEMENTS: FINANCIAL ASSETS REVALUATION RESERVE		
Opening balance	63,278	63,278
Acquisition of subsidiary	(88,018)	-
Balance 30 September	(24,740)	63,278

(A) NATURE AND PURPOSE OF OTHER 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
- the issue of shares held by the CO2 Employee Share Trust 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 a foreign controlled entity are recognised in other comprehensive income as described in note 1(d) 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

H R Whitcombe

Dr C D Mitchell

A W T Grant (Chief Executive Officer)

(iii) Non-executive directors

Dr M B Hemmerling

P 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 & General Manager Operations	CO2 Australia Limited
Dr J Bulinski	Director & Head of Research & Development	CO2 Australia Limited
P Thomas (appointed 30 January 2012)	Sales Executive	CO2 Australia Limited

(C) KEY MANAGEMENT PERSONNEL COMPENSATION

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Short-term employee benefits	2,112,809	1,666,745
Post-employment benefits	248,888	183,192
Long-term benefits	30,626	27,071
Share-based payments	1,043,307	24,757
	3,435,630	1,901,765

Detailed remuneration disclosures are provided in the remuneration report on pages 27 to 36.

28 Key management personnel disclosures (continued)

(D) EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

(i) Options provided as remuneration

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options can be found in the remuneration report on pages 34 and 27 to 36.

(ii) Performance Rights provided as remuneration and shares issued on vesting of performance rights

Details of performance rights provided as remuneration and shares issued on the exercise of such rights, together with terms and conditions of the rights, can be found in the remuneration report on pages 33 and 27 to 36.

(iii) 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.

2012

Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
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DIRECTORS OF CO2 GROUP LIMITED ORDINARY SHARES

I N Trahar	89,960,018	-	(89,960,018)	-	-	-	-
H R Whitcombe	4,145,157	-	(3,645,157)	(500,000)	-	-	-
A W T Grant	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)	-	-	-	-

OTHER KEY MANAGEMENT PERSONNEL OF THE GROUP

A J Soanes	1,500,000	-	(1,000,000)	-	500,000	500,000	-
J Bulinski	400,000	-	-	-	400,000	400,000	-
P Thomas (appointed 30 January 2012)	-	-	-	-	-	-	-

2011

Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
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DIRECTORS OF CO2 GROUP LIMITED

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	-

OTHER KEY MANAGEMENT PERSONNEL

A J Soanes	1,500,000	-	-	-	1,500,000	1,500,000	-
A Shilkin (resigned 29 August 2011)	429,500	-	-	-	429,500	429,500	-
J Bulinski	1,400,000	-	-	(1,000,000)	400,000	400,000	-

28 Key management personnel disclosures (continued)

(iv) 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.

2012 Name	Balance at 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
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DIRECTORS OF CO2 GROUP LIMITED ORDINARY SHARES

I N Trahar	116,831,546	-	89,960,018	7,881,757	214,673,321
H R Whitcombe	7,742,000	-	3,645,157	626,102	12,013,259
A W T Grant	-	-	3,868,654	1,253,328	5,121,982
M B Hemmerling	575,625	-	-	-	575,625
C D Mitchell	40,000	-	-	931,525	971,525
P J Favretto	12,500,522	-	7,624,478	605,710	20,730,710

OTHER KEY MANAGEMENT PERSONNEL OF THE GROUP

A J Soanes	-	-	1,000,000	465,763	1,465,763
A Shilkin	-	-	-	-	-
J Bulinski	-	-	-	465,763	465,763

2011 Name	Balance at start of the year	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
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DIRECTORS OF CO2 GROUP LIMITED ORDINARY SHARES

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

OTHER KEY MANAGEMENT PERSONNEL OF THE GROUP

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

	Consolidated	
	Year to 30 September 2012 \$	Year to 30 September 2011 \$
(A) AUDIT SERVICES		
Deloitte Touche Tohmatsu Audit and review of financial reports	98,300	59,150
Non audit services Other non audit services (Yonderr Pty Ltd)	12,500	10,000
Total auditors' remuneration	110,800	69,150

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 14 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.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Within one year	783,248	588,607
Later than one year but not later than five years	1,578,063	1,422,651
Later than five years	-	72,308
Commitments not recognised in the financial statements	2,361,311	2,083,566

(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.

30 Commitments (continued)

Commitments in relation to finance leases are payable as follows:	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Within one year	16,212	10,755
Later than one year but not later than five years	-	16,822
Minimum lease payments	16,212	27,577
Future finance charges	(132)	(2,798)
Recognised as a liability	16,080	24,779
Total lease liabilities	16,080	24,779
Representing lease liabilities:		
Current (note 20)	16,080	8,639
Non-current (note 24)	-	16,140
Total	16,080	24,779

The weighted average interest rate implicit in the leases is 9.9% (2011 9.9%).

31 Related party transactions

(A) PARENT ENTITIES

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

(B) PARENT ENTITIES

Interests in subsidiaries are set out in note 33.

(C) KEY MANAGEMENT PERSONNEL

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

32 Business combination

CURRENT PERIOD

On 20 August 2012, the parent entity acquired 100 per cent of the issued share capital of Western Australian Resources Limited (WARL). The Group has owned 11 per cent of WARL since 2006. WARL is developing aquaculture projects to deliver protein to Asia.

The acquired business contributed revenues of \$956 and net loss of \$332,070 to the Group for the period from 21 August 2012 to 30 September 2012. If the acquisition had occurred on 1 October 2011, WARL would have contributed \$74,396 to consolidated revenue and a net loss of \$1,839,039 to consolidated profit for the year ended 30 September 2012.

Details of the purchase consideration, the net assets and liabilities acquired and goodwill are as follows:

32 Business combination (continued)

Purchase consideration	\$
Cash paid	562,429
Fair value of shares issued	1,710,664
Direct costs relating to the acquisition	161,251
Existing 11% holding	167,325
Total purchase consideration	2,601,669
Fair value of net identifiable assets acquired	1,042,126
Goodwill (refer to note 18)	1,559,543

	Consolidated	
	Year to 30 September 2012 \$	Year to 30 September 2011 \$
OUTFLOW OF CASH TO ACQUIRE BUSINESS, NET OF CASH ACQUIRED		
Cash consideration	723,678	-
Cash	1,000,536	-
(Inflow) / Outflow of cash	(276,858)	-

(A) ASSETS AND LIABILITIES ACQUIRED

The assets and liabilities recognised as a result of the acquisition are as follows:

	Acquiree's carrying amount \$	Fair value \$
Cash	1,000,536	1,000,536
Other current assets	51,955	51,955
Other financial assets	9,355	9,355
Plant and equipment	999	999
Prepaid expenses	98,832	98,832
Trade payables	(119,551)	(119,551)
Net identifiable assets acquired	1,042,126	1,042,126
Add: goodwill		1,559,543
Net assets acquired		2,601,669

WARL is in the early stages of feasibility studies for an aquaculture project. The goodwill is attributable to the synergies between WARL and the Group and the perceived high future profitability of the aquaculture project.

The initial accounting for the acquisition of WARL has only been provisionally determined at the end of the reporting period.

33 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	
			2012 %	2011 %
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	100
Carbon Sink Services New Zealand Limited	New Zealand	Ordinary	100	100
Western Australian Resources Limited*	Australia	Ordinary	100	11

* These subsidiaries have been granted relief from the necessity to prepare financial report in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 34.

34 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 except that they do not include CSSNZ.

Set out below is a consolidated income statement for the year ended 30 September 2012 of the Closed Group consisting of CO2 Group Limited, CO2 Australia Limited, Carbon Banc Limited, Carbon Estate Pty Ltd, CO2 New Zealand Limited, Mallee Land Company Pty Ltd, Mallee Carbon Limited and Blue Leafed Mallee Limited, Carbon Sinks Services Pty Ltd, The Oil Mallee Company of Australia Limited, Yonderr Pty Ltd, and Western Australian Resources Limited.

INCOME STATEMENT	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Revenue from continuing operations	64,216,296	35,397,580
Other income	(358,441)	87,376
Cost of environmental credits sold	(35,135,183)	(10,971,566)
Employee benefits expense	(5,843,919)	(4,226,413)
Depreciation and amortisation expense	(502,854)	(517,222)
Other expenses	(1,128,170)	(1,113,468)
Consulting expense	(484,030)	(388,409)
Legal fees	(159,280)	(249,462)
Travel	(607,277)	(666,651)
Insurance	(241,790)	(238,681)
Rent	(836,866)	(766,754)
Research & development	(343,688)	(245,886)
Marketing	(522,342)	(294,976)
Aquaculture concept	(261,518)	-
Plantation costs	(10,844,374)	(13,559,197)
Finance costs	(4,654)	(4,423)
Share of net profit/(loss) of associates and joint venture partnership accounted for using the equity method	136,051	(112,591)
Profit before income tax	7,077,961	2,129,257
Income tax expense	(2,123,638)	(738,847)
Profit for the year	4,954,323	1,390,410

STATEMENT OF COMPREHENSIVE INCOME	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Profit for the year	4,954,323	1,390,410
Total comprehensive income for the year	4,954,323	1,390,410

34 Deed of cross guarantee (continued)

Set out below is a consolidated balance sheet as at 30 September 2012 of the Closed Group consisting of CO2 Group Limited, CO2 Australia Limited, Carbon Banc Limited, Carbon Estate Pty Ltd, CO2 New Zealand Limited, Mallee Land Company Pty Ltd, Mallee Carbon Limited and Blue Leafed Mallee Limited, Carbon Sinks Services Pty Ltd, The Oil Mallee Company of Australia Limited, Yonderr Pty Ltd, and Western Australian Resources Limited.

BALANCE SHEET	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Current assets		
Cash and cash equivalents	27,785,780	17,884,803
Trade and other receivables	2,226,353	2,096,243
Inventories	5,763,004	6,913,289
Other current assets	629,302	1,531,297
Accrued income	100,584	606,258
Total current assets	36,505,023	29,031,890
Non-current assets		
Investments accounted for using the equity method	198,389	-
Other financial assets - investments	9,354	313,593
Property, plant and equipment	4,042,529	4,401,526
Deferred tax assets	5,825,033	4,286,649
Intangible assets	3,840,169	1,599,608
Exploration and evaluation	98,832	-
Total non-current assets	14,014,306	10,601,376
Total assets	50,519,329	39,633,266
Current liabilities		
Trade and other payables	2,057,348	5,291,235
Borrowings	16,080	8,639
Current tax liabilities	869,564	2,269,473
Provisions	600,820	541,229
Other current liabilities	-	10,225
Deferred income	4,078,492	14,270,346
Total current liabilities	7,622,304	22,391,147
Non-current liabilities		
Borrowings	-	16,140
Provisions	57,145	117,122
Total non-current liabilities	57,145	133,262
Total liabilities	7,679,449	22,524,409
Net assets	42,839,880	17,108,857
Equity		
Issued capital	43,785,574	30,829,937
Reserves	5,574,102	6,656,039
Accumulated losses	(6,519,796)	(20,377,119)
Total equity	42,839,880	17,108,857

35 Interests in joint ventures

(A) JOINT VENTURE PARTNERSHIP

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.

During the financial year, the Limited Partnership entered into its first Carbon Sequestration Management Services Agreement with Ngati Awa Group Holdings Limited.

	Consolidated	
	30 September 2012 \$	30 September 2011 \$
Carrying amount of investment in partnership	198,389	(10,225)
SHARE OF PARTNERSHIP'S ASSETS AND LIABILITIES		
Current assets	238,197	8,957
Non-current assets	7,916	1,211
Total assets	246,113	10,168
Current liabilities	47,724	20,393
Net assets	198,389	(10,225)
SHARE OF PARTNERSHIP'S REVENUE, EXPENSES AND RESULTS		
Revenues	1,420,238	1,683,581
Expenses	(1,284,187)	(1,796,172)
Profit (loss) before income tax	136,051	(112,591)

36 Events occurring after the reporting period

There has been no matter or circumstance that has arisen since 30 September 2012 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.

37 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	Year to 30 September 2012 \$	Year to 30 September 2011 \$
Profit for the period	4,912,698	1,459,727
Depreciation and amortisation	502,854	517,223
Net (gain) on sale of non-current assets	(30,736)	(5,130)
Share of losses (profits) of joint venture partnership	(136,051)	112,591
Equity-settled share-based payments	1,280,121	24,757
Interest income received	(1,150,333)	(702,035)
Change in operating assets and liabilities		
(Increase) decrease in trade debtors and receivables	(40,722)	(1,427,037)
Decrease (Increase) in inventories	1,150,285	330,247
(Increase) decrease in other current assets	905,788	(1,332,763)
(Increase) decrease in deferred tax assets	(1,494,346)	(1,714,662)
(Increase) decrease in other operating assets	457,629	15,814
(Decrease) increase in trade creditors	(3,168,091)	(39,657)
(Decrease) increase in other operating liabilities	(10,143,810)	1,965,482
Increase (decrease) in provision for income taxes payable	(1,407,397)	1,100,052
Increase (decrease) in other provisions	(386)	104,908
Net cash inflow (outflow) from operating activities	(8,362,497)	409,517

38 Earnings per share

	Consolidated	
	Year to 30 September 2012 \$	Year to 30 September 2011 \$
(A) BASIC EARNINGS PER SHARE		
From continuing operations	1.19	0.52
Total basic earnings per share attributable to the ordinary owners of the company	1.19	0.52
(B) DILUTED EARNINGS PER SHARE		
From continuing operations	1.12	0.42
Total diluted earnings per share attributable to the ordinary owners of the company	1.12	0.42

38 Earnings per share (continued)

(C) RECONCILIATIONS OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE

	Consolidated	
	Year to 30 September 2012 \$	Year to 30 September 2011 \$
Basic earnings per share		
Profit from continuing operations	4,912,698	1,459,727
Profit attributable to the ordinary owners of the company used in calculating basic earnings per share	4,912,698	1,459,727
Diluted earnings per share		
Profit from continuing operations	4,912,698	1,459,727
Profit attributable to the ordinary owners of the company used in calculating diluted earnings per share	4,912,698	1,459,727

(D) WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

	Consolidated	
	Year to 30 September 2012 Number	Year to 30 September 2011 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	411,917,194	279,187,426
Adjustments for calculation of diluted earnings per share: Shares deemed to be issued for no consideration in respect of performance rights and convertible preference shares	26,230,845	64,827,794
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	438,148,039	344,015,220

(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.

39 Share-based payments

(A) EMPLOYEE INCENTIVE & OPTION PLAN

The establishment of the CO2 Group Limited Employee Incentive Plan and the CO2 Employee Share Trust was approved by shareholders at the 2010 annual general meeting. The Employee Incentive Plan is designed to provide long-term incentives for senior managers and above (including executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted performance rights which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The Group also 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:

CONSOLIDATED 2012

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Lapsed during the year	Balance at end of the year	Vested and exercisable at end of the year
3 September 2004	12 November 2011	\$0.12	7,300,000	-	(7,300,000)	-	-	-
15 September 2004	12 November 2011	\$0.12	166,667	-	(166,667)	-	-	-
15 November 2004	12 November 2011	\$0.12	1,000,000	-	(1,000,000)	-	-	-
15 November 2005	12 November 2011	\$0.12	300,000	-	(300,000)	-	-	-
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
Total			14,846,667	-	(8,766,667)	-	6,080,000	6,080,000
Weighted average exercise price			\$-	\$-	\$0.12	\$-	\$0.51	\$0.51

39 Share-based payments (continued)

CONSOLIDATED 2011

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Lapsed during the year	Balance at end of the year	Vested and exercisable at end of the year
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 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)	-	-
21 June 2007	21 June 2011	\$0.55	500,000	-	-	(500,000)	-	-
8 November 2007	31 July 2011	\$0.50	3,000,000	-	-	(3,000,000)	-	-
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
Total			25,346,667	-	-	(10,500,000)	14,846,667	14,846,667
Weighted average exercise price			\$0.41	\$ -	\$ -	\$0.59	\$0.28	\$0.28

10,500,000 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 (2011: \$0.51) and a weighted average remaining contractual life of 62 days (2011: 428 days). There were no listed share options outstanding at the end of the financial year. (2011: exercise price of \$0.12 and a weighted average remaining contractual life of 43 days).

39 Share-based payments (continued)

Performance Rights

CONSOLIDATED 2012

Grant Date	Expiry date	Balance at start of the year	Granted during the year	Performance hurdle achieved	Forfeited during the year	Balance at end of the year	Vested and exercisable at end of the year
30 September 2011	30 September 2012	4,571,862	-	(4,571,862)	-	-	4,571,862
30 September 2011	1 February 2013	4,571,862	-	-	-	4,571,862	-
30 September 2011	1 February 2014	4,571,862	-	-	-	4,571,862	-
Total		13,715,586	-	(4,571,862)	-	9,143,724	4,571,862

Fair value of performance rights granted

The assessed fair value at grant date of performance rights granted on 30 September 2011 was 16 cents per right, based upon the share price of CO2 Group at the grant date.

(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 2012 \$	Year to 30 September 2011 \$
Option expense	-	24,757
Performance rights	1,280,121	-
	1,280,121	24,757

40 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 2012 \$	30 September 2011 \$
Balance sheet		
Current assets	41,098,248	23,408,089
Non-current assets	2,744,097	458,611
Total assets	43,842,345	23,866,700
Current liabilities	913,242	6,846,672
Non-current liabilities	20,853	6,378
Total liabilities	934,095	6,853,050
Net assets	42,908,250	17,013,650
Shareholders' equity		
Issued capital	43,785,575	30,829,938
Reserves	5,622,542	6,681,085
Accumulated losses	(6,499,867)	(20,497,373)
Total equity	42,908,250	17,013,650
Loss for the year	(2,088,091)	(1,560,890)
Total comprehensive loss	(2,088,091)	(1,560,890)

(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 34. 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 2012 or 30 September 2011. 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 2012, the parent entity had no contractual commitments for the acquisition of property, plant or equipment.

DIRECTORS' DECLARATION

In the directors' opinion:

(A) the financial statements and notes set out on pages 43 to 102 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 2012 and of its performance for the 12 months ended on that date, and

(B) the financial statements and notes set out on pages 43 to 102 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, there are reasonable grounds to believe that the members of the extended closed group identified in note 34 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 34.

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
Chief Executive Officer
CO2 Group Limited

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 31 October 2012.

A DISTRIBUTION OF EQUITY SECURITIES

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

Holding	Ordinary shares
1 - 1,000	213
1,001 - 5,000	641
5,001 - 10,000	366
10,001 - 100,000	778
100,001 - and over	260
	2,258

There were 743 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:

Name	Ordinary shares	
	Number Held	Percentage of issued shares
Gabor Holdings Pty Ltd (The Tricorp A/C)	111,355,125	24.84
Avatar Industries Pty Ltd	89,960,018	20.07
Crestpark Investments Pty Ltd	26,054,323	5.81
Pinnacle Superannuation P/L <PJF S/F A/C>	20,125,010	4.49
Gabor Holdings Pty Ltd	11,668,442	2.60
BNP Paribas Noms Pty Ltd <Muster Cust DRP>	9,819,101	2.19
City Lane Pty Ltd (Whitcombe Family A/C)	9,691,372	2.16
Susan Wallwork	8,000,000	1.78
Pershing Australia Nominees Pty Ltd (Argonaut)	7,001,121	1.56
Susan Wallwork	6,545,188	1.46
CO2 T'ee Employee Share Plan Pty Ltd <CO2 Employee Share Plan>	4,571,864	1.02
MRC Services Pty Ltd (Cooper Family Fund A/C)	3,278,616	0.73
Mrs GE Robertson & Mrs TM Salter <GKT Super Fund>	3,239,998	0.72
Lopez Enterprises Pty Ltd (McAuliffe Super)	3,039,500	0.68
Mr Harry Carter & Mrs Judith Carter	3,000,000	0.67
Victor M Lewis Pty Ltd	2,507,250	0.56
Nareenen Pty Ltd (Leijer Family A/c)	2,425,626	0.54
City Lane Pty Ltd (Whitcombe Super Fund)	2,321,887	0.52
Andrew Williams Thorold Grant	2,232,188	0.50
Narrow Lane Pty Ltd (Super Fund A/c)	2,129,375	0.48
Total top 20 holders of ordinary fully paid shares	326,836,609	72.91
Total remaining holders balance	121,442,105	27.09

C SUBSTANTIAL HOLDERS Substantial holders in the company are set out below:

Ordinary shares	Number Held	Percentage
Gabor Holdings Pty Ltd (The Tricorp A/C)	214,673,321	48.38 %
Crestpark Investments Pty Ltd	29,332,939	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 2012, 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 44 to 103.

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 gives a true and fair view and 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 company'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 company'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.

Liability limited by a scheme approved under Professional Standards Legislation

Member of Deloitte Touche Tohmatsu Limited



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 Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of CO2 Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 September 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 27 to 34 of the directors' report for the year ended 30 September 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

Ian Sanders
Partner
Chartered Accountants
Melbourne, 6 December 2012

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

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Auditor

Deloitte Touche Tohmatsu
Chartered Accountants
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Bankers

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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

CO2 Group Limited is a corporate authorised representative ("CAR") (Number 420079) of Valuestream Investment Management Limited (ACN 094 107 034 AFSL 246621). The Group's license numbers are: CO2 Group Limited (CAR # 420079); Carbon Banc Limited (CAR # 420080); CO2 Australian Limited (CAR # 420081).



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