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

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

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

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

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

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

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

For queries in relation to our reporting please call 08 9321 4111 or e-mail info@co2australia.com.au.

CONSOLIDATED INCOME STATEMENT FOR THE 12 MONTHS TO 30 SEPTEMBER 2011

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

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

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2011

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

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

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

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

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

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

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation of the financial report

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

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

Compliance with IFRS

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

Early adoption of standards

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

Historical cost convention

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

(b) Principles of consolidation

(i) Subsidiaries

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

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

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

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

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

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

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

(ii) Joint ventures

Joint venture entities

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

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

(c) Segment reporting

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

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

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

(d) Revenue recognition

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

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

Revenue is recognised for the major business activities as follows:

(i) Sale of environmental credits

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

(ii) Project revenue

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

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

(iii) Interest income

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

(iv) Dividends

Dividends are recognised as income when the right to receive payment is established.^{1(l)}

(e) Income tax

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

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

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

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

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

(i) Tax consolidation legislation

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

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

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

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

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

(f) Leases

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

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

(g) Business combinations

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

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

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

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

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

(h) Impairment of assets

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

(i) Cash and cash equivalents

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

(j) Trade receivables

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

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

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

(k) Inventories

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

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

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

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

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

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

(ii) Loans and receivables

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

(iii) Available for sale financial assets

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

Recognition and derecognition

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

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

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

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

Subsequent measurement

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

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

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

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

Fair value

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

Impairment

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

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

(m) Property, plant and equipment

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

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

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

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

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

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

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

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

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

(ii) Other intangible assets

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

(iii) Intangible assets acquired in a business combination

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

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

(iv) NGAC Accreditation

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

(o) Trade and other payables

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

(p) Borrowings

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

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

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

(q) Provisions

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

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

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

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

(ii) Other long term employee benefit obligations

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

(iii) Share based payments

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

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

(s) Goods and Services Tax (GST)

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

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

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

(t) New accounting standards and interpretations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(u) Parent entity financial information

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

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

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

(ii) Tax consolidation legislation

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

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

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

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

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

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

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

(iii) Financial guarantees

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

(iv) Foreign currency translation

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

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

2 FINANCIAL RISK MANAGEMENT

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

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

The group holds the following financial instruments:

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

2 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk

(i) Foreign exchange risk

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

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

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

(ii) Price risk

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

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

(iii) Cash flow and fair value interest rate risk

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

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

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

2 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

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

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

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

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

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

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

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

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

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

2 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

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

Maturities of financial liabilities

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

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

2 FINANCIAL RISK MANAGEMENT (continued)

(d) Cash flow and fair value interest rate risk

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

(e) Fair value estimation

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

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

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

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

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

2 FINANCIAL RISK MANAGEMENT (continued)

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

i) Revenue recognition

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

4 SEGMENT INFORMATION

(a) Description of segments

Business Segments

The Group operates wholly within two reportable segments.

Carbon Sink Establishment

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

Environmental offsets (formerly Carbon Offsets)

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

Other

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

(b) Segments

Year to 30 September 2011	Carbon sink establishment \$	Environmental offsets \$	Other \$	Consolidated \$
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
Total segment revenue	20,900,629	11,803,921	1,969,902	34,674,452
Other revenue				837,529
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

4 SEGMENT INFORMATION (continued)

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

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

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

5 REVENUE

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

6 OTHER INCOME

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

7 EXPENSES

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

8 INCOME TAX EXPENSE

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

(c) Tax consolidation legislation

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

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

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

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

8 INCOME TAX EXPENSE (continued)

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

9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

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

(a) Risk exposure

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

(b) Cash at bank and on hand

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

(c) Cash not available for use

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

(d) Deposits at call

Deposits at call are interest bearing.

10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

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

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

(a) Past due but not impaired

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

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

(b) Interest rate risk

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

(c) Fair value and credit risk

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

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

11 CURRENT ASSETS – INVENTORIES

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

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

12 CURRENT ASSETS – OTHER CURRENT ASSETS

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

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

13 CURRENT ASSETS – ACCRUED INCOME

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

14 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS – INVESTMENTS

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Available for sale investments	313,593	313,593
	313,593	313,593

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

15 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Freehold land \$	Plant and equipment \$	Leasehold improvements \$	Leased plant & equipment \$	Carbon sinks \$	Total \$
At 1 July 2009						
Cost	709,799	417,888	252,160	287,370	4,201,540	5,868,757
Accumulated depreciation	–	(208,760)	(39,847)	(131,735)	(184,041)	(564,383)
Net book amount	709,799	209,128	212,313	155,635	4,017,499	5,304,374
15 months to 30 September 2010						
Opening net book amount	709,799	209,128	212,313	155,635	4,017,499	5,304,374
Additions	–	73,670	–	–	–	73,670
Disposals	–	(33,338)	–	–	–	(33,338)
Depreciation charge	–	(90,159)	(48,049)	(69,275)	(409,786)	(617,269)
Closing net book amount	709,799	159,301	164,264	86,360	3,607,713	4,727,437
At 30 September 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

(a) Recoverability of carbon sinks

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

16 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

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

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

17 NON-CURRENT ASSETS – INTANGIBLE ASSETS

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

18 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

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

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

19 CURRENT LIABILITIES – BORROWINGS

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

(a) Security and fair value disclosures

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

(b) Risk exposures

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

20 CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	30 September 2011 \$	30 September 2010 \$
Employee benefits	541,229	473,431
	541,229	473,431

21 CURRENT LIABILITIES – CURRENT TAX LIABILITIES

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

22 CURRENT LIABILITIES – DEFERRED INCOME

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

23 CURRENT LIABILITIES – OTHER CURRENT LIABILITIES

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

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

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

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

24 NON-CURRENT LIABILITIES – BORROWINGS

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

(a) Secured liabilities and assets pledged as security

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

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

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

24 NON-CURRENT LIABILITIES – BORROWINGS (continued)

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

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

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

(b) Risk exposures

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

25 NON-CURRENT LIABILITIES – PROVISIONS

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

26 ISSUED CAPITAL

(a) Share capital

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

(b) Movements in ordinary share capital:

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

26 ISSUED CAPITAL (continued)

(c) Movements in convertible preference share capital:

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

(d) Convertible preference shares

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

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

(e) Options

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

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

(f) Capital risk management

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

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

27 RESERVES

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

(a) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payments reserve is used to recognise:

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

(ii) Option premium

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

(iii) Foreign currency translation reserve

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

(iv) Financial assets revaluation reserve

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

28 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

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

(i) Chairman – Executive

I N Trahar

(ii) Executive Directors

A W T Grant (Chief Executive Officer)

H R Whitcombe

Dr C D Mitchell

(iii) Non-executive Directors

Dr M B Hemmerling

P J Favretto

(b) Other Key Management personnel

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

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

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

(c) Key Management personnel compensation

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

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

28 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(d) Equity instrument disclosures relating to key management personnel

(i) Option holdings

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

2011

Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
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 of the Group							
A J Soanes	1,500,000	-	-	-	1,500,000	1,500,000	-
A Shilkin	429,500	-	-	-	429,500	429,500	-
J Bulinski	1,400,000	-	-	(1,000,000)	400,000	400,000	-

All vested options are exercisable at any time.

2010 (15 months)

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

28 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(ii) Share holdings

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

2011

Name	Balance at the start of the year	Granted during reporting year as compensation	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
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 – Ordinary shares					
A J Soanes	-	-	-	-	-
A Shilkin	-	-	-	-	-
J Bulinski	-	-	-	-	-

2010 (15 months)

Name	Balance at the start of the period	Granted during the period as compensation	Received during the period on the exercise of options	Other changes during the period	Balance at the end of the period
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	75,000	-	750,000	(249,375)	575,625
C D Mitchell	-	-	1,000,000	(960,000)	40,000
P J Favretto	12,500,522	-	-	-	12,500,522
Other Key Management personnel of the Group – Ordinary shares					
A J Soanes	-	-	-	-	-
A Shilkin	-	-	-	-	-
J Bulinski	-	-	-	-	-

e) Loans to Key Management personnel

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

29 REMUNERATION OF AUDITORS

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

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

30 COMMITMENTS

(i) Non-cancellable operating leases

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

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

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

(ii) Finance leases

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

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

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

31 RELATED PARTY TRANSACTIONS

(a) Parent entities

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 32.

(c) Key management personnel

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

32 SUBSIDIARIES

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

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

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

33 DEED OF CROSS GUARANTEE

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

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

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

34 ECONOMIC DEPENDENCY

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

35 EVENTS OCCURRING AFTER THE REPORTING PERIOD

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

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

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

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

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

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

37 EARNINGS PER SHARE

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

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

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

(e) Information concerning the classification of securities

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

38 SHARE-BASED PAYMENTS

(a) Employee Option Plan

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

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

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

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

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

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

38 SHARE-BASED PAYMENTS (continued)

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

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

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

38 SHARE-BASED PAYMENTS (continued)

(b) Expenses arising from share-based payment transactions

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

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

39 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

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

(b) Guarantees entered into by the parent entity

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

(c) Contingent liabilities of the parent entity

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

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

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

DIRECTORS' DECLARATION

97

In the directors' opinion:

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

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



Andrew Grant
Director
Melbourne
25 November 2011

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

A. DISTRIBUTION OF EQUITY SECURITIES

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

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

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

B. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

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

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

C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

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

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

Report on the Financial Report

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

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

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

Opinion

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

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

Report on the Remuneration Report

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

Opinion

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



DELOITTE TOUCHE TOHMATSU



Ian Sanders
Partner
Chartered Accountants
Melbourne, 25 November 2011

102 CORPORATE DIRECTORY

Directors

Ian Norman Trahar

B.Ec, MBA

Chairman

Andrew William Thorold Grant

BSc (Hons), Grad Dip Bus Mg, MAICD

Chief Executive Officer

Harley Ronald Whitcombe

B.Bus, CPA

Executive Director

Dr Malcolm Brian Hemmerling

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

Non-executive Director

Dr Christopher David Mitchell

PhD, BSc (Hons), GAICD

Executive Director

Paul John Favretto LL.B.

Non-executive Director

Secretary

Harley Ronald Whitcombe

B.Bus, CPA

Principal registered office in Australia

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Facsimile: (08) 9323 2033

Auditor

Deloitte Touche Tohmatsu

Chartered Accountants

550 Bourke Street

Melbourne, Victoria 3000

Bankers

Australia and New Zealand Banking Group Limited

77 St Georges Terrace

Perth, Western Australia 6000

Stock exchange listings

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

Home Exchange – Perth.

ASX Code – COZ

Website address

www.co2australia.com.au



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



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