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A photograph of a man, Roger Todd, wearing a brown hat, a blue polo shirt, and khaki shorts. He is smiling and looking towards the right. A black and tan dog, Reggie, is leaning over the side of a red vehicle, looking towards the camera. They are on a dirt road in a rural landscape with sparse trees and hills in the background under a clear blue sky.

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

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

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

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

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

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

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

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

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

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



Ian Trahar
Chairman
CO2 Group Limited