

A DIVERSIFIED BUSINESS MODEL

Carbon Banc™

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

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

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

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



Australian Financial Services Licence

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

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

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

Yonderr

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

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

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

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



CO2 New Zealand

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



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

The New Zealand Government's approach to carbon afforestation as a means of meeting its published 2020 emissions reduction is at odds with its own action, being the 100 per cent allowance of Kyoto units by compliance parties. CO2 New Zealand projects focus on a medium to long-term outcome, but the impact of short-term prices on long-term projects has been disappointing. Almost unrestricted import of international units into New Zealand has weakened the New Zealand Emissions Trading Scheme (NZ-ETS), but CO2 New Zealand continues to achieve outstanding results for its customers through the allocation of New Zealand Units (NZU) for Pre 1990 Forestry. Owners of pre-1990 forest land in New Zealand are subject to deforestation obligations under the NZ-ETS. The decrease in land value for some pre-1990 forest landowners as a result of these rules will be partially offset by a one-off free allocation of NZUs from the government. We look forward to securing further carbon related contracts in the coming year.

CO2 New Zealand is currently involved in the mapping of more than 220,000 hectares, realising close to 5.7 million NZUs for customers. This makes CO2 New Zealand the largest land applicant to the New Zealand Government for Pre-1990 forest allocations on behalf of its customers. Sales of carbon credits from these sources will take place through sales arrangements, mostly between January and March each year.

CO2 New Zealand's portfolio of carbon credits has continued to grow, supporting new carbon sink projects as they are sold to the project investor. Following the government NZ-ETS review released in June, investor-related enquiry in New Zealand has increased markedly. This also follows the commitment of the Australian government to its Clean Energy Bill.

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

CO2 Asia

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



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

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

Western Australian Resources Limited

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



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

CO2 Australia

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



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

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

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

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

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

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

All of our brands have registered trade marks.

Research and Development: Our Competitive Advantage

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

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

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

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

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

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

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

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

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

Sustainable Business Practices: Leading the Way

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

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

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

Environmental Excellence: Creating Solutions, Shaping the Future

In addition to the 26,400 hectares of carbon plantings the company has established, CO2 Group protects more than 4,200 hectares of remnant native vegetation. This gives vital refuge to native animals in heavily cleared landscapes and helps to retain the original biodiversity of the area. Small patches of remnant vegetation represent plant communities that may be difficult to find elsewhere.

Remnant vegetation often exists as fragmented or isolated patches across the landscape. CO2 Group's carbon plantings establish links between these patches, considered by ecologists as being extremely important to improve the value of habitat and food source for native wildlife. In addition to carbon sequestration, CO2 Group's plantings have also been used to reduce the risk of salinity, increase productivity through the reduction of water logging and supporting greater biodiversity on farms.

During 2012, CO2 Group established mallee eucalypt plantings in Western Australia and New South Wales at particular risk of dryland salinity. Introducing deep-rooted perennials such as mallee eucalypts to risk areas assists in mitigating the effects of salinity through increasing ground water use, as well as preventing its damaging rise to the soil surface.

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

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

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

Western Australia Project

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

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

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

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

New South Wales Project

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

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

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

THE COMMUNITY

CO2 Group has been committed to strengthening local communities from the beginning. We have developed deep and lasting relationships within the rural community by regularly communicating with our farming neighbours and related groups in rural Australia. We believe that this is vital to building successful relationships and encourage all of our staff to participate in a range of local community forums.

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

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

By integrating CO2 Group's environmental plantings into existing farming and grazing systems, we continue to maintain our strong social licence to operate and have a positive influence on the long-term sustainability of our partnering landholders and community. An estimated \$23.3 million has been invested in rural economies during the 2012 year.

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

We have actively partnered within the Lachlan Catchment Management Authority and the Parkes and District Landcare Association to highlight the benefits of the carbon planting program and the potential for landholders to participate in the upcoming Carbon Farming Initiative. CO2 Group was a major sponsor of the NSW Landcare and Catchment Management

Forum in Parkes, with staff invited to discuss the Company's operations and lead tours of several carbon plantings within the Parkes Landcare Association district. CO2 Group has also been working closely with the Trundle Tree Change project and 'rent a farmhouse'. These projects provided low cost farmhouse accommodation to attract new families to the district, strengthening the community and saving local schools.

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

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

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

— We have a positive influence on the long-term sustainability of our partnering landholders and community. An estimated \$23.3 million has been invested in rural economies during the 2012 year

HEALTH & SAFETY

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

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

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

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

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

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

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

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'Mandalay', Condoblin, NSW