

CO2 Group Limited ABN 50 009 317 846
Annual report - 30 September 2013

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

CO2 Group Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office is:

CO2 Group Limited
Level 11, 225 St Georges Terrace
Perth, Western Australia 6000

Its principal place of business is:

CO2 Group Limited
349, Moray Street
South Melbourne Victoria 3205

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 directors' report on page 17, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 29th November 2013. The Directors have the power to amend and reissue the financial statements.

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 questions@co2australia.com.au.

CO2 Group Limited
Consolidated income statement
For the year ended 30 September 2013

		Consolidated	
		Year to	
		30	30
		September	September
		2013	2012
Notes		\$	\$
Revenue from continuing operations	5	45,339,991	64,263,790
Other income	6	836,486	(358,441)
Cost of environmental credits sold		(37,275,039)	(35,135,183)
Employee benefits expense		(7,686,991)	(5,843,919)
Depreciation and amortisation expense	7	(750,685)	(502,854)
Other expenses		(1,401,328)	(1,158,364)
Consulting expense		(870,252)	(488,723)
Legal fees		(341,334)	(159,280)
Travel		(1,115,290)	(652,403)
Insurance		(287,783)	(241,790)
Rent		(823,968)	(836,866)
Research and development		(398,349)	(343,688)
Marketing		(267,786)	(522,342)
Aquaculture concept		(2,272,514)	(261,518)
Plantation costs		(3,220,117)	(10,844,374)
Finance costs	7	(1,796)	(4,654)
Share of profit/(loss) from associates	35	(198,389)	136,051
Profit/(loss) before income tax		(10,735,144)	7,045,442
Income tax benefit/(expense)	8	3,955,621	(2,132,744)
Profit/(loss) for the year		(6,779,523)	4,912,698
		Cents	Cents
Earnings/(loss) per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings/(loss) per share	38	(1.50)	1.19
Diluted earnings/(loss) per share	38	(1.50)	1.12

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

CO2 Group Limited
Consolidated statement of comprehensive income
For the year ended 30 September 2013

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
Notes	\$	\$
Profit/(loss) for the year	(6,779,523)	4,912,698
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations 27(a)	<u>7,262</u>	<u>1,347</u>
Other comprehensive income for the year, net of tax	<u>7,262</u>	<u>1,347</u>
Total comprehensive income for the year	<u>(6,772,261)</u>	<u>4,914,045</u>
Total comprehensive income for the year is attributable to:		
Owners of CO2 Group Limited	<u>(6,772,261)</u>	<u>4,914,045</u>
Total comprehensive income for the year attributable to owners of CO2 Group Limited arises from:		
Continuing operations	<u>(6,772,261)</u>	<u>4,914,045</u>

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

CO2 Group Limited
Consolidated balance sheet
As at 30 September 2013

		Consolidated	
	Notes	30 September 2013	30 September 2012
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	9	14,228,258	27,984,424
Trade and other receivables	10	1,616,028	2,227,971
Inventories	11	2,175,282	5,763,004
Other current assets	12	535,106	629,302
Accrued income	13	765,620	100,584
Total current assets		<u>19,320,294</u>	<u>36,705,285</u>
Non-current assets			
Investments accounted for using the equity method	14	-	198,389
Other financial assets	15	9,354	9,354
Property, plant and equipment	16	7,508,111	4,042,529
Deferred tax assets	17	9,570,739	5,825,033
Intangible assets	18	4,959,014	3,840,169
Exploration and evaluation, development and mine properties		98,832	98,832
Total non-current assets		<u>22,146,050</u>	<u>14,014,306</u>
Total assets		<u>41,466,344</u>	<u>50,719,591</u>
LIABILITIES			
Current liabilities			
Trade and other payables	19	3,023,699	2,260,091
Borrowings	20	-	16,080
Current tax liabilities	22	40,367	869,564
Provisions	21	785,637	600,820
Deferred income	23	1,294,597	4,078,492
Total current liabilities		<u>5,144,300</u>	<u>7,825,047</u>
Non-current liabilities			
Provisions	25	74,030	57,145
Total liabilities		<u>5,218,330</u>	<u>7,882,192</u>
Net assets		<u>36,248,014</u>	<u>42,837,399</u>
EQUITY			
Contributed equity	26	44,288,480	43,785,575
Other reserves	27(a)	5,261,335	5,574,102
Retained earnings		(13,301,801)	(6,522,278)
Total equity		<u>36,248,014</u>	<u>42,837,399</u>

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

CO2 Group Limited
Consolidated statement of changes in equity
For the year ended 30 September 2013

Consolidated	Notes	Issued capital \$	Foreign currency translation reserve \$	Options premium reserve \$	Financial assets revaluation reserve \$	Share- based payments reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 October 2011		30,829,938	(47)	1,670,705	63,278	4,922,103	(20,357,802)	17,128,175
Profit for the year as reported in the 2012 financial statements		-	-	-	-	-	4,912,698	4,912,698
Exchange differences on translation of foreign operations		-	1,347	-	-	-	-	1,347
Total comprehensive income for the year		-	1,347	-	-	-	4,912,698	4,914,045
Transactions with owners in their capacity as owners:								
Contributions of equity, net of transaction costs and tax	26	17,892,412	-	-	-	-	-	17,892,412
Shares issued on acquisition of subsidiary		1,710,664	-	-	-	-	-	1,710,664
Adjustment to financial assets revaluation reserve on acquisition of subsidiary		-	-	-	(88,018)	-	-	(88,018)
Capital reduction s258 Corporations Act		(7,104,625)	-	-	-	-	7,104,625	-
Performance rights issued to employees		457,186	-	-	-	(457,186)	-	-
Recognition of share based payments		-	-	-	-	1,280,121	-	1,280,121
Lapsed options in share based payments reserve		-	-	-	-	(1,818,201)	1,818,201	-
		12,955,637	-	-	(88,018)	(995,266)	8,922,826	20,795,179
Balance at 30 September 2012		43,785,575	1,300	1,670,705	(24,740)	3,926,837	(6,522,278)	42,837,399

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

CO2 Group Limited
Consolidated statement of changes in equity
For the year ended 30 September 2013
(continued)

Consolidated	Notes	Issued capital	Foreign currency translation reserve	Options premium reserve	Financial assets revaluation reserve	Share- based payments	Accumulated losses	Total equity
		\$	\$	\$	\$	\$	\$	\$
Balance at 1 October 2012		43,785,575	1,300	1,670,705	(24,740)	3,926,837	(6,522,278)	42,837,399
Profit for the year as reported in the 2013 financial statements		-	-	-	-	-	(6,779,523)	(6,779,523)
Exchange differences on translation of foreign operations		-	7,262	-	-	-	-	7,262
Total comprehensive income for the year		-	7,262	-	-	-	(6,779,523)	(6,772,261)
Transactions with owners in their capacity as owners:								
Performance rights issued to employees		502,905	-	-	-	(502,905)	-	-
Recognition of share-based payments		-	-	-	-	182,876	-	182,876
		502,905	-	-	-	(320,029)	-	182,876
Balance at 30 September 2013		44,288,480	8,562	1,670,705	(24,740)	3,606,808	(13,301,801)	36,248,014

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

CO2 Group Limited
Consolidated statement of cash flows
For the year ended 30 September 2013

		Consolidated	
		Year to	
		30	30
		September	September
		2013	2012
Notes		\$	\$
Cash flows from operating activities			
	Receipts from customers (inclusive of goods and services tax)	46,642,379	58,114,292
	Payments to suppliers and employees (inclusive of goods and services tax)	(59,544,424)	(61,451,599)
	Interest and finance costs paid	(1,796)	(4,654)
	Income taxes paid	(596,861)	(5,020,536)
	Net cash (outflow) from operating activities	37 (13,500,702)	(8,362,497)
Cash flows from investing activities			
	Payments for property, plant and equipment	16 (132,086)	(109,083)
	Payments of investment in joint venture partnership	-	(72,563)
	Payments for intangible assets	18 (401,014)	(83,562)
	Payment of development costs	18 (948,241)	(624,278)
	Proceeds from sale of property, plant and equipment	-	39,342
	Interest received	772,249	1,150,333
	New cash inflow on acquisition of subsidiary	32(e) 469,709	276,858
	Net cash (outflow) inflow from investing activities	(239,383)	577,047
Cash flows from financing activities			
	Proceeds from issues of shares and other equity securities	-	17,892,412
	Repayment of borrowings	24(a) (16,081)	(8,697)
	Net cash (outflow) inflow from financing activities	(16,081)	17,883,715
	Net (decrease) increase in cash and cash equivalents	(13,756,166)	10,098,265
	Cash and cash equivalents at the beginning of the financial year	27,984,424	17,886,159
	Cash and cash equivalents at end of year	9 14,228,258	27,984,424

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

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1 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. CO2 Group Limited is a for-profit entity for the purpose of preparing the financial statements.

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

(i) Compliance with IFRS

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

(ii) Early adoption of standards

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

(iii) Historical cost convention

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

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of CO2 Group Limited ('Company' or 'Parent entity') as at 30 September 2013 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 Group 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.

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

(i) Subsidiaries (continued)

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(i)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies 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 Group.

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

(ii) Joint ventures

Jointly controlled assets

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

Joint venture entities

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

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

(c) Segment reporting

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

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.

1 Summary of significant accounting policies (continued)

(c) Segment reporting (continued)

Information reported to the Board of Directors for the purposes of resource allocation and assessment of performance is currently more specifically focused on 4 key reportable segments, being Carbon Sink Establishment, Environmental Offsets, Aquaculture, and Other.

(d) Foreign currency translation

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

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

(e) Revenue recognition

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

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

Revenue is recognised for the major business activities as follows:

(i) Sale of environmental credits

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

(ii) Project revenue

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

1 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(ii) Project revenue (continued)

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 revenue when the right to receive payment is established, refer note .

(f) Government grants

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

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

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

(g) Income tax

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

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

1 Summary of significant accounting policies (continued)

(g) Income tax (continued)

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

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

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

(i) Tax consolidation legislation

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

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

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

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

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

1 Summary of significant accounting policies (continued)

(h) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 16). Finance leases are capitalised at the lease's inception at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

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

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Company recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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

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

1 Summary of significant accounting policies (continued)

(i) Business combinations (continued)

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

(j) Impairment of assets

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

(k) Cash and cash equivalents

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

(l) Trade receivables

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

1 Summary of significant accounting policies (continued)

(l) Trade receivables (continued)

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

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

(m) Inventories

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

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

(n) Investments and other financial assets

Classification

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

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

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

1 Summary of significant accounting policies (continued)

(n) Investments and other financial assets (continued)

(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 balance sheet.

(iii) Available-for-sale financial assets

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

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on 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

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.

1 Summary of significant accounting policies (continued)

(n) Investments and other financial assets (continued)

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

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss.

(o) Property, plant and equipment

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

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

1 Summary of significant accounting policies (continued)

(o) Property, plant and equipment (continued)

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:

- Freehold buildings	10 - 50 years
- 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(j)).

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

(p) Intangible assets

(i) Research and development

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

(ii) Other intangible assets

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

1 Summary of significant accounting policies (continued)

(p) Intangible assets (continued)

(iii) Intangible assets acquired in a business combination

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

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

(iv) Goodwill

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 4).

(v) NGAC Accreditation

The accreditation under the New South Wales Greenhouse Gas Abatement Scheme (NSWGGAS) allows the Group to generate revenues from any single project and is transferrable between projects at no significant additional cost. During 2011 the Carbon Farming Initiative (CFI) received Royal Assent and the Clean Energy Bill passed through the House of Representatives. Under the CFI the Group will continue to generate revenues from its existing projects, accordingly the NGAC accreditation will continue to be amortised on a unit of production basis.

(q) Trade and other payables

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

(r) Borrowings

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

1 Summary of significant accounting policies (continued)

(r) Borrowings (continued)

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

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

(s) Provisions

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of 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.

(t) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's 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.

1 Summary of significant accounting policies (continued)

(t) Employee benefits (continued)

(iii) Share-based payments

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

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

(u) Goods and Services Tax (GST)

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

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

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

(v) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 September 2013 reporting periods and have not yet been applied in the financial statements. The Group's assessment of the impact of these new standards and interpretations is set out below.

1 Summary of significant accounting policies (continued)

(v) New accounting standards and interpretations (continued)

- (i) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective from 1 January 2015)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group 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. In the current reporting period, the Group recognised \$NIL of such gains in other comprehensive income.

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.

- (ii) *AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments* (effective 1 January 2013)

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

1 Summary of significant accounting policies (continued)

(v) New accounting standards and interpretations (continued)

- (ii) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* and AASB 2012-10 *Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments* (effective 1 January 2013) (continued)

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

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

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

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

1 Summary of significant accounting policies (continued)

(v) New accounting standards and interpretations (continued)

(ii) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* and AASB 2012-10 *Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments* (effective 1 January 2013) (continued)

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

The Group will adopt the new standards from their operative date. They will therefore be applied in the financial statements for the annual reporting period ending 30 September 2014.

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

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

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

(w) Parent entity financial information

The financial information for the Parent entity, CO2 Group Limited, disclosed in note 40 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(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 when its right to receive the dividend is established.

1 Summary of significant accounting policies (continued)

(w) Parent entity financial information (continued)

(ii) Tax consolidation legislation

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

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

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

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

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

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

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

(iii) Financial guarantees

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

2 Financial risk management

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

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the board of Directors. Group 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	30
	September	September
	2013	2012
	\$	\$
Financial assets		
Cash and cash equivalents	14,228,258	27,984,424
Trade and other receivables	1,616,028	2,227,971
Other current assets	535,106	629,302
Other financial assets	9,354	9,354
	16,388,746	<u>30,851,051</u>
Financial liabilities		
Trade and other payables	3,023,699	2,260,091
Borrowings	-	16,080
Current tax liabilities	40,367	869,564
	3,064,066	<u>3,145,735</u>

(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.

2 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

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

Consolidated	30 September 2013 NZD \$	30 September 2012 NZD \$
Trade receivables	892,249	-
Trade payables	(270,500)	(732)

(ii) Price risk

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

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

(iii) Cash flow and fair value interest rate risk

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

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

Consolidated	30 September 2013		30 September 2012	
	Weighted average interest rate %	Balance \$	Weighted average interest rate %	Balance \$
Deposits at call	3.6%	<u>12,441,792</u>	5.1%	<u>25,992,698</u>
Net exposure to cash flow interest rate risk		<u>12,441,792</u>		<u>25,992,698</u>

2 Financial risk management (continued)

(a) Market risk (continued)

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

Sensitivity

At 30 September 2013, 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 \$80,466 higher / \$114,952 lower (2012 changes of +70 / - 100 bps: \$169,055 higher / \$241,507 lower), mainly as a result of higher / lower interest income from cash and cash equivalents.

(b) Credit risk

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

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

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

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:

2 Financial risk management (continued)

(b) Credit risk (continued)

	Consolidated	
	30	30
	September	September
	2013	2012
	\$	\$
Trade receivables		
<i>Counterparties with external credit rating (Moody's)</i>	-	-
<i>Counterparties without external credit rating *</i>		
Group 1	-	-
Group 2	1,539,325	2,172,002
Group 3	-	-
	1,539,325	2,172,002
Total trade receivables	1,539,325	2,172,002

* Group 1 - new customers (less than 6 months)
 Group 2 - existing customers (more than 6 months) with no defaults in the past
 Group 3 - existing customers (more than 6 months) with some defaults in the past. All defaults were fully recovered.

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.(note 9)

(i) 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.

2 Financial risk management (continued)

(c) Liquidity risk (continued)

Contractual maturities of financial liabilities	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
At 30 September 2013	\$	\$	\$	\$	\$	\$	\$
Non-derivatives							
Non-interest bearing	3,023,699	40,367	-	-	-	3,064,066	3,064,066
Total non-derivatives	3,023,699	40,367	-	-	-	3,064,066	3,064,066
At 30 September 2012							
Non-derivatives							
Non-interest bearing	1,390,527	869,564	-	-	-	2,260,091	2,260,091
Fixed rate	16,140	-	-	-	-	16,140	16,140
Total non-derivatives	1,406,667	869,564	-	-	-	2,276,231	2,276,231

(d) Fair value measurements

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

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

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

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 September 2013:

2 Financial risk management (continued)

(d) Fair value measurements (continued)

Consolidated - at 30 September 2013	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives	194,443	-	-	194,443
Trading securities	-	-	-	-
Derivatives for hedging	-	-	-	-
Available-for-sale financial assets				
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Other (contingent consideration)	-	-	-	-
Total assets	194,443	-	-	194,443
Liabilities				
Derivatives used for hedging	-	-	-	-
Total liabilities	-	-	-	-
Consolidated - at 30 September 2012	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives	348,695	-	-	348,695
Total assets	348,695	-	-	348,695
Liabilities				
Derivatives used for hedging	-	-	-	-
Total liabilities	-	-	-	-

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

3 Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(p). The recoverable amounts of cash generating units have been determined based on value in use calculations. These calculations require the use of assumptions. Refer to note 18 for details of these assumptions and the potential impact of changes to the assumptions. As at 30 September 2013 there has been no impairment of goodwill.

(b) Critical judgements in applying the entity's accounting policies

(i) Revenue recognition

The Group's policy for recognising revenue from Carbon Sequestration Plantation Services is based on management's estimation of the stage of completion for these projects by reference to costs incurred compared to total estimated costs at completion. As at 30 September 2013, the Group has recognised \$420,558 (2012: \$50,909) as accrued income and \$420,336 (2012: \$3,605,984) as deferred income as a result of the application of this policy.

(ii) Development costs

Management continually evaluates the commercial and technical feasibility of projects, together with the ability to complete the project and generate revenues. As at 30 September 2013, the Group has capitalised \$2,859,668 (2012: \$1,911,427) as development costs as a result of following this policy.

4 Segment information

(a) Description of segments

Business Segments

The Group operates wholly within four reportable segments.

4 Segment information (continued)

(a) Description of segments (continued)

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.

Aquaculture

Development of a large scale land-based aquaculture project in Northern Australia by Western Australian Resources Limited, acquired 20 August 2012.

Other

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

(b) Segments

The segment information provided to the strategic steering committee for the reportable segments for the year ended 30 September 2013 is as follows:

Year to 30 September 2013	Carbon sink establishment	Environ- mental offsets	Aquaculture	Other	Consolidated
	\$	\$	\$	\$	\$
Segment revenue					
Sales and external customers	4,356,061	37,286,906	-	2,885,512	44,528,479
Total sales revenue	4,356,061	37,286,906	-	2,885,512	44,528,479
Other revenue			5,593	805,919	811,512
Total segment revenue	4,356,061	37,286,906	5,593	3,691,431	45,339,991
Consolidated revenue					45,339,991
Segment profit/(loss)					
Segment profit/(loss)	638,139	625,483	(5,581,549)	2,127,378	(2,190,549)
Central administration and directors' salaries					(8,544,595)
Loss before income tax					(10,735,144)
Income tax benefit					3,955,621
Loss for the year					(6,779,523)
Segment assets					
Segment assets	7,379,373	7,243,504	1,793,331	752,192	17,168,400
Unlocated assets					24,297,944
Total assets					41,466,344

4 Segment information (continued)

(b) Segments (continued)

The segment information provided to the strategic steering committee for the reportable segments for the year ended 30 September 2012 is as follows:

Year to 30 September 2012	Carbon sink establishment \$	Environmental offsets \$	Other \$	Consolidated \$
Segment revenue				
Sales and external customers	22,501,732	38,072,916	2,425,888	63,000,536
Total sales revenue	<u>22,501,732</u>	<u>38,072,916</u>	<u>2,425,888</u>	<u>63,000,536</u>
Other revenue			1,263,254	1,263,254
Total segment revenue	<u>22,501,732</u>	<u>38,072,916</u>	<u>3,689,142</u>	<u>64,263,790</u>
Consolidated revenue				<u>64,263,790</u>
Segment profit				
Segment profit	10,301,741	2,548,555	1,547,349	14,397,645
Central administration and directors' salaries				<u>(7,352,203)</u>
Profit before income tax				7,045,442
Income tax charge				<u>(2,132,744)</u>
Profit for the year				<u>4,912,698</u>
Segment assets				
Segment assets	10,413,178	4,635,090	739,184	15,787,452
Unlocated assets				<u>34,932,139</u>
Total assets				<u>50,719,591</u>

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.

CO2 Group Limited
Notes to the consolidated financial statements
30 September 2013
(continued)

5 Revenue

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	\$	\$
From continuing operations		
<i>Sales revenue</i>		
Project development fees	4,356,061	22,501,732
Sale of environmental credits	37,286,906	38,072,916
Carbon sink project management fees	2,061,167	2,033,326
Fee for services	824,344	392,562
	44,528,478	63,000,536
<i>Other revenue</i>		
Interest from financial assets not at fair value through profit or loss	742,561	1,219,228
Office services	21,597	13,415
Crop share and agistment	41,762	30,611
Barramundi sales	5,593	-
	811,513	1,263,254
	45,339,991	64,263,790

6 Other income

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	\$	\$
Net gain on disposal of property, plant and equipment	-	30,736
Gain/(loss) on environmental credits FVTPL	642,449	(389,177)
Discount on acquisition	194,037	-
	836,486	(358,441)

CO2 Group Limited
Notes to the consolidated financial statements
30 September 2013
(continued)

7 Expenses

	30 September 2013	30 September 2012
	\$	\$
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Buildings	2,104	-
Plant and equipment	98,207	88,822
Leasehold improvements	70,776	69,596
Plant and equipment under finance leases	11,738	19,037
Carbon sinks	498,543	283,016
Total depreciation	681,368	460,471
<i>Amortisation</i>		
Patents and trademarks	-	602
NGAC	19,983	26,220
Software	49,334	15,561
Total amortisation	69,317	42,383
Total depreciation and amortisation	750,685	502,854
<i>Research and development</i>		
Research and development	714,140	343,688
Research and development cost paid and expensed	714,140	343,688
<i>Finance costs</i>		
Interest and finance charges	1,796	4,654
Finance costs expensed	1,796	4,654
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	823,968	836,866
Total rental expense relating to operating leases	823,968	836,866

CO2 Group Limited
Notes to the consolidated financial statements
30 September 2013
(continued)

7 Expenses (continued)

Employee benefits expense

Equity settled share based payments	182,876	1,280,121
Superannuation	545,472	385,900
Other employee benefits	6,958,642	4,177,898
	<u>7,686,990</u>	<u>5,843,919</u>

8 Income tax expense

(a) Income tax expense/(benefit)

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	\$	\$
Current tax	41,985	3,744,086
Deferred tax	(3,716,565)	(1,530,075)
Adjustments for current tax of prior periods	(297,524)	(81,267)
Adjustments for deferred tax of prior periods	16,483	-
	<u>(3,955,621)</u>	<u>2,132,744</u>

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

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	\$	\$
Profit/(loss) from continuing operations before income tax expense	(10,735,144)	7,045,442
Tax at the Australian tax rate of 30.0% (2012 - 30.0%)	(3,220,543)	2,113,633
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	244,657	59,385
Effect of tax concessions (research and development)	1,785,000	(30,000)
Research and Development tax offset	(2,380,000)	-
Sundry items	(123,714)	57,486
	<u>(3,694,600)</u>	<u>2,200,504</u>
Difference in overseas tax rates	20,020	13,507
Under provision of income tax in previous year	<u>(281,041)</u>	<u>(81,267)</u>

8 Income tax expense (continued)

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

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	\$	\$
Income tax expense/(benefit)	(3,955,621)	2,132,744

(c) Tax consolidation legislation

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

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

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

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

8 Income tax expense (continued)

(d) Franking account

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	\$	\$
Franking account balance (tax paid basis)	7,937,590	7,338,967
impact on franking account balance of dividends not recognised	-	-
	7,937,590	7,338,967

9 Current assets - Cash and cash equivalents

	Consolidated	
	30	30
	September	September
	2013	2012
	\$	\$
Cash at bank and in hand	1,737,968	1,991,628
Deposits at call	12,441,792	25,992,698
Other cash and cash equivalents	48,498	98
	14,228,258	27,984,424

(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, \$996,785 (2012: \$826,623) is non-interest bearing, and \$741,183 (2012: \$1,165,005) is in accounts that earn interest.

(c) Cash not available for use

Included in deposits at call is an amount of \$275,487 (2012: \$275,487) which is held as security for bank facilities (note 24).

(d) Deposits at call

Deposits at call are interest bearing.

CO2 Group Limited
Notes to the consolidated financial statements
30 September 2013
(continued)

10 Current assets - Trade and other receivables

	Consolidated	Consolidated
	30	30
	September	September
	2013	2012
	\$	\$
Trade receivables	1,539,325	2,172,002
Loans to employees	76,703	55,969
	<u>1,616,028</u>	<u>2,227,971</u>

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

(a) Past due but not impaired

As of 30 September 2013, trade receivables of \$110,351 (2012: \$5,317) were past due but not impaired.

	Consolidated	Consolidated
	30	30
	September	September
	2013	2012
	\$	\$
Up to 3 months	19,436	-
3 to 6 months	90,915	5,317
	<u>110,351</u>	<u>5,317</u>

(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.

CO2 Group Limited
Notes to the consolidated financial statements
30 September 2013
(continued)

11 Current assets - Inventories

	Consolidated	Consolidated
	30	30
	September	September
	2013	2012
	\$	\$
Work in progress	22,801	-
Seed - at cost	184,923	255,227
Carbon sinks under development - at cost	1,967,558	5,507,777
	<u>2,175,282</u>	<u>5,763,004</u>

Carbon sinks under development relates to costs incurred on plantings for carbon sinks on behalf of customers.

Inventories of \$158,000 (2012: \$129,000) are expected to be recovered after more than twelve months.

12 Current assets - Other current assets

	Consolidated	Consolidated
	30	30
	September	September
	2013	2012
	\$	\$
Prepayments	252,387	159,504
Accrued interest	54,977	84,665
Deposits paid	33,299	36,438
Environmental credits at FVTPL	194,443	348,695
	<u>535,106</u>	<u>629,302</u>

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

CO2 Group Limited
Notes to the consolidated financial statements
30 September 2013
(continued)

13 Current assets - Accrued income

	Consolidated	
	30	30
	September	September
	2013	2012
	\$	\$
Carbon sink development	420,558	50,909
Accrued income from Kansai plantations	13,579	14,667
Accrued income from trading and environmental credits	331,483	35,008
	765,620	100,584

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

	Consolidated	
	30	30
	September	September
	2013	2012
	\$	\$
Interest in joint venture partnership (note 35)	-	198,389
	-	198,389

(a) Interest in joint venture partnership

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

15 Non-current assets - Other financial assets - investments

	Consolidated	
	30	30
	September	September
	2013	2012
	\$	\$
Available-for-sale investments	9,354	9,354
	9,354	9,354

CO2 Group Limited
Notes to the consolidated financial statements
30 September 2013
(continued)

16 Non-current assets - Property, plant and equipment

Consolidated	Freehold land \$	Freehold buildings \$	Plant and equipment \$	Leasehold improvements \$	Leased plant and equipment \$	Carbon sinks \$	Total \$
At 1 October 2011							
Cost or fair value	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
Year ended 30 September 2012							
Opening net book amount	709,799	-	197,851	173,319	45,556	3,275,001	4,401,526
Additions	-	-	84,442	25,640	-	-	110,082
Disposals	-	-	-	-	(8,606)	-	(8,606)
Depreciation charge	-	-	(88,822)	(69,596)	(19,038)	(283,017)	(460,473)
Closing net book amount	709,799	-	193,471	129,363	17,912	2,991,984	4,042,529
At 30 September 2012							
Cost or fair value	709,799	-	666,993	327,896	168,090	4,201,540	6,074,318
Accumulated depreciation	-	-	(473,522)	(198,533)	(150,178)	(1,209,556)	(2,031,789)
Net book amount	709,799	-	193,471	129,363	17,912	2,991,984	4,042,529
Consolidated							
Year ended 30 September 2013							
Opening net book amount	709,799	-	193,471	129,363	17,912	2,991,984	4,042,529
Acquisition of subsidiary	-	261,340	211,389	-	-	-	472,729
Additions	-	-	65,098	66,986	-	3,542,137	3,674,221
Depreciation charge	-	(2,104)	(98,207)	(70,776)	(11,738)	(498,543)	(681,368)
Closing net book amount	709,799	259,236	371,751	125,573	6,174	6,035,578	7,508,111
At 30 September 2013							
Cost	709,799	261,340	946,570	394,883	168,090	7,743,677	10,224,359
Accumulated depreciation	-	(2,104)	(574,819)	(269,310)	(161,916)	(1,708,099)	(2,716,248)
Net book amount	709,799	259,236	371,751	125,573	6,174	6,035,578	7,508,111

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

(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.

17 Non-current assets - Deferred tax assets

	Consolidated	Consolidated
	30	30
	September	September
	2013	2012
	\$	\$
The balance comprises temporary differences attributable to:		
Tax losses	1,748,511	-
Provisions	263,632	197,390
Accruals	76,284	5,768
Carbon sinks	5,031,415	5,688,436
Intangible assets	49	48
Depreciable assets	1,038,192	424,351
Accrued interest	(116,211)	75,702
Research & development	(851,133)	(566,662)
R&D tax offset	2,380,000	-
	9,570,739	5,825,033
Net deferred tax assets	9,570,739	5,825,033
Consolidated		
Movements:		
Opening balance at 1 October 2011 and 2012	5,825,033	4,286,649
Charged/credited:		
- to profit or loss	3,716,566	1,530,075
- directly to equity	-	57,989
Unitisation of tax losses	-	(32,388)
Under (over) provision of deferred tax in previous year	(16,483)	(17,292)
Acquisition of subsidiary	45,623	-
Closing balance at 30 September	9,570,739	5,825,033

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

Movements	Tax Losses \$	Provisions \$	Intangibles & research & development \$	Accruals \$	Accrued income & available-for-sale investment \$	Carbon sinks & depreciable assets \$	R&D Tax offset \$	Total \$
At 1 October 2011	25,424	197,505	(382,314)	14,137	(59,085)	4,490,982	-	4,286,649
(Charged)/credited								
- to profit or loss	-	(116)	(184,376)	(8,369)	101,471	1,621,465	-	1,530,075
Under (over) provision of deferred tax in previous year	6,964	-	-	-	(24,674)	418	-	(17,292)
Unitilisation of tax losses	(32,388)	-	-	-	-	-	-	(32,388)
- directly to equity	-	-	-	-	57,989	-	-	57,989
At 30 September 2012	-	197,389	(566,690)	5,768	75,701	6,112,865	-	5,825,033
(Charged)/credited								
- to profit or loss	1,748,511	11,252	(284,471)	71,723	(167,530)	(42,919)	2,380,000	3,716,566
Acquisition of subsidiary	-	45,623	-	-	-	-	-	45,623
Under (over) provision of deferred tax in previous year	-	9,367	-	(1,207)	(24,383)	(260)	-	(16,483)
At 30 September 2013	1,748,511	263,631	(851,161)	76,284	(116,212)	6,069,686	2,380,000	9,570,739

CO2 Group Limited
Notes to the consolidated financial statements
30 September 2013
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18 Non-current assets - Intangible assets

Consolidated	Development costs	Goodwill	Patents, trademarks and other rights	Computer software	Other intangible assets	NGAC accreditation	Total
	\$	\$	\$	\$	\$	\$	\$
At 1 October 2011							
Cost	1,381,328	-	3,072	-	790,166	408,380	2,582,946
Accumulation amortisation and impairment	(94,178)	-	(2,470)	-	(790,166)	(96,524)	(983,338)
Net book amount	1,287,150	-	602	-	-	311,856	1,599,608
Year ended 30 September 2012							
Opening net book amount	1,287,150	-	602	-	-	311,856	1,599,608
Development costs recognised as an asset	624,277	-	-	-	-	-	624,277
Additions	-	-	-	99,124	-	-	99,124
Acquisition through business combination	-	1,559,543	-	-	-	-	1,559,543
Amortisation charge	-	-	(602)	(15,561)	-	(26,220)	(42,383)
Closing net book amount	1,911,427	1,559,543	-	83,563	-	285,636	3,840,169
Cost	2,005,605	1,559,543	3,072	99,124	790,166	408,380	4,865,890
Accumulation amortisation and impairment	(94,178)	-	(3,072)	(15,561)	(790,166)	(122,744)	(1,025,721)
Net book amount	1,911,427	1,559,543	-	83,563	-	285,636	3,840,169

18 Non-current assets - Intangible assets (continued)

Consolidated	Development costs \$	Goodwill \$	Patents, trademarks and other rights \$	Computer software \$	Other intangible assets \$	NGAC accreditation \$	Total \$
Year ended 30 September 2013							
Opening net book amount	1,911,427	1,559,543	-	83,563	-	285,636	3,840,169
Development costs recognised as an asset	948,241	-	-	-	-	-	948,241
Additions	-	-	-	84,424	316,589	-	401,013
Acquisition through business combination	-	191,264	-	-	-	-	191,264
Other charge	-	(352,356)	-	-	-	-	(352,356)
Amortisation charge	-	-	-	(49,334)	-	(19,983)	(69,317)
Closing net book amount	<u>2,859,668</u>	<u>1,398,451</u>	<u>-</u>	<u>118,653</u>	<u>316,589</u>	<u>265,653</u>	<u>4,959,014</u>
At 30 September 2013							
Cost	2,953,846	1,398,451	3,072	183,548	1,106,755	408,380	6,054,052
Accumulated amortisation	(94,178)	-	(3,072)	(64,895)	(790,166)	(142,727)	(1,095,038)
Net book amount	<u>2,859,668</u>	<u>1,398,451</u>	<u>-</u>	<u>118,653</u>	<u>316,589</u>	<u>265,653</u>	<u>4,959,014</u>

(a) Impairment tests for goodwill

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

For further information on goodwill on acquisitions during the current and previous financial year refer to note 32.

CO2 Group Limited
Notes to the consolidated financial statements
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19 Current liabilities - Trade and other payables

	Consolidated	
	30	30
	September	September
	2013	2012
	\$	\$
Trade payables	767,507	1,076,805
Accrued expenses	1,871,668	722,364
PAYG payable	139,687	135,387
Goods and service tax (GST) payable	171,021	237,130
Other payables	73,816	88,405
	3,023,699	2,260,091

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

20 Current liabilities - Borrowings

	Consolidated	
	30	30
	September	September
	2013	2012
	\$	\$
Secured		
Lease liabilities (note 30)	-	16,080
Total secured current borrowings	-	16,080
Total current borrowings	-	16,080

(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.

CO2 Group Limited
Notes to the consolidated financial statements
30 September 2013
(continued)

21 Current liabilities - Provisions

	Consolidated	Consolidated
	30	30
	September	September
	2013	2012
	\$	\$
Employee benefits	785,637	600,820
	785,637	600,820

22 Current liabilities - Current tax liabilities

	Consolidated	Consolidated
	30	30
	September	September
	2013	2012
	\$	\$
Current tax liabilities	40,367	869,564
	40,367	869,564

23 Current liabilities - Deferred income

	Consolidated	Consolidated
	30	30
	September	September
	2013	2012
	\$	\$
Government grants	293,408	185,160
Deferred income from carbon sink development	420,336	3,102,288
Deferred income on carbon sink management	513,230	503,696
Deferred income from trading and environmental credits	-	287,348
Deferred advisory income	67,623	-
	1,294,597	4,078,492

24 Non-current liabilities - Borrowings

(a) Secured liabilities and assets pledged as security

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

	Consolidated	
	30	30
	September	September
	2013	2012
	\$	\$
Lease liabilities	-	16,080
Total secured liabilities	-	16,080

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

The Group has a \$100,000 (2012: \$100,000) facility on its company credit cards and has been required to provide a guarantee facility of \$175,487 (2012: \$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	30
	September	September
	2013	2012
	\$	\$
Current		
Deposits at call	9	275,487
Total current assets pledged as security		275,487
Non-current		
<i>Finance lease</i>		
Plant and equipment		-
Total assets pledged as security		275,487

(b) Risk exposures

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

25 Non-current liabilities - Provisions

(a) Movements in provisions

Consolidated 2013	Employee benefits \$	Total \$
Carrying amount at start of year	57,145	57,145
Charged/(credited) to the profit or loss - unwinding of discount	16,885	16,885
Carrying amount at end of year	<u>74,030</u>	<u>74,030</u>

Consolidated 2012	Employee benefits \$	Total \$
Carrying amount at start of year	117,122	117,122
Charged/(credited) to the profit or loss - unwinding of discount	(59,977)	(59,977)
Carrying amount at end of year	<u>57,145</u>	<u>57,145</u>

26 Issued capital

(a) Share capital

	30 September 2013	30 September 2012	30 September 2013	30 September 2012
Notes	Shares	Shares	\$	\$
Ordinary shares				
Ordinary shares - fully paid	26(b) 452,850,575	448,278,314	44,288,179	43,785,274
Convertible preference shares	26(c) 30,150,190	30,150,190	301	301
	483,000,765	478,428,504	44,288,480	43,785,575
Total contributed equity			<u>44,288,480</u>	<u>43,785,575</u>

26 Issued capital (continued)

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	\$
1 October 2011	Opening balance	280,347,888	-	30,829,637
21 October 2011	Exercise listed options	150,000	-	18,000
26 October 2011	Exercise listed options	1,529,417	-	183,530
2 November 2011	Exercise listed options	831,200	-	99,744
9 November 2011	Exercise listed options	2,170,449	-	260,454
16 November 2011	Exercise listed options	15,931,263	-	1,911,752
21 November 2011	Exercise listed options	128,191,102	-	15,382,932
25 November 2011	Exercise listed options	300,000	-	36,000
31 December 2011	Section 258F Capital Reduction	-	-	(7,104,625)
31 August 2012	Acquisiton of WARL	14,208,282	-	1,704,994
7 September 2012	Acquisiton of WARL	46,687	-	5,602
26 September 2012	Performance rights	4,571,864	-	457,186
28 September 2012	Acquisiton of WARL	562	-	67
30 September 2012	Closing balance	<u>448,278,714</u>		<u>43,785,273</u>
1 October 2012	Opening balance	448,278,714	-	43,785,273
11 February 2013	Performance rights	4,571,861	-	502,906
		<u>452,850,575</u>		<u>44,288,179</u>
30 September 2013	Closing balance	<u>452,850,575</u>		<u>44,288,179</u>

(c) Movements in convertible preference share capital

Date	Details	Number of shares	\$
30 September 2013	Closing balance	<u>30,150,190</u>	<u>301</u>
30 September 2013	Closing balance	<u>30,150,190</u>	<u>301</u>

(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.

26 Issued capital (continued)

(e) Options

Information relating to the Group's Employee Option Plan and options issued to employees and executives of the Group, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 39.

27 Reserves

(a) Other reserves

	Consolidated	30	30
	September	September	September
	2013	2012	2012
	\$	\$	\$
Financial assets revaluation reserve	(24,740)	(24,740)	
Share-based payments	3,606,808	3,926,837	
Foreign currency translation	8,562	1,300	
Option premium reserve	1,670,705	1,670,705	
	5,261,335	5,574,102	

Consolidated	30	30
September	September	September
2013	2012	2012
\$	\$	\$

Movements:

Share-based payments

Opening balance	3,926,837	4,922,103	
Equity settled share-based payment	182,876	1,280,121	
Issue of shares held by the CO2 Employee Share Trust to employees	(502,905)	(457,186)	
Lapsed options	-	(1,818,201)	
Balance 30 September	3,606,808	3,926,837	

Foreign currency translation

Opening balance	1,300	(47)	
Currency translation differences arising during the year	7,262	1,347	
Balance 30 September	8,562	1,300	

27 Reserves (continued)

(a) Other reserves (continued)

	Consolidated	
	30	30
	September	September
	2013	2012
	\$	\$
<i>Financial assets revaluation reserve</i>		
Opening balance	(24,740)	63,278
Acquisition of subsidiary	-	(88,018)
Balance 30 September	(24,740)	(24,740)

(b) Nature and purpose of other reserves

(i) Share-based payments

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the issue of shares held by the CO2 Employee Share Trust to employees
- in the parent entity the fair value of shares and options issued to employees of subsidiaries.

(ii) Option premium

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

(iii) Foreign currency translation

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

(iv) Financial assets revaluation reserve

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

28 Key management personnel disclosures

(a) Directors

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

28 Key management personnel disclosures (continued)

(a) Directors (continued)

(i) Chairman - executive

I N Trahar

(ii) Executive directors

H R Whitcombe

Dr C D Mitchell

A W T Grant (Chief Executive Officer)

(iii) Non-executive directors

Dr M B Hemmerling

P Favretto

(b) Other key management personnel

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

<i>Name</i>	<i>Position</i>	<i>Employer</i>
	Director and General Manager	
A J Soanes	Operations	CO2 Australia Limited
Dr J Bulinski	Director	CO2 Australia Limited
P Thomas	Sales Director	CO2 Australia Limited

(c) Key management personnel compensation

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	\$	\$
Short-term employee benefits	1,918,843	1,850,295
Post-employment benefits	210,859	248,888
Long-term benefits	30,345	30,626
Termination benefits	32,138	-
Share-based payments	149,043	1,043,307
	<u>2,341,228</u>	<u>3,173,116</u>

Detailed remuneration disclosures are provided in the remuneration report on pages 22 to 31.

28 Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options can be found in the remuneration report on pages 24 and 29 to 31.

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

Details of performance rights provided as remuneration and shares issued on the exercise of such rights, together with terms and conditions of the rights, can be found in the remuneration report on pages 22 and 29 to 31.

(iii) Option holdings

The numbers of options over ordinary shares in the Company and rights to deferred shares granted under the executive short-term incentive scheme that were 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.

Consolidated 2013 Name	Balance at start of the year	Granted as compen- sation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of CO2 Group Limited							
M B Hemmerling*	1,500,000	-	-	(1,500,000)	-	-	-
C D Mitchell	3,000,000	-	-	(3,000,000)	-	-	-
Other key management personnel of the Group							
A J Soanes	500,000	-	-	(500,000)	-	-	-
J Bulinski	400,000	-	-	(400,000)	-	-	-
Consolidated 2012 Name							
Directors of CO2 Group Limited							
I N Trahar	89,960,018	-	(89,960,018)	-	-	-	-
H R Whitcombe	4,145,157	-	(3,645,157)	(500,000)	-	-	-
A W T Grant	3,868,654	-	-	(3,868,654)	-	-	-
M B Hemmerling*	1,500,000	-	-	-	1,500,000	1,500,000	-
C D Mitchell	3,000,000	-	-	-	3,000,000	3,000,000	-
P J Favretto	7,624,478	-	(7,624,478)	-	-	-	-
Other key management personnel of the Group							
A J Soanes	1,500,000	-	(1,000,000)	-	500,000	500,000	-
J Bulinski	400,000	-	-	-	400,000	400,000	-

*Resigned 26 July 2013

28 Key management personnel disclosures (continued)

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

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.

Consolidated 2013	Balance at the start of the year	Received during the year on the exercise of options	Received on vesting of rights to deferred shares	Other changes during the year	Balance at end of the year
Name					
Directors of CO2 Group Limited					
Ordinary shares					
I N Trahar	214,673,321	-	-	-	214,673,321
H R Whitcombe	12,013,259	-	-	-	12,013,259
A W T Grant	5,121,982	-	-	1,863,050	6,985,032
M B Hemmerling*	575,625	-	-	-	575,625
C D Mitchell	971,525	-	-	931,525	1,903,050
P J Favretto	20,730,720	-	-	-	20,730,720
Other key management personnel of the Group					
Ordinary shares					
A J Soanes	1,465,763	-	-	465,762	1,931,525
J Bulinski	465,763	-	-	465,762	931,525
Consolidated 2012					
Name					
Directors of CO2 Group Limited					
Ordinary shares					
I N Trahar	116,831,546	89,960,018	-	7,881,757	214,673,321
H R Whitcombe	7,742,000	3,645,157	-	626,102	12,013,259
A W T Grant	-	3,868,654	-	1,253,328	5,121,982
M B Hemmerling*	575,625	-	-	-	575,625
C D Mitchell	40,000	-	-	931,525	971,525
P J Favretto	12,500,522	7,624,478	-	605,720	20,730,720
Other key management personnel of the Group					
Ordinary shares					
A J Soanes	-	1,000,000	-	465,763	1,465,763
J Bulinski	-	-	-	465,763	465,763

*Resigned 26 July 2012

(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, its related practices and non-related audit firms:

(a) Audit services

(i) *Deloitte Touche Tohmatsu*

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	\$	\$
Audit and review of financial reports	142,010	98,300
Non-audit services		
Other non-audit services (Yonderr Pty Ltd)	-	12,500
Total auditors' remuneration	142,010	110,800

30 Commitments

(a) Lease commitments: group as lessee

(i) *Non-cancellable operating leases*

Operating leases relate to five office facilities, each with different terms: 3 years with an option to renew for a further 3 years; 5 years with no option to renew; 2 years with 2 options for a further 3 years; 2 years 3 months with no option to renew; and 2 years with no option to renew. The operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. There are also fixed increase dates annually. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

The Group also leases 14 motor vehicles under operating leases with a term of three years, with no option to purchase the vehicle at the expiry of the lease period.

30 Commitments (continued)

(a) Lease commitments: group as lessee (continued)

(i) Non-cancellable operating leases (continued)

Consolidated	30	30
September	September	September
2013	2012	2012
\$	\$	\$

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year	800,873	783,248
Later than one year but not later than five years	791,521	1,578,063
	1,592,394	2,361,311

(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. All finance leases have now ended.

Consolidated	30	30
September	September	September
2013	2012	2012
\$	\$	\$

Commitments in relation to finance leases are payable as follows:

Within one year	-	16,212
Later than one year but not later than five years	-	-
Later than five years	-	-
Minimum lease payments	-	16,212
Future finance charges	-	(132)
Recognised as a liability	-	16,080
Total lease liabilities (note 24)	-	16,080
Representing lease liabilities:		
Current	-	16,080
Non-current	-	-
	-	16,080

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 33.

(c) Key management personnel

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

32 Business combination

(a) Subsidiaries acquired

	Principal activity	Date of acquisition	Proportion of shares acquired	Consideration transferred
			(%)	\$
2013				
Marine Farms Pty Ltd	Aquaculture	06-09-13	100	250,000
Ecofund Queensland Pty Ltd	Environmental advisory	04-03-13	100	<u>250,000</u>
Total				<u>500,000</u>
2012				
Western Australian Resources Limited	Aquaculture	20-08-12	100	<u>2,601,669</u>
Total				<u>2,601,669</u>

32 Business combination (continued)

(a) Subsidiaries acquired (continued)

Marine Farms Pty Ltd was purchased to be a prawn broodstock facility for the commercial breeding program for Project Sea Dragon. Ecofund Queensland Pty Ltd was purchased from the Queensland State Government. It is Queensland's largest provider of transaction and advisory services in carbon, environmental offsets and renewable energy markets, and holds an Australian Financial Services License. The acquisition has further expanded the group's business activities in emerging carbon markets, commercialising intellectual property, and diversifying into advisory and environmental markets trading. The name of Ecofund Queensland Pty Ltd has been changed to CO2 Group Financial Services Pty Ltd.

(b) Consideration transferred

	Ecofund Queensland Pty Ltd	Marine Farms Pty Ltd	Western Australian Resources Limited
	\$	\$	\$
2013			
Cash paid	250,000	250,000	-
Total	250,000	250,000	-
2012			
Cash paid	-	-	562,429
Fair value of shares issued	-	-	1,710,664
Direct costs relating to the acquisition	-	-	161,251
Existing holding	-	-	167,325
Total	-	-	2,601,669

32 Business combination (continued)

(c) Assets acquired and liabilities assumed at the date of acquisition

	Ecofund Queensland Pty Ltd	Marine Farms Pty Ltd	Western Australian Resources Limited	Total
2013	\$	\$	\$	\$
Current assets				
Cash and cash equivalents	969,709	-	-	969,709
Trade and other receivables	149,095	5,810	-	154,905
Other current assets	64,435	-	-	64,435
Inventories	15,575	-	-	15,575
Non-current assets				
Plant and equipment	34,502	438,227	-	472,729
Deferred tax asset	45,624	-	-	45,624
Current liabilities				
Trade and other payables	(448,944)	-	-	(448,944)
Provision for employee benefits	(771,259)	-	-	(771,259)
Net assets acquired	<u>58,737</u>	<u>444,037</u>	<u>-</u>	<u>502,774</u>
2012				
Current assets				
Cash and cash equivalents	-	-	1,000,536	1,000,536
Other current assets	-	-	404,311	404,311
Other financial assets	-	-	9,355	9,355
Non-current assets				
Plant and equipment	-	-	999	999
Prepaid expenses	-	-	98,832	98,832
Current liabilities				
Trade and other payables	-	-	(119,551)	(119,551)
Net assets acquired	<u>-</u>	<u>-</u>	<u>1,394,482</u>	<u>1,394,482</u>

32 Business combination (continued)

(c) Assets acquired and liabilities assumed at the date of acquisition (continued)

The initial accounting for the acquisitions of Marine Farms Pty Ltd and Ecofund Queensland Pty Ltd has only been provisionally determined at the end of the reporting period. For tax purposes, the tax values of Marine Farms' assets are required to be reset based on market values of the assets. At the date of finalisation of these consolidated financial statements, the necessary market valuations and other calculations had not been finalised and they have therefore only been provisionally determined based on the directors' best estimate of the likely tax values.

The accounting for the acquisition of Western Australian Resources Limited is no longer provisional, and adjustment has been made to the assets acquired after finalisation of tax matters. Current assets on acquisition increased by \$352,356 on those provisionally reported in the previous annual report, due to tax and goods and service tax refunds.

(d) Goodwill arising on acquisition

	Ecofund Queensland Pty Ltd	Marine Farms Pty Ltd	Western Australian Resources Limited	Total
2013	\$	\$	\$	\$
Consideration transferred	250,000	250,000	-	500,000
Less: fair value of identifiable net assets acquired	(58,737)	(444,037)	-	(502,774)
Goodwill arising on acquisition	191,263	-	-	191,263
Discount on acquisition	-	(194,037)	-	(194,037)
2012				
Consideration transferred	-	-	2,601,669	2,601,669
Less: fair value of identifiable net assets acquired	-	-	(1,394,482)	(1,394,482)
Goodwill arising on acquisition	-	-	1,207,187	1,207,187

Goodwill arose in the acquisition of Ecofund Queensland Pty Ltd because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, and future market development.

A discount on acquisition arose in the acquisition of Marine Farms Pty Ltd because the consideration paid for the combination is less than the initial estimate of the fair value of the assets acquired.

32 Business combination (continued)

(d) Goodwill arising on acquisition (continued)

With the finalisation of asset values relating to the Western Australian Resources Limited acquisition, purchased goodwill has changed from the provisionally reported figure of \$1,559,543. The goodwill is attributable to the synergies between WARL and the Group and the perceived high future profitability of the aquaculture project.

(e) Net cash inflow on acquisition of subsidiaries

	year ended	year ended
	30	30
	September	September
	2013	2012
	\$	\$
Consideration paid in cash	(500,000)	(723,678)
Cash and cash equivalent balances acquired	969,709	1,000,536
	469,709	276,858

(f) Impact of acquisitions on the results of the Group

Included in loss for the year is \$163,000 profit attributable to the additional business generated by Ecofund Queensland Limited, and a \$1,100 loss attributable to Marine Farms Pty Ltd. Revenue for the year includes \$1,399,386 for Ecofund Queensland Pty Ltd and \$5,592 for Marine Farms Pty Ltd.

Had these business combinations been effected at 1 October 2012, the revenue of the Group from continuing operations would have been \$51,272,284, and the loss for the year from continuing operations would have been \$7,036,000. The directors of the Group consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

33 Subsidiaries and transactions with non-controlling interests

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	
			2013 %	2012 %
CO2 Australia Limited *	Australia	Ordinary	100	100
Carbon Banc Limited *	Australia	Ordinary	100	100
Carbon Estate Pty Ltd *	Australia	Ordinary	100	100
CO2 New Zealand Limited *	Australia	Ordinary	100	100
Mallee Land Company Pty Ltd *	Australia	Ordinary	100	100
Mallee Carbon Limited *	Australia	Ordinary	100	100
Blue Leafed Mallee Limited *	Australia	Ordinary	100	100
Carbon Sinks Services Pty Ltd *	Australia	Ordinary	100	100
The Oil Mallee Company of Australia Limited *	Australia	Ordinary	100	100
Yonderr Pty Ltd *	Australia	Ordinary	100	100
Carbon Sink Services New Zealand Limited	New Zealand	Ordinary	100	100
Western Australian Resources Limited *	Australia	Ordinary	100	100
CO2 Group Financial Services Pty Ltd	Australia	Ordinary	100	-
Marine Farms Pty Ltd*	Australia	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 34.

34 Deed of cross guarantee

All companies in the Group except Carbon Sink Services New Zealand Limited ("CSSNZ") and CO2 Group Financial Services Pty Ltd ("CO2GFS") are parties to a deed of cross-guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The balance sheet and income statement of the closed group is the same as that of the consolidated entity except that they do not include CSSNZ and CO2GFS.

CO2 Group Limited
Notes to the consolidated financial statements
30 September 2013
(continued)

34 Deed of cross guarantee (continued)

Set out below is a consolidated income statement for the year ended 30 September 2013 of the Closed Group consisting of CO2 Group Limited, CO2 Australia Limited, Carbon Banc Limited, Carbon Estate Pty Ltd, CO2 New Zealand Limited, Mallee Land Company Pty Ltd, Mallee Carbon Limited, Blue Leafed Mallee Limited, Carbon Sinks Services Pty Ltd, The Oil Mallee Company of Australia Limited, Yonderr Pty Ltd, Western Australian Resources Limited, and Marine Farms Pty Ltd.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

	30 September 2013 \$	30 September 2012 \$
<i>Consolidated income statement</i>		
Revenue from continuing operations	43,386,564	64,216,296
Other income	836,486	(358,441)
Cost of environmental credits sold	(36,780,462)	(35,135,183)
Employee benefits expense	(7,210,624)	(5,843,919)
Depreciation and amortisation expense	(740,405)	(502,854)
Other expenses	(1,387,822)	(1,128,170)
Consulting expense	(729,627)	(484,030)
Legal fees	(309,344)	(159,280)
Travel	(1,043,731)	(607,277)
Insurance	(270,188)	(241,790)
Rent	(756,084)	(836,866)
Research & development	(398,349)	(343,688)
Marketing	(257,752)	(522,342)
Aquaculture concept	(2,272,514)	(261,518)
Plantation costs	(2,527,447)	(10,844,374)
Finance costs	(1,796)	(4,654)
Share of net profit/(loss) of associates and joint venture partnership accounted for using the equity method	(198,389)	136,051
Profit/(loss) before income tax	(10,661,484)	7,077,961
Income tax (expense) benefit	3,953,546	(2,123,638)
Profit/(loss) for the year	(6,707,938)	4,954,323

CO2 Group Limited
Notes to the consolidated financial statements
30 September 2013
(continued)

34 Deed of cross guarantee (continued)

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings (continued)

	30	30
	September	September
	2013	2012
	\$	\$

Consolidated statement of comprehensive income

Profit for the year	(6,707,938)	4,954,323
Total comprehensive income for the year	(6,707,938)	4,954,323

(b) Consolidated balance sheet

Set out below is a consolidated balance sheet as at 30 September 2013 of the Closed Group consisting of CO2 Group Limited, CO2 Australia Limited, Carbon Banc Limited, Carbon Estate Pty Ltd, CO2 New Zealand Limited, Mallee Land Company Pty Ltd, Mallee Carbon Limited, Blue Leafed Mallee Limited, Carbon Sinks Services Pty Ltd, The Oil Mallee Company of Australia Limited, Yonderr Pty Ltd, Western Australian Resources Limited, and Marine Farms Pty Ltd.

	30	30
	September	September
	2013	2012
	\$	\$

Current assets

Cash and cash equivalents	14,076,475	27,785,780
Trade and other receivables	790,470	2,226,353
Inventories	2,152,481	5,763,004
Other current assets	780,470	629,302
Accrued income	587,316	100,584
Total current assets	18,387,212	36,505,023

Non-current assets

Investments accounted for using the equity method	-	198,389
Other financial assets - investments	9,354	9,354
Property, plant and equipment	7,402,885	4,042,529
Deferred tax assets	9,570,755	5,825,033
Intangible assets	4,449,983	3,840,169
Exploration and evaluation	98,832	98,832
Total non-current assets	21,531,809	14,014,306

34 Deed of cross guarantee (continued)

(b) Consolidated balance sheet (continued)

	30 September 2013	30 September 2012
	\$	\$
Total assets	39,919,021	50,519,329
Current liabilities		
Trade and other payables	2,052,268	2,057,348
Borrowings	-	16,080
Current tax liabilities	-	869,564
Provisions	780,234	600,820
Deferred income	1,209,033	4,078,492
Total current liabilities	4,041,535	7,622,304
Non-current liabilities		
Provisions	74,030	57,145
Total liabilities	4,115,565	7,679,449
Net assets	35,803,456	42,839,880
Equity		
Issued capital	40,707,180	43,785,574
Reserves	5,284,691	5,574,102
Accumulated losses	(10,188,415)	(6,519,796)
Total equity	35,803,456	42,839,880

35 Interests in joint ventures

(a) Joint venture partnership

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

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

During the financial year, on-ground operations commenced for the Limited Partnership's first Carbon Sequestration Management Services Agreement with Ngati Awa Group Holdings Limited.

35 Interests in joint ventures (continued)

(a) Joint venture partnership (continued)

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	\$	\$
Carrying amount of investment in partnership	-	198,389
	<hr/>	
	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	\$	\$
Share of partnership's assets and liabilities		
Current assets	448,717	238,197
Non-current assets	5,873	7,916
Total assets	<u>454,590</u>	<u>246,113</u>
Current liabilities	805,704	47,724
Net assets	<u>(351,114)</u>	<u>198,389</u>
Share of partnership's revenue, expenses and results		
Revenue	355,333	1,420,238
Expenses	<u>(553,722)</u>	<u>(1,284,187)</u>
Profit/(loss) before income tax	<u>(198,389)</u>	<u>136,051</u>

Due to losses during the financial year exceeding the carrying value of the investment, the share of the loss of the joint venture partnership has been restricted to the amount required to write the asset down to NIL value.

36 Events occurring after the reporting period

(a) Acquisition of entity

On 25 October 2013, CO2 Group Limited acquired a further 45% share in CO2 New Zealand Limited Partnership ("CO2NZLP") for consideration of NZ\$45,000, taking its ownership to 90%. The financial effects of this transaction have not been brought to account at 30 September 2013. The operating results and assets and liabilities of the Company will be consolidated from 25 October 2013.

CO2 Group Limited
Notes to the consolidated financial statements
30 September 2013
(continued)

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

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	\$	\$
Profit for the year	(6,779,523)	4,912,698
Depreciation and amortisation	750,685	502,854
Net (gain) loss on sale of non-current assets	-	(30,736)
Fair value (gains)/losses on financial assets at fair value through profit or loss	(642,449)	-
Share of losses (profits) of joint venture partnership	198,389	(136,051)
Discount on acquisition	(194,037)	-
Equity settled share based payments	182,876	1,280,121
Interest income received	(772,249)	(1,150,333)
Change in operating assets and liabilities:		
(Increase) decrease in trade debtors and receivables	611,943	(40,722)
Decrease (Increase) in inventories	45,585	1,150,285
(Increase) decrease in other current assets	94,196	905,788
(Increase) decrease in deferred tax assets	(3,745,706)	(1,494,346)
(Increase) decrease in other operating assets	(602,630)	457,629
(Decrease) increase in trade creditors	763,608	(3,168,091)
(Decrease) increase in other operating liabilities	(2,783,895)	(10,143,810)
(Decrease) increase in provision for income taxes payable	(829,197)	(1,407,397)
(Decrease) increase in other provisions	201,702	(386)
Net cash inflow (outflow) from operating activities	(13,500,702)	(8,362,497)

38 Earnings per share

(a) Basic earnings per share

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	Cents	Cents
From continuing operations	<u>(1.50)</u>	1.19
Total basic earnings per share attributable to the ordinary owners of the Company	<u>(1.50)</u>	1.19

(b) Diluted earnings per share

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	Cents	Cents
From continuing operations	<u>(1.50)</u>	1.12
Total basic earnings per share attributable to the ordinary owners of the Company	<u>(1.50)</u>	1.12

(c) Reconciliation of earnings used in calculating earnings per share

	Consolidated	
	Year to	
	30	30
	September	September
	2013	2012
	\$	\$
<i>Basic earnings per share</i>		
Profit/(loss) from continuing operations	<u>(6,779,523)</u>	4,912,698
	<u>(6,779,523)</u>	4,912,698
<i>Diluted earnings per share</i>		
Profit/(loss) from continuing operations	<u>(6,779,523)</u>	4,912,698
Profit from continuing operations attributable to the ordinary equity holders of the Company	<u>(6,779,523)</u>	4,912,698

38 Earnings per share (continued)

(d) Weighted average number of shares used as denominator

	Consolidated	
	2013	2012
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	451,309,920	411,917,194
Adjustments for calculation of diluted earnings per share:		
Shares deemed to be issued for no consideration in respect of performance rights and convertible preference shares		- 26,230,845
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	451,309,920	<u>438,148,039</u>

39 Share-based payments

(a) Employee Incentive & Option Plan

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

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

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

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

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

Set out below are summaries of options granted under the plan:

39 Share-based payments (continued)

(a) Employee Incentive & Option Plan (continued)

Options granted under the 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
2013								
20-11-08	30-11-12	\$0.49	1,580,000	-	-	(1,580,000)	-	-
20-11-08	02-12-12	\$0.52	4,500,000	-	-	(4,500,000)	-	-
			6,080,000	-	-	(6,080,000)	-	-

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
2012								
03-09-04	12-11-11	\$0.12	7,300,000	-	(7,300,000)	-	-	-
15-09-04	12-11-11	\$0.12	166,667	-	(166,667)	-	-	-
15-11-04	12-11-11	\$0.12	1,000,000	-	(1,000,000)	-	-	-
15-11-05	12-11-11	\$0.12	300,000	-	(300,000)	-	-	-
20-11-08	30-11-12	\$0.49	1,580,000	-	-	-	1,580,000	1,580,000
20-11-08	02-12-12	\$0.52	4,500,000	-	-	-	4,500,000	4,500,000
			14,846,667	-	(8,766,667)	-	6,080,000	6,080,000

Weighted average exercise price

- - \$0.12 - \$0.51 \$0.51

6,080,000 unlisted share options expired during the periods covered by the above tables.

39 Share-based payments (continued)

(a) Employee Incentive & Option Plan (continued)

Performance Rights

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
2013								
30-09-11	01-02-13	-	4,571,862	-	(4,571,861)	(1)	-	4,571,861
30-09-11	01-02-14	-	4,571,862	-	-	-	4,571,862	-
			9,143,724	-	(4,571,861)	(1)	4,571,862	4,571,861

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
2012								
30-09-11	30-09-12	-	4,571,862	-	(4,571,862)	-	-	4,571,862
30-09-11	01-02-13	-	4,571,862	-	-	-	4,571,862	-
30-09-11	01-02-14	-	4,571,862	-	-	-	4,571,862	-
			13,715,586	-	(4,571,862)	-	9,143,724	4,571,862

Fair value of options granted

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

(b) Expenses arising from share-based payment transactions

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

	Consolidated	
	Year to	30
	30	30
	September	September
	2013	2012
	\$	\$
Performance rights	182,876	1,280,121
	182,876	1,280,121

CO2 Group Limited
Notes to the consolidated financial statements
30 September 2013
(continued)

40 Parent entity financial information

(a) Summary financial information

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

	30 September 2013	30 September 2012
	\$	\$
Balance sheet		
Current assets	34,867,776	41,098,248
Non-current assets	<u>7,191,142</u>	<u>2,744,097</u>
Total assets	<u>42,058,918</u>	<u>43,842,345</u>
Current liabilities	658,481	913,242
Non-current liabilities	<u>25,628</u>	<u>20,853</u>
Total liabilities	<u>684,109</u>	<u>934,095</u>
Net assets	<u>41,374,809</u>	<u>42,908,250</u>
<i>Shareholders' equity</i>		
Issued capital	44,288,480	43,785,575
Reserves		
Reserves	5,302,513	5,622,542
Retained earnings	<u>(8,216,184)</u>	<u>(6,499,867)</u>
	<u>41,374,809</u>	<u>42,908,250</u>
Profit or loss for the year	<u>(1,716,317)</u>	<u>(2,088,091)</u>
Total comprehensive income	<u>(1,716,317)</u>	<u>(2,088,091)</u>

40 Parent entity financial information (continued)

(b) Guarantees entered into by the parent entity

There are cross guarantees given by CO2 Group Limited and all its subsidiaries as described in note 34. No deficiencies of assets exist in any of these companies. The parent company has given no other guarantees.

(c) Contingent liabilities of the parent entity

The Parent entity did not have any contingent liabilities as at 30 September 2013 or 30 September 2012. 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 2013, the parent entity had no contractual commitments for the acquisition of property, plant or equipment.

**CO2 Group Limited
Directors' declaration
30 September 2013**

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 42 to 118 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 September 2013 and of its performance for the year ended on that date, and
- (b) the financial statements and notes set out on pages 42 to 118 are also in accordance with the international financial reporting standards issued by the International Accounting Standards Board
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (d) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 34 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 34.

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

This declaration is made in accordance with a resolution of Directors.



Andrew William Thorold Grant
Melbourne
29th November 2013

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 consolidated balance sheet as at 30 September 2013, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated 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 43 to 119.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

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

Opinion

In our opinion:

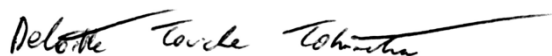
- (a) the financial report of CO2 Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 September 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report


We have audited the Remuneration Report included in pages 22 to 31 of the directors' report for the year ended 30 September 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Ian Sanders
Partner
Chartered Accountants
Melbourne, 29 November 2013