



carbonconscious

ABN 20 129 035 221

Carbon Conscious and Controlled Entities Annual Financial Report
for the Year Ended 30 June 2011.

ANNUAL REPORT 2011





ABN 20 129 035 221

DIRECTORS

PETER BALSARINI, Chief Executive Officer

STEPHEN LOWE, Executive Chairman

TREVOR STONEY, Non-Executive Director

KENT HUNTER, Non-Executive Director

ANDREW MCBAIN, Non-Executive Director

ROBERT PAYNE, Non-Executive Director

COMPANY SECRETARY

NICKI FARLEY

REGISTERED OFFICE

9A AGNEW WAY, SUBIACO WA 6008

PRINCIPAL PLACE OF BUSINESS

9A AGNEW WAY, SUBIACO WA 6008

SHARE REGISTER

ADVANCED SHARE REGISTRY SERVICES

150 STIRLING HIGHWAY, NEDLANDS WA 6009

SOLICITORS

PRICE SIERAKOWSKI

LEVEL 24, 44 ST GEORGES TERRACE, PERTH WA 6000

BANKERS

COMMONWEALTH BANK OF AUSTRALIA

150 ST GEORGES TERRACE, PERTH WA 6000

AUDITORS

HLB MANN JUDD

LEVEL 4, 130 STIRLING STREET, PERTH WA 6000

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Dear Shareholder,

The 2011 financial year has been a busy and productive time for Carbon Conscious, and suggests that the coming year will see much growth on foundations already laid by the Company. It will also be an important time in regards to further planning for Carbon Conscious' future.

The Australian Government introduced its carbon price legislation to the Parliament on 12 September 2011 and we expect passage through both houses by the end of 2011 ahead of the scheme's commencement on 1 July 2012. This important development will provide certainty for the carbon capture industry in which our company operates and holds a leading position. We also believe it will trigger greater demand for, and interest in, our industry and it is important that we assert the knowledge and experience we have gained in carbon capture operations since our establishment.

With this in mind, the past 12 months have seen Carbon Conscious restructure its executive team to put the Company in the best possible position. We have welcomed back Andrew McBain, the founder and initial developer of Carbon Conscious, to take a non-executive director role with the Company. He is helping CCF with investor relations, communication and promotion, which will be very important to growing our business as we move forward.

New directors Kent Hunter and Dr Robert Payne joined the board as Non-Executive Directors in December. Both men have significant experience in the corporate sector, which will be beneficial to CCF. We also

appointed a new Company Secretary Nicki Farley, which has allowed Peter Balsarini to move out of that role and concentrate solely on his work as the Company's Chief Executive Officer.

The announcement of our expansion into the New Zealand carbon capture market in March 2011 was a very exciting and significant step for the Company. This expansion came about through a deal agreed with a major Australasian energy company. The contract capitalises on the establishment of forestry in the New Zealand Emission Trading Scheme, which commenced for most industry sectors in 2010, and involves plantings to occur over a number of years.

The New Zealand expansion offers us an important opportunity to capitalise on our technical and operational capabilities as well as build upon our client relationships. The carbon market has experienced further growth in New Zealand due to the ETS introduction there, and the nation has reliable rainfall, strong property laws and a government that is stable and supportive to the industry. Tom Reynolds, who has more than 25 years of experience in the New Zealand forestry sector, moved back to New Zealand in his new role as Carbon Conscious New Zealand's General Manager.

I believe these changes put Carbon Conscious in good stead for further growth and development over the next few years.

I would like to thank all Carbon Conscious staff and members of the executive team, particularly our CEO Peter, for their work over the past year. I also thank our loyal shareholders for their support and look forward to working to increase their rewards over the coming years.

A handwritten signature in black ink, appearing to read 'S. Lowe', written in a cursive style.

Stephen Lowe

Chairman
Carbon Conscious Limited



Carbon Conscious has signed a number of significant deals over the past 12 months that have played an important part in our continual growth.

In October last year we signed an Australian-first agreement with Perenia Pty Ltd to supply 10,000 future internationally exportable Australian Government-backed Assigned Amount Units. Perenia is a carbon solution provider owned by Mitsui & Co. Ltd, Pacific Hydro and SMEC, and it was an important step for Carbon Conscious in securing the deal. It will see Carbon Conscious plant approximately 60,000 Mallee Eucalypt trees on marginal WA farmland over several years, starting this year, to deliver AAUs to Perenia under the Government's Carbon Farming Initiative.

We also secured offset deals with Wesfarmers Insurance and the City of Perth in the latter part of 2010. These deals were significant achievements and allowed Carbon Conscious to gain further exposure as a leading provider in the carbon capture industry. We are hopeful that these agreements will also lead to further new partnerships in the future.

A \$2.3 million debt facility secured with the Commonwealth Bank of Australia over an eight-year term in December 2010 was

another positive step for Carbon Conscious, as to our knowledge it was the first time a carbon sink provider had negotiated such an arrangement with a mainstream lender such as CBA. It again highlights the strength of our business plan. The debt facility will help us undertake further plantings, and I believe we are well placed to further expand our operations in the lead up to the introduction of the Australian Government's carbon price legislation on 1 July 2012.

In addition to other changes to the Carbon Conscious board over the past year, in July our Non-Executive Chairman Stephen Lowe stepped up his role to that of Executive Chairman. While this is a recent change and it occurred after the end of the 2011 financial year, I believe this is an important step that takes advantage of Stephen's strengths and background as an experienced international energy trader and dealmaker for the greater benefit of Carbon Conscious. The Company is on the verge of sustained growth and Stephen's greater leadership during this critical time will be integral.

I would like to thank the Carbon Conscious board of management and staff for their support over the past year. I believe 2012 will be a very important time in our Company's history and am excited about what the year will bring.

A handwritten signature in black ink, appearing to read 'P. Balsarini', written over a light-colored background.

Peter Balsarini

CEO & Executive Director
Carbon Conscious Limited

"I believe we are well placed to further expand our operations in the lead up to the introduction of the Australian Government's carbon price legislation on 1 July 2012."



YOUR DIRECTORS SUBMIT THE ANNUAL FINANCIAL REPORT OF THE COMPANY AND THE ENTITIES IT CONTROLS (HEREAFTER REFERRED TO AS "THE GROUP") FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011.

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DIRECTORS

The names of directors who held office during or since the end of the financial year and until the date of this report are as follows. Directors were in office for this entire year unless otherwise stated.

Peter Balsarini

43, B.Ec, M.Bus, CPA (Chief Executive Officer)

Mr Balsarini holds a Bachelor of Economics Degree, is a CPA and has a Masters Degree in Business. Mr Balsarini has over 20 years' experience in the financial services industry having spent considerable time both as a public practising accountant and Chief Financial Officer of a major Funds Management business. Mr Balsarini's experience spans project feasibility, investment case analysis, implementation of financial control systems, staff management, taxation, product development and distribution amongst others. Mr Balsarini has been with the Company since its inception and is primarily responsible for the development and execution of the business model of Carbon Conscious Limited.

Stephen Lowe

49, Diploma of Financial Services (Executive Chairman) – Appointed 22 July 2011, previously Non-Executive Chairman

Mr Lowe has 27 years' experience in capital and financial markets, with a focus on energy commodities for the last 13 years. Mr Lowe previously assumed the role of Head of Energy Services with Tricom and prior to that he held the role of General Manager Trading with Integral Energy, a government owned electricity, distribution and retailing company for over five years. Mr Lowe is the COO of a renewable energy company that will be converting waste to energy. Mr Lowe brings to Carbon Conscious senior relationships with major energy and mining companies, investment banks and fund managers in national and international markets.

Trevor Stoney

66 (Non-Executive Director) - Appointed 21 July 2010

Mr Stoney brings more than 48 years of involvement, knowledge and relationships within the agricultural industry to Carbon Conscious. From 1962 until the farm's sale in 2009, Mr Stoney managed his family's mixed farming operations of 70,000 acres which stretched from Dongara in the mid-west, Esperance in the south and Donnybrook in the south-west of Western Australia.

In addition to being a Director at Carbon Conscious, Mr Stoney is also on the board of directors of AACL, a publicly listed company that is the largest grain production enterprise in Australia and which Carbon Conscious is associated with. Mr Stoney's experience brings invaluable insight into the carbon market and its close relationship with Australian farmers.

Kent Hunter

44, BBus, CA (Non-Executive Director) - Appointed 29 November 2010

Mr Hunter is a Chartered Accountant with over 16 years' corporate and company secretarial experience. He has been involved in the listing of over 20 companies on ASX in the past 9 years. He has experience in capital raisings, ASX compliance and regulatory requirements. Mr Hunter founded Mining Corporate in 2000 and established a business of identifying projects requiring a route to commercialisation including industrial, technological, mining and exploration companies, including ASX listings.

Andrew McBain

37 (Non-Executive Director) - Resigned 21 July 2010 and reappointed 16 February 2011

Mr McBain was the Managing Director of leading agri-investment manager AACL, which operates the largest broad acre cropping operation in Australia, planting approximately 700,000 acres of wheat, barley and canola in 2009. Mr McBain was the key concept developer, driver and promoter of the AACL model and was instrumental in the establishment and early development of the Carbon Conscious business. AACL is partly owned by Broadacre Asset Management Limited, a company which holds 9.28% (as at 30 June 2011) of Carbon Conscious Limited's shares. Mr McBain was also an Executive Director of Broadacre Asset Management Limited.

Robert Payne

54, B.Sc. (Hons), Ph.D., GAICD (Non-Executive Director) - Appointed 30 November 2010

Dr Payne has significant corporate finance and operational experience coupled with technical expertise in the financial, industrial, resources and technology sectors. Between 2000 and 2010 he was Chief Executive Officer of State Development Fund Limited and Director of Belgravia Funds Management Pty Ltd. He is currently Managing Director of Guildfords (Aus) Pty Ltd.

Nadaisan Logaraj

63, LL.B (Hons), LL. M., FAICD (Non-Executive Director) - Resigned 24 November 2010

Mr Logaraj's career spans law and investment banking. Mr Logaraj was previously an International Partner of a global law firm, where he was Head of the Corporate & Commercial Group of the firm's Australian offices and Chair of its Business Development Committee. Mr Logaraj subsequently switched careers and became an Executive Director of an Australian investment bank, before taking up a position as Board Director, President of the Financial Solutions Group and Chair of the Risk Management Committee of a leading stockbroking firm in Singapore, until its sale to a Singapore bank. Mr Logaraj holds a Master of Laws degree in International Tax and Public Company Finance from the University of Sydney.

Mr Logaraj is a:

- Fellow of the Australian Institute of Company Directors;
- Member of the NSW Government's Asia Business Council;
- National President of the Australia Singapore Chamber of Commerce;
- Executive Member of the Board of Advisers of the Asia Logistics Council; and
- Ambassador of the University of Sydney and a Mentor (Honorary Associate) at its Graduate School of Government.

Michael Shields

38, B.Com (Non-Executive Director) - Resigned 2 July 2010

Mr Shields is a leading Western Australian farmer with significant interests in a number of large scale agricultural enterprises. Mr Shields completed a Bachelor of Commerce degree at the University of Western Australia and then went on to work in the USA and Australia in the agricultural services divisions of a number of organisations including John Deere, Caterpillar and Westrac. Previously, Mr Shields was a director of Summit Fertilisers Pty Ltd and is currently a director of ASX listed company Marginbet Ltd. During the last three years, Mr Shields has also served as a director of Pilbara Minerals Limited (formerly known as Fortuna Minerals Limited) – 12 November 2007 to 21 November 2008.

COMPANY SECRETARY

Timothy Jones

Resigned 7 July 2010

Mr Jones joined Carbon Conscious in late 2009 as the newly appointed Chief Operating Officer and is a corporate lawyer by background with a number of years of law firm experience followed by almost eight years of experience working in listed companies. His prior role was as a General Manager of an ASX listed company. Mr Jones has experience in strategy development, business development, in-house legal advice and corporate compliance and has been involved in projects relating to intellectual property enforcement, international acquisitions of technology companies, technology licensing, intellectual property due diligence and corporate structuring, including public listings. Mr Jones was also involved in commercial transactions in Australia, Singapore, United States, Canada and the European Union and has previously worked in premier legal teams at Gilbert and Tobin and Minter Ellison.

Nicki Farley

Appointed 30 November 2010

Ms Farley has over 10 years' legal and corporate experience providing advice in relation to capital raisings, ASX listings and corporate compliance. Ms Farley has also held a number of company secretarial roles for ASX listed companies.

CEO, Peter Balsarini assumed the role of Company Secretary in the interim period between the resignation of Timothy Jones and appointment of Nicki Farley.

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INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

The following relevant interests in shares and options of the Company or a related body corporate were held by the directors as at the date of this report.

Directors	Number of options over ordinary shares	Number of fully paid ordinary shares
Peter Balsarini	3,500,000	241,875
Stephen Lowe	1,600,000	19,350
Trevor Stoney	-	5,320,000
Kent Hunter	-	1,245,618
Andrew McBain	-	6,785,880
Robert Payne	-	-

During the financial year the following options were issued to directors as approved by shareholders at the annual general meeting held 29 November 2010.

Directors	Number of options over ordinary shares	Exercise price	Expiry date
Peter Balsarini	1,500,000	\$0.20	30 November 2012
	1,500,000	\$0.25	30 November 2013
Stephen Lowe	500,000	\$0.20	30 November 2012
	500,000	\$0.25	30 November 2013

No shares and options were granted to related parties during or since the end of the financial year.

Details of unissued ordinary shares under options as at the date of this report are as follows:

Number of options	Exercise price	Expiry date
500,000	\$0.60	8 August 2013
300,000	\$0.58	31 December 2011
300,000	\$0.40	31 December 2013
100,000	\$0.60	31 December 2011
4,975,000	\$0.20	30 November 2012
2,000,000	\$0.25	30 November 2013
1,000,000	\$0.15	27 January 2014

There were no ordinary shares issued during the financial year as a result of the exercise of an option.

DIVIDENDS

No dividends have been paid or declared since the start of the financial year. The directors do not recommend the payment of a dividend in respect of the financial year.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were environmental services being the establishment of carbon sinks for the purposes of sequestration of carbon from the atmosphere.

There have been no other significant changes in the nature of those activities during the year.

OPERATING RESULTS FOR THE YEAR

The profit of the Group after providing for income tax amounted to \$854,762 (2010: \$317,330).

FINANCIAL POSITION

The net assets of the consolidated group have increased by \$3,454,813 from 30 June 2010 to \$8,413,645 in 2011.

REVIEW OF OPERATIONS

The Group continues to improve its performance, recognising its second consecutive profit in the financial year ended 30 June 2011.

The Group has two substantial long term contracts with strong counterparties for the continued provision of services associated with bio sequestration that generate revenue over a 15 year period.

The Group also has built a long term asset base which involves agricultural land that has in the majority been planted to native trees for bio sequestration.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes in the state of affairs occurred during the financial year:

- On 19 July 2010 the Company issued 5,000,000 Ordinary Shares (\$500,000) under the terms of the Entitlement Issue Prospectus.
- On 19 July 2010 the Company raised \$500,000 by way of an issue of convertible notes to wholesale clients of Alto Capital to further facilitate future funding and growth of the Company.
- On the 12 September 2010 the Company called and subsequently received funds for five (5) \$100,000 convertible notes under the Broadacre Asset Management (BAM) Convertible Note facility.
- On 13 September 2010 the Company issued 4,580,750 Ordinary Shares (\$458,750) under the terms of the Entitlement Issue Prospectus.
- On 15 September 2010 the Company issued 5,800,000 Ordinary Shares (\$580,000) under the terms of the Entitlement Issue Prospectus.

- On 22 November 2010 the Company called and received funds of \$500,000 representing the remaining five (5) \$100,000 convertible notes under the BAM Convertible Note Facility.
- At the Annual General Meeting held on 29 November 2010, shareholders approved the issue of the following options for nil consideration:
 - 2,000,000 options exercisable at \$0.20 on or before 30 November 2012 to directors;
 - 2,000,000 options exercisable at \$0.25 on or before 30 November 2013 to directors, subject to vesting conditions;
 - 2,975,000 options exercisable at \$0.20 on or before 30 November 2012 to employees, subject to vesting conditions.
- On 22 December 2010 the Company secured a senior debt facility with the Commonwealth Bank of Australia for establishment of Mallee Eucalypt carbon forest sink plantings.
- On 24 December 2010 the Company confirmed that it had re-negotiated convertible note facilities as follows:
 - \$1,000,000 convertible note to Augustus Minerals Limited was repaid (plus accrued interest) and the facility was terminated with no residual obligations between the parties existing.
 - \$500,000 convertible notes to clients of Alto Capital were repaid (plus accrued interest). The original terms of the convertible notes were altered such that the Company could not redraw this facility. The financing party retains the right to subscribe for convertible notes at the end of the funding term and exercise the conversion option. The conversion option is subject to shareholder approval, which if not granted will incur a penalty of 20% of the face value of the note upon repayment.
 - \$1,000,000 convertible note to Broadacre Asset Management Pty Ltd was repaid (plus accrued interest). Carbon Conscious retained the right to draw down on the convertible note in the future while Broadacre Asset Management retained the right to subscribe for convertible notes at the end of the funding term and exercise its conversion option. The conversion option is subject to shareholder approval; however, no penalty applies if not granted.
- On 27 February 2011, the Company issued 1,000,000 options exercisable at \$0.15 each on or before 27 January 2014, subject to vesting conditions, for nil consideration.
- On 31 March 2011, the Company announced an expansion into the New Zealand market through a carbon forest sink agreement with a major Australasian energy company. The contract has a face value of approximately NZ\$11 m over the contract term.
- On 17 June 2011, it was announced that note holders advised of their intention to convert their \$500,000 convertible note into 5,000,000 shares. As disclosed in Significant events after balance date, on 1 July 2011 the company issued 2,662,700 shares to note holders with the remaining 2,337,300 shares subject to shareholder approval.
- On 22 June 2011, the Company issued 5,600,000 Ordinary Shares (\$560,000) for general working capital purposes.
- On 28 June 2011, Broadacre Asset Management Pty Ltd elected to convert its \$1,000,000 convertible note into shares prior to the end of the funding term. As disclosed in Significant events after balance date, on 1 July 2011 the Company announced a re-negotiation of the terms of the conversion.

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SIGNIFICANT EVENTS AFTER BALANCE DATE

The following significant events after balance date have occurred:

- On 1 July 2011, the Company announced that it had negotiated revised terms to the Broadacre Asset Management Convertible Note to the following extent:
 - \$500,000 will be converted into shares in the Company (subject to shareholder approval) at the lower of:
 - 10% discount to the volume weighted average price of the shares on ASX over the 5 days prior to conversion; or
 - \$0.10 per share.

- Extend the funding term to 30 September 2011 in respect of the remaining \$500,000. The remaining \$500,000 notes can be converted during the revised funding term to shares in the Company (subject to shareholder approval) at the lower of:
 - 10% discount to the volume weighted average price of the shares on ASX over the previous 5 days prior to conversion; or
 - \$0.115 per share.

During the revised funding term, no interest will be payable.

- On 1 July 2011, the Company issued 2,662,700 shares to the note holders who exercised their \$500,000 convertible notes at \$0.10 per share on 17 June 2011. The remaining 2,337,300 shares were issued on 2 September 2011, following shareholder approval at the general meeting held on 30 August 2011.
- On 2 September 2011, the Company issued 5,000,000 shares to Broadacre Asset Management on conversion of \$500,000 in convertible notes at \$0.10 per share, following shareholder approval at the general meeting held on 30 August 2011.
- On 10 September 2011, the Company received confirmation from its financier, the Commonwealth Bank of Australia, that it will take no further action in respect of the Company's breach of a debt covenant.
- On 27 September 2011, the Company received notice from Broadacre Asset Management Pty Ltd to convert the remaining \$500,000 notes subject to shareholder approval which will be sought at the Annual General Meeting.

There have been no other matters or circumstances that have arisen after balance date that have significantly affected, or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Therefore, this information has not been presented in this report.

ENVIRONMENTAL LEGISLATION

The Company is not subject to any significant environmental legislation.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has agreed to indemnify all the directors of the Company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company, except where the liability arises out of conduct involving a lack of good faith.

During the financial year the Company paid a premium in respect of a contract insuring the directors and officers of the Company against any liability incurred in the course of their duties to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors of Carbon Conscious Limited (the "Company").

The following persons acted as directors during or since the end of the financial year:

PETER BALSARINI (Chief Executive Officer)

STEPHEN LOWE (Executive Chairman) – appointed 22 July 2011, previously Non-Executive Chairman

TREVOR STONEY (Non-Executive Director) – appointed 21 July 2010

KENT HUNTER (Non-Executive Director) – appointed 29 November 2010

ANDREW MCBAIN (Non-Executive Director) – resigned 21 July 2010 and reappointed 16 February 2011

ROBERT PAYNE (Non-Executive Director) – appointed 30 November 2010

NADAISAN LOGARAJ (Non-Executive Director) – resigned 24 November 2010

MICHAEL SHIELDS (Non-Executive Director) – resigned 2 July 2010

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted the named persons held their current position for the whole of the financial year and since the end of the financial year:

STEVEN BLAKELY (Chief Operating Officer) – appointed 4 October 2010

STEPHEN BODEKER (Chief Financial Officer) – appointed 11 April 2011

DANIEL STEVENS (Director Business Development) – appointed 16 May 2008

RICHARD COLLINS (Director Carbon Estates) – appointed 16 May 2008

THOMAS REYNOLDS (General Manager New Zealand) – appointed 1 September 2010

TIMOTHY JONES (COO and Company Secretary) – appointed 2 November 2009 and resigned 7 July 2010

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REMUNERATION PHILOSOPHY

The performance of the Company depends upon the quality of the directors and executives. The philosophy of the Company in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

REMUNERATION COMMITTEE

Two (2) members of the Board of the Company are delegated by the Board to constitute the Remuneration Committee. The Remuneration Committee makes recommendations to the full Board on appropriate levels of remuneration within the organisation.

REMUNERATION STRUCTURE

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct.

NON-EXECUTIVE DIRECTOR REMUNERATION

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the initial meeting of members held on 2 January 2008 when shareholders approved an aggregate maximum remuneration of \$300,000 per year. The current total remuneration for non-executive directors is \$296,840 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees.

The remuneration of non-executive directors for the year ended 30 June 2011 is detailed in Table 1.

SENIOR MANAGER AND EXECUTIVE DIRECTOR REMUNERATION

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

FIXED REMUNERATION

Fixed remuneration is reviewed periodically by the Board. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Committee has access to external, independent advice where necessary.

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The fixed remuneration component of the most highly remunerated Company executives is detailed in Table 1.

VARIABLE REMUNERATION

The objective of the short term incentive program is to link the achievement of the Company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential short term incentives available are set at a level so as to provide sufficient incentive to the senior management to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

The short term incentives were determined as follows:

- Peter Balsarini (CEO) - bonus based on profitability of the Group
- Richard Collins (Director of Carbon Estates) - bonus based on deliverable carbon credits over the life of the contracts in Australia
- Thomas Reynolds (General Manager New Zealand) - bonus based on deliverable carbon credits over the life of the contracts in New Zealand

The aggregate of annual payments available for executives across the Company is subject to the approval of the Board. Payments made are delivered as a cash bonus in the following reporting year or upon achievement of specific goals or targets.

The Company also makes long term incentive payments to reward senior executives in a manner that aligns this element of remuneration with the creation of shareholder wealth.

EMPLOYMENT CONTRACTS

The employment conditions of the Chief Executive Officer, Peter Balsarini, are formalised in a contract of employment. Mr Balsarini is employed under a three year contract, which commenced on 15 September 2009 and expires on 15 September 2012, and paid at a rate of \$150,000 per annum exclusive of superannuation, plus a performance bonus of \$25,000, plus superannuation. Under the terms of the contract base salary automatically increases by 5% on each anniversary of the contract and is subject to review upon the first EBITDA positive result for the Company. The base rate of \$150,000 per annum was increased to \$200,000 per annum following the profit declared in the 2010 annual accounts.

The employment may be terminated by the Company or Mr Balsarini by giving the other three months' notice in writing. Alternatively, the employment may be terminated by the Company providing compensation instead of the period of notice required. Termination payments due are equal to the balance of the employment outstanding up to a maximum of 12 months' remuneration. Termination payments are not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

2011 REMUNERATION OF DIRECTORS AND NAMED EXECUTIVES

TABLE 1: DIRECTORS' AND NAMED EXECUTIVES REMUNERATION FOR THE YEAR ENDED 30 JUNE 2011

	Primary Benefits			Post employment		Equity	Other	Total	%
	Salary & Fees	Bonuses	Non- Monetary Benefits	Superan-nuation	Prescribed Benefits	Options			Performance Related
	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors									
Peter Balsarini	183,715	25,000	-	18,784	-	82,170	-	309,669	8.1
Michael Shields	-	-	-	-	-	-	-	-	-
Nadaisan Logaraj	21,750	-	-	-	-	-	-	21,750	-
Stephen Lowe	81,750	-	-	-	-	55,556	-	137,306	-
Andrew McBain	20,480	-	-	1,843	-	-	-	22,323	-
Trevor Stoney	51,423	-	-	-	-	-	-	51,423	-
Robert Payne	32,246	-	-	-	-	-	-	32,246	-
Kent Hunter	29,167	-	-	2,625	-	-	-	31,792	-
Total	420,531	25,000	-	23,252	-	137,726	-	606,509	4.1
Executives									
Steven Blakely	65,677	-	-	5,911	-	7,105	-	78,693	-
Stephen Bodeker	32,532	-	-	2,927	-	-	-	35,459	-
Daniel Stevens	95,000	890	-	8,550	-	10,658	-	115,098	0.8
Richard Collins	136,667	18,142	-	9,600	-	16,654	-	181,063	10.0
Thomas Reynolds	81,232	8,557	-	2,477	-	2,664	-	94,930	9.0
Timothy Jones	5,606	-	-	260	-	-	-	5,866	-
Total	416,714	27,589	-	29,725	-	37,081	-	511,109	5.4

OPTIONS GRANTED DURING THE YEAR AS PART OF REMUNERATION 2011

	Value of options granted at grant date	Value of options exercised at exercise date	Value of options lapsed at time of lapse	Total value of options granted, exercised and lapsed	Value of options lapsed during the year	Value of options included in remuneration for the year	% remuneration consisting of options for the year
	\$	\$	\$	\$	\$	\$	%
Directors							
Peter Balsarini	74,506	-	-	74,506	-	82,170	26.5
Michael Shields	-	-	-	-	-	-	-
Nadaisan Logaraj	-	-	-	-	-	-	-
Stephen Lowe	24,831	-	-	24,831	-	55,556	40.5
Andrew McBain	-	-	-	-	-	-	-
Trevor Stoney	-	-	-	-	-	-	-
Robert Payne	-	-	-	-	-	-	-
Kent Hunter	-	-	-	-	-	-	-
Total	99,337	-	-	99,337	-	137,726	22.7
Executives							
Steven Blakely	10,658	-	-	10,658	-	7,105	9.0
Stephen Bodeker	-	-	-	-	-	-	-
Daniel Stevens	10,658	-	-	10,658	-	10,658	9.2
Richard Collins	24,981	-	-	24,981	-	16,654	9.2
Thomas Reynolds	2,664	-	-	2,664	-	2,664	2.8
Timothy Jones	-	-	-	-	-	-	-
Total	48,961	-	-	48,961	-	37,081	7.3

2010 REMUNERATION OF DIRECTORS AND NAMED EXECUTIVES

TABLE 1: DIRECTORS' AND NAMED EXECUTIVES REMUNERATION FOR THE YEAR ENDED 30 JUNE 2010

	Primary Benefits			Post employment		Equity	Other	Total	%
	Salary & Fees	Bonuses	Non-Monetary Benefits	Superannuation	Prescribed Benefits	Options			Performance Related
	\$	\$	\$	\$	\$	\$	\$	\$	
Directors									
Matthew Birney	39,500	-	-	3,555	-	-	-	43,055	-
Peter Balsarini	150,000	25,000	-	13,500	-	68,151	-	256,651	9.7
Michael Shields	41,666	-	-	3,750	-	-	-	45,416	-
Nadaisan Logaraj	50,000	-	-	4,500	-	-	-	54,500	-
Stephen Lowe	50,000	-	-	4,500	-	32,866	-	87,366	-
Andrew McBain	41,666	-	-	3,750	-	21,781	-	67,197	-
Total	372,832	25,000	-	33,555	-	122,798	-	554,185	4.5
Executives									
Daniel Stevens	129,583	29,000	-	9,300	-	5,642	-	173,525	16.7
Richard Collins	120,000	43,306	-	10,800	-	25,959	-	200,065	21.6
Timothy Jones	100,000	-	-	9,000	-	-	-	109,000	-
Total	349,583	72,306	-	29,100	-	31,601	-	482,590	15.0

OPTIONS GRANTED AS PART OF REMUNERATION 2010

	Value of options granted at grant date	Value of options exercised at exercise date	Value of options lapsed at time of lapse	Total value of options granted, exercised and lapsed	Value of options lapsed during the year	Value of options included in remuneration for the year	% remuneration consisting of options for the year
	\$	\$	\$	\$	\$	\$	%
Directors							
Matthew Birney	-	-	-	-	-	-	-
Peter Balsarini	43,333	-	-	43,333	-	43,333	16.9
Michael Shields	37,339	-	-	37,339	(37,339)	-	-
Nadaisan Logaraj	-	-	-	-	-	-	-
Stephen Lowe	95,932	-	-	95,932	-	32,866	37.6
Andrew McBain	37,339	-	-	37,339	-	21,781	32.4
Total	213,943	-	-	213,943	(37,339)	97,980	17.7
Executives							
Daniel Stevens	-	-	-	-	-	5,642	3.4
Richard Collins	-	-	-	-	-	25,959	12.9
Timothy Jones	105,451	-	-	105,451	(105,451)	-	-
Total	105,451	-	-	105,451	(105,451)	31,601	6.5

For details on the valuation of the options, including models and assumptions used, please refer to Note 16. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.



DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Number of meetings eligible to attend	Number of meetings attended
PETER BALSARINI	9	9
STEPHEN LOWE	9	9
TREVOR STONEY	8	8
KENT HUNTER	5	5
ANDREW MCBAIN	3	3
ROBERT PAYNE	4	4
NADAISAN LOGARAJ	4	3
MICHAEL SHIELDS	-	-

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company, for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 25 and forms part of this directors' report for the year ended 30 June 2011.

NON-AUDIT SERVICES

No non-audit services were provided by the external auditors during the year ended 30 June 2011.

Signed in accordance with a resolution of the directors.

Peter Balsarini

CEO & Executive Director

Perth, 27 September 2011

The Board of Carbon Conscious Limited is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of Carbon Conscious Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

Carbon Conscious Limited's Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations.

Carbon Conscious Limited's corporate governance practices were in place throughout the year ended 30 June 2011 and were substantially compliant with the Council's recommendations.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 FUNCTION

At a meeting held on 29 January 2008, the Board of Carbon Conscious Limited approved the Board Charter formalising the functions and responsibilities of the Board. The Company's Board Charter is located on its website (www.carbonconscious.com.au). The Board is ultimately responsible for all matters relating to the running of the Company.

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

The Board has the final responsibility for the successful operations of the Company. In general, it is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company. In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Company's Code of Conduct is located on its website (www.carbonconscious.com.au).

1.2 OBJECTIVE

The objective of the Board is to provide an acceptable rate of return to the Company's shareholders taking into account the interests of the Company's employees, customers, suppliers, lenders and the communities in which it operates.

1.3 RESPONSIBILITIES

The Board is responsible for:

- Overseeing and approving the Company's strategic and operating objectives;
- Reviewing and approving the Company's financial position, systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestments;
- Being responsible for the Company's senior management and personnel including appointing and, where appropriate, removing the Chairman;
- Ratifying the appointment and, where appropriate, the removal of the Managing Director (if applicable) and the Company Secretary;
- Evaluating the performance of the Executive Directors and the Senior Management Team and determining their remuneration;
- Delegating appropriate powers to the Executive Directors and senior management to ensure the effective day-to-day management of the business and monitoring the exercise of these powers;

- Ensuring that policies and procedures are in place, consistent with the Company's objectives, and that the Company and its officers act legally, ethically and responsibly in all matters; and
- Ensuring corporate accountability to the shareholders primarily through adopting an effective shareholder communications strategy, encouraging effective participation at general meetings and, through the Chairman, being the key interface between the Company and its shareholders.

Directors' appointment letters outline obligations of each Director to the Company and Board. The roles of the individual members of the Board are located on the Company's website (www.carbonconscious.com.au).

1.4 PERFORMANCE

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. The performance criteria against which Directors and Executives are assessed are aligned with the financial and non-financial objectives of Carbon Conscious Limited. Directors whose performance is consistently unsatisfactory may be asked to retire. As part of the Board process, the Company reviews performance of the Board at the completion of each meeting. The Company is currently developing further elements of Board evaluation with particular focus on the confidential evaluation process. Board Performance Evaluation Policy is located on its website (www.carbonconscious.com.au).

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PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

2.1 STRUCTURE OF THE BOARD

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report is included in the Directors' Report. Directors of Carbon Conscious Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

In the context of Director independence, 'materiality' is considered from both the Company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following Directors of Carbon Conscious Limited are considered to be independent:

Name	Position
KENT HUNTER	Non-Executive Director
ROBERT PAYNE	Non-Executive Director

The term in office held by each Director in office at the date of this report is as follows:

Name	Term in office
PETER BALSARINI	3.5 years
STEPHEN LOWE	2.5 years
TREVOR STONEY	1 year
KENT HUNTER	<1 year
ANDREW MCBAIN	<1 year
ROBERT PAYNE	<1 year

2.2 RESPONSIBILITIES

The Board is responsible for:

- Overseeing and approving the Company's strategic and operating objectives;
- Reviewing and approving the Company's financial position, systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestments;
- Being responsible for the Company's senior management and personnel including appointing and, where appropriate, removing the Chairman;
- Ratifying the appointment and, where appropriate, the removal of the Managing Director (if applicable) and the Company Secretary;
- Evaluating the performance of the Executive Directors and the Senior Management Team and determining their remuneration;
- Delegating appropriate powers to the Executive Directors and senior management to ensure the effective day-to-day management of the business and monitoring the exercise of these powers;
- Ensuring that policies and procedures are in place, consistent with the Company's objectives, and that the Company and its officers act legally, ethically and responsibly in all matters; and
- Ensuring corporate accountability to the shareholders primarily through adopting an effective shareholder communications strategy, encouraging effective participation at general meetings and, through the Chairman, being the key interface between the Company and its shareholders.

The Company's Board Charter is located on its website (www.carbonconscious.com.au).

2.3 NOMINATION COMMITTEE

The Company does not have a formally constituted nomination committee as the Board considers that the Company's size does not warrant such a committee. The Board oversees the functions normally carried out by a nomination committee. The Company does, however, have procedures for the Board to follow in implementing the best practices of a nomination committee. These are contained within the Board performance evaluation policy. This policy will be reviewed on an ongoing basis.

2.4 APPOINTMENT OF DIRECTORS

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Group's scope of activities, intellectual ability to contribute to Board's duties and physical ability to undertake the Board's duties and responsibilities. The induction process involves site visits, company inspections and review of minutes. The Company's Director Selection Criteria is located on its website (www.carbonconscious.com.au).

Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

2.5 DURATION OF APPOINTMENT

In the interest of ensuring a continual supply of new talent to the Board, all Directors with the exception of the Managing Director will serve for a period of three years before they are requested to stand down for re-election. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a director.

2.6 PERFORMANCE

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. The performance criteria against which Directors and Executives are assessed are aligned with the financial and non-financial objectives of Carbon Conscious Limited. Directors whose performance is consistently unsatisfactory may be asked to retire. The Company's Board Performance Evaluation Policy is located on its website (www.carbonconscious.com.au).

2.7 ACCESS TO PROFESSIONAL ADVICE

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

3.1 DIRECTORS' AND SENIOR EXECUTIVES' CODE OF CONDUCT

To assist the Board in carrying out its functions, it has developed a Code of Conduct to guide the Directors, the Managing Director and other senior executives in the performance of their roles. The Code of Conduct addresses the maintenance of the confidence in the Company's integrity, legal obligations and expectations of shareholders, responsibility and accountability of individuals for reporting and investigating reports of unethical behaviour. The Company's Code of Conduct is located on its website (www.carbonconscious.com.au).

3.2 DIVERSITY POLICY

The Board is committed to promoting a corporate culture that is supportive of diversity and encourages the transparency of Board processes, review and appointment of Directors, senior managers and support staff (www.carbonconscious.com.au).

3.3 MEASURABLE OBJECTIVES FOR DIVERSITY

Due to the size and nature of the company, the Board has not yet set any measurable objectives for diversity beyond the current structure.

3.4 DIVERSITY REPORTING

The Group's current structure is as follows:

	30 June 2011		30 June 2010	
	Female (%)	Male (%)	Female (%)	Male (%)
Gender representation				
Board representation	0%	100%	0%	100%
Key management personnel representation	17%	83%	0%	100%
Group representation	20%	80%	12%	88%

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PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 AUDIT COMMITTEE

The Company does not have a formally constituted audit committee as the Board considers that the Company's size does not warrant such a committee. The Board oversees the functions normally carried out by an audit committee. An Audit Committee Charter has been drafted and is under review by the board of the Company.

4.2 RISK

The identification and effective management of risk is viewed as an essential part of the Company's approach to creating long-term shareholder value.

In recognition of this, the Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. In doing so, the Board has taken the view that it is crucial for all Board members to be a part of this process and as such has not established a separate risk management committee.

The Board oversees an annual assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management, including responsibility for the day to day design and implementation of the Company's risk management and internal control system. Management report to the Board on the Company's key risks and the extent to which it believes these risks are being adequately managed. The Company's Risk Management Policy is located on its website (www.carbonconscious.com.au).

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

5.1 CONTINUOUS DISCLOSURE

The Board has adopted a continuous disclosure policy to ensure that the Company complies with the disclosure requirements of the ASX Listing Rules. The Board and Senior Executives have designated the Managing Director, followed by the Board and the Company Secretary as the persons responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

The Company's Continuous Disclosure Policy is located on its website (www.carbonconscious.com.au).

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

6.1 SHAREHOLDER COMMUNICATION

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and

- requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company's Shareholder Communications Policy is strictly adhered to and is located on its website (www.carbonconscious.com.au). The Company encourages shareholders to visit the website and periodic reports are sent via email to shareholders. Part of each Board Meeting is committed to reviewing shareholder communication and the Company is aware of shareholder movement.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

7.1 RISK MANAGEMENT

The identification and effective management of risk is viewed as an essential part of the Company's approach to creating long-term shareholder value.

In recognition of this, the Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. In doing so, the Board has taken the view that it is crucial for all Board members to be a part of this process and as such has not established a separate risk management committee.

The Board oversees an annual assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management, including responsibility for the day to day design and implementation of the Company's risk management and internal control system. Management report to the Board on the Company's key risks and the extent to which it believes these risks are being adequately managed. Currently, the Board see the key risks of the business as being financial risk, statutory risk, operating risk and key person risk. The Board has implemented steps to identify and ensure succession planning.

7.2 RISK MANAGEMENT STATEMENT

The Board is responsible for the oversight of the Group's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Managing Director and Chief Executive Officer having ultimate responsibility to the Board for the risk management and control framework. The primary objectives of the risk management system at the Company are to ensure:

- all major sources of potential opportunity for and harm to the Company (both existing and potential) are identified, analysed and treated appropriately;
- business decisions throughout the Company appropriately balance the risk and reward trade off;
- regulatory compliance and integrity in reporting is achieved; and
- senior management, the Board and investors understand the risk profile of the Company.

In line with these objectives the risk management system covers:

- operations risk;
- financial reporting;
- compliance / regulations; and
- system/IT process risk.

Arrangements put in place by the Board to monitor risk management include:

- monthly reporting to the Board in respect of operations and the financial position of the Company;
- preparing quarterly rolling forecasts; and
- circulating minutes of relevant Committees to the Board and the Chairman of each respective committee and providing reports to the Board on an annual basis.

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A risk management model is also being developed and will provide a framework for systematically understanding and identifying the types of business risks threatening Carbon Conscious Limited as a whole, or specific business activities within the Company. The Company's Risk Management Statement is located on its website (www.carbonconscious.com.au).

7.3 ATTESTATIONS BY CEO AND CFO

It is the Board's policy that the CEO and the CFO make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing the Annual Report. The CEO and CFO have declared to the Board that the Company's management of its material business risks is effective.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

8.1 REMUNERATION COMMITTEE

Two members of the Board are appointed as the remuneration committee. The Company has procedures for the Board to follow in implementing the best practices of a remuneration and nomination committee. These are contained within the Board performance evaluation policy. This policy will be reviewed on an ongoing basis.

8.2 REMUNERATION POLICY

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee links the nature and amount of Executive Directors' and officers' emoluments to the Company's financial and operational performance.

The expected outcomes of the remuneration structure are:

- retention and motivation of key executives;
- attraction of high quality management to the Company; and
- performance incentives that allow executives to share the success of Carbon Conscious Limited.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and Executives in the current period please refer to the remuneration report, which is contained within the Directors' Report.

8.3 EXECUTIVE DIRECTOR AND SENIOR EXECUTIVE REMUNERATION

The Remuneration Committee is responsible for determining and reviewing compensation arrangements for the Directors themselves and the Chief Executive Officer and executive team.

In determining competitive remuneration rates, the Board seeks independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice should be obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices. Executive Director and Senior Executive remuneration structure is based on base salary, performance based structures and options on equity to align interests. There are no excessive termination payments as such, the termination payments are linked to protection of intellectual property.



8.4 NON-EXECUTIVE DIRECTOR REMUNERATION

Shareholders approve the maximum aggregate remuneration for Non-Executive Directors. The Board determines actual payments to directors and reviews their remuneration annually, based on independent external advice with regard to market practice, relativities, and the duties and accountabilities of directors. Non-Executive Directors are entitled to options and, although this is a departure from the standard in a start up company, this is an important way to preserve cash and reward Non-Executive Directors as well as aligning interests. A review of directors' remuneration is conducted annually to benchmark overall remuneration including retirement benefits. The Company's Remuneration Statement is located on its website (www.carbonconscious.com.au). There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-Executive Directors.

8.5 PERFORMANCE BASED REMUNERATION

The Board recognises that Carbon Conscious Limited operates in a global environment. To prosper in this environment, we must attract, motivate and retain key executive staff.

The principles supporting our remuneration policy are that:

- Reward reflects the competitive global market in which we operate.
- Individual reward is based on performance across a range of indicators that apply to delivering results across the Company.
- Rewards to executives are linked to creating value for shareholders.
- Executives are rewarded for both financial and non-financial performance.
- Remuneration arrangements are equitable and facilitate the deployment of senior management across the Company.
- Senior managers receive a significant component of their reward in equity and are required to retain that holding over time.

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8.6 MARKET COMPARISONS

Consistent with attracting and retaining talented executives, the Board endorses the use of incentive and bonus payments. The Board continues to seek external advice to ensure reasonableness in remuneration scale and structure, and to compare the Company's position with the external market. The impact and high cost of replacing senior employees and the competition for talented executives requires the committee to reward key employees when they deliver consistently high performance.

There are procedures in place, agreed by the Board, to enable Directors in the furtherance of their duties to seek independent professional advice at the Company's expense.

Principle / Recommendation	Requirement	Compliance	Reference
Principle 1	Lay Solid Foundations for Management and Oversight		
Recommendation 1.1	Functions of the Board and Senior Executives	Yes	1.1, 1.2, 1.3, Website
Recommendation 1.2	Performance Evaluation of Senior Executives	Yes	1.4
Recommendation 1.3	Reporting on Principle 1	Yes	1.1, 1.2, 1.3, 1.4, Website
Principle 2	Structure the Board to Add Value		
Recommendation 2.1	Independent Directors	Yes	2.1
Recommendation 2.2	Independent Chair	Yes	2.1
Recommendation 2.3	Role of the Chair and CEO	Yes	2.2, Website
Recommendation 2.4	Establishment of Nomination Committee	No	2.3
Recommendation 2.5	Performance Evaluation Process	Yes	2.6, Website
Recommendation 2.6	Reporting on Principle 2	Yes	2.1, 2.2, 2.3, 2.6, 2.7, Website
Principle 3	Promote Ethical and Responsible Decision Making		
Recommendation 3.1	Directors' and Senior Executives' Code of Conduct	Yes	3.1, Website
Recommendation 3.2	Diversity policy	Yes	3.2, Website
Recommendation 3.3	Measurable objectives for diversity	No	3.3
Recommendation 3.4	Reporting on proportion of women in the organisation	No	3.4
Recommendation 3.5	Reporting on Principle 3	Yes	3.1, 3.2, Website
Principle 4	Safeguard Integrity in Financial Reporting		
Recommendation 4.1	Establishment of Audit Committee	No	4.1
Recommendation 4.2	Structure of Audit Committee	No	4.1
Recommendation 4.3	Audit Committee Charter	No	4.1
Recommendation 4.4	Reporting on Principle 4	No	4.1, 4.2, Website
Principle 5	Make Timely and Balanced Disclosure		
Recommendation 5.1	Policy for Compliance with Continuous Disclosure	Yes	5.1, Website
Recommendation 5.2	Reporting on Principle 5	Yes	5.1, Website
Principle 6	Respect the Rights of Shareholders		
Recommendation 6.1	Communications Strategy	Yes	6.1, Website
Recommendation 6.2	Reporting on Principle 6	Yes	6.1, Website
Principle 7	Recognise and Manage Risk		
Recommendation 7.1	Policies on Risk Oversight and Management of Material Business Risks	Yes	7.1, 7.2, Website
Recommendation 7.2	Attestations by CEO and CFO	Yes	7.3
Recommendation 7.3	Risk Management and Internal Control	Yes	7.1, 7.2, Website
Recommendation 7.4	Reporting on Principle 7	Yes	7.1, 7.2, 7.3, Website
Principle 8	Remunerate Fairly and Responsibly		
Recommendation 8.1	Establishment of Remuneration Committee	Yes	8.1, 8.2, Website
Recommendation 8.2	Structure of Remuneration Committee	Yes	8.2
Recommendation 8.3	Non-Executive Director remuneration and; Executive Director and Senior Executive remuneration	Yes	8.3
Recommendation 8.4	Reporting on Principle 8	Yes	8.1, 8.2, 8.3, Website



AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Carbon Conscious Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink, appearing to read 'W M Clark', is shown within a light blue rectangular box.

Perth, Western Australia
27 September 2011

W M CLARK
Partner, HLB Mann Judd



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2011		Consolidated	
	Note	2011	2010
		\$	\$
Revenue	2	7,034,431	6,868,097
Administrative expenses		(347,066)	(572,355)
Compliance and regulatory expenses		(139,736)	(126,216)
Consultancy expenses		(226,090)	(183,466)
Depreciation and amortisation expense		(142,521)	(174,698)
Directors' benefits expense		(468,783)	(431,387)
Employee benefits expense		(364,678)	(707,160)
Financing expenses		(353,956)	(20,620)
Marketing expenses		(101,202)	(304,510)
Occupancy expense		(129,367)	(103,865)
Operating expenses		(3,735,627)	(3,592,396)
Travel expenses		(145,668)	(144,678)
Impairment of financial assets		(9,306)	(29,700)
Share-based payments		(241,912)	(211,491)
Profit before income tax benefit		628,519	265,555
Income tax benefit	3	226,243	51,775
Profit attributable to members of the parent entity		854,762	317,330
Other comprehensive income			
Exchange difference on translating foreign controlled entities		31,476	-
Income tax relating to components of other comprehensive income		-	-
Other comprehensive income for the period		31,476	-
Total comprehensive income attributable to members of the parent entity		886,238	317,330
Basic and diluted earnings per share (cents per share)	4	1.62	0.80

The accompanying notes form part of these financial statements.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011	Note	Consolidated	
		2011	2010
		\$	\$
Current Assets			
Cash and cash equivalents	6	1,254,735	271,919
Trade and other receivables	7	2,053,389	1,554,750
Inventories	8	2,454,637	282,857
Other assets	9	171,564	207,204
Other financial assets	10	10,494	19,800
Total Current Assets		5,944,819	2,336,530
Non-Current Assets			
Carbon development expenditure		-	360,866
Property, plant and equipment	11	9,936,207	6,243,597
Total Non-Current Assets		9,936,207	6,604,463
Total Assets		15,881,026	8,940,993
Current Liabilities			
Trade and other payables	12	1,853,923	2,876,207
Interest-bearing liabilities	13	5,450,298	1,046,419
Total Current Liabilities		7,304,221	3,922,626
Non-Current Liabilities			
Interest-bearing liabilities	13	107,596	59,535
Deferred tax liability	3	55,564	-
Total Non-Current Liabilities		163,160	59,535
Total Liabilities		7,467,381	3,982,161
Net Assets		8,413,645	4,958,832
Equity			
Issued capital	14	9,839,094	7,512,431
Reserves	14	900,066	626,678
Accumulated losses		(2,325,515)	(3,180,277)
Total Equity		8,413,645	4,958,832

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2011	Note	Consolidated	
		Inflows/ (Outflows)	Inflows/ (Outflows)
		2011	2010
		\$	\$
Cash flows from operating activities			
Receipts from customers		6,633,366	5,614,683
Payments to suppliers and employees		(6,682,154)	(6,159,845)
Interest received		38,924	81,745
Interest paid		(203,833)	(10,620)
Other revenue		-	56,216
Net cash used in operating activities	19	(213,697)	(417,821)
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,523,975)	(3,348,176)
Proceeds from the sale of plant and equipment		10,000	26,500
Purchase of available-for-sale investments		-	(49,500)
Net cash used in investing activities		(5,513,975)	(3,371,176)
Cash flows from financing activities			
Proceeds from the issue of shares		2,098,750	240,968
Costs on the issue of shares		(7,557)	(10,800)
Proceeds from convertible notes		3,000,000	1,000,000
Repayment of convertible notes		(2,500,000)	-
Proceeds from bank bill facilities		4,150,000	-
Repayment of finance leases		(30,705)	(23,361)
Net cash provided by financing activities		6,710,488	1,206,807
Net increase/(decrease) in cash and cash equivalents		982,816	(2,582,190)
Cash and cash equivalents at beginning of year		271,919	2,854,109
Cash and cash equivalents at end of year	6	1,254,735	271,919

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2011	Consolidated				
	Issued capital	Accumulated losses	Share-based payment reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$	\$
Balance at 30 June 2009	7,316,014	(3,497,607)	415,187	-	4,233,594
Profit attributable to members	-	317,330	-	-	317,330
Total comprehensive income for the year	-	317,330	-	-	317,330
Share based payments	-	-	211,491	-	211,491
Shares issued during the year	232,217	-	-	-	232,217
Transaction costs on shares issued during the year	(35,800)	-	-	-	(35,800)
Balance at 30 June 2010	7,512,431	(3,180,277)	626,678	-	4,958,832
Profit attributable to members	-	854,762	-	-	854,762
Foreign currency translation differences	-	-	-	31,476	31,476
Total comprehensive income for the year	-	854,762	-	31,476	886,238
Share based payments	-	-	241,912	-	241,912
Shares issued during the year	2,365,020	-	-	-	2,365,020
Transaction costs on shares issued during the year	(38,357)	-	-	-	(38,357)
Balance at 30 June 2011	9,839,094	(2,325,515)	868,590	31,476	8,413,645

The accompanying notes form part of these financial statements.

For the Year Ended 30 June 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements and notes represent those of Carbon Conscious Limited and Controlled Entities (the “Group”).

The financial statements were authorised for issue on 27 September 2011 by the directors of the Group.

(A) BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

The financial report of Carbon Conscious Limited complies with all Australian equivalents to International Financial Reporting Standards (IFRS) in their entirety. Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected financial assets for which the fair value basis of accounting has been applied.

Going concern

The financial report has been prepared on a going concern basis notwithstanding the deficiency in working capital of \$1,359,402. The directors believe this basis is appropriate because of the following:

- Convertible note holders totalling \$733,730 advised the Group of their intention to convert to shares subsequent to balance date, as disclosed in note 13;
- The Commonwealth Bank of Australia advised subsequent to balance date that it will not take any action in respect of the Group’s breach of a debt covenant, as disclosed in note 13. The Group classified \$3,750,000 of borrowings due for repayment in excess of 12 months from 30 June 2011 as current liabilities in the statement of financial position. This classification has been made to comply with Australian Accounting Standards even though the directors are confident the debt is not repayable within 12 months of balance date.

(B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Carbon Conscious Limited at the end of the reporting period. A controlled entity is any entity over which Carbon Conscious Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

Where controlled entities have entered (left) the Group during the year, their operating results have been included (excluded) from the date control was obtained (ceased). A list of controlled entities is contained in Note 16 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

(C) INCOME TAX

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date. Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(D) INVENTORIES

Inventories consisting of trees and seeds are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated selling expenses.

Cost comprises all production, acquisition and conversion costs. At the end of each period, inventory cost is evaluated based on the recoverable value and current market pricing to determine whether any write down is appropriate. To the extent that any impairment arises,

losses are recognised in the period they occur. Additionally, the costs associated with producing inventories are charged to the statement of comprehensive income in the same period as the related revenues are recognised.

(E) PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Land is measured at cost, less any impairment losses recognised after the date of the recognition.

Depreciation is calculated using the diminishing value method or straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment – 7.5% to 37.5% diminishing value

Leasehold improvements – 6.6% to 50% straight line

Motor vehicles – 13% to 30% diminishing value

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of 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 an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

(E) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the operating expenses line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

(ii) Revaluations

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss, except that a decrease offsetting a previous revaluation increase for the same asset is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amounts of the assets and depreciation based on the assets' original costs.

Additionally, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(iii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(F) CASH AND CASH EQUIVALENTS

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(G) FINANCIAL INSTRUMENTS

Recognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and has either:
 - transferred substantially all the risks and rewards of the asset, or
 - neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may

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repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Classification and subsequent measurement

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the year established generally by regulation or convention in the marketplace.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of

another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

Impairment of financial assets

The Group assesses at each balance date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery

of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(iii) Available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the statement of comprehensive income. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(H) LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs - refer Note 1(m).

Finance leased assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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(I) TRADE AND OTHER RECEIVABLES

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within periods ranging from 7 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Company. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income 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 statement of comprehensive income.

(J) IMPAIRMENT OF ASSETS

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(K) CARBON DEVELOPMENT EXPENDITURE

Costs in relation to the development of carbon sinks, other than where the Group is developing carbon sinks for third parties, are initially accumulated as a non-current asset. It must be probable that the costs will generate sufficient future economic benefits to recover the carrying amount and that the costs are clearly identifiable and allocable to a specific project. Costs are reviewed annually for impairment.

After costs are capitalised, they are subsequently transferred to inventories in the proportion that saleable carbon credits are produced relative to the expected output from each specific project.

(L) FUNCTIONAL AND PRESENTATION CURRENCY

The functional currency of each of the Group's companies is measured using the currency of the primary economic environment in which that company operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates

prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

(M) BORROWING COSTS

Borrowing costs are recognised as an expense when incurred except those that relate to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

(N) REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised for the major business activities of the Group as follows:

- Sale of carbon credits* – revenue from the sale of carbon credits is recognised when the Group has transferred to the buyer the significant risks and rewards of the ownership of the carbon credits.
- Project revenue* – where the company undertakes the development of carbon sinks for third parties, revenue is recognised in proportion to the percentage completion of the project. Management related income is recognised on an accrual basis in accordance with the substance of the relevant contract.
- Interest revenue* – is recognised as it accrues, taking into account the effective yield on the financial asset.

(O) OTHER TAXES

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(P) PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of

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comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(Q) TRADE AND OTHER PAYABLES

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(R) EMPLOYEE LEAVE BENEFITS

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave 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 reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(S) SHARE-BASED PAYMENT TRANSACTIONS

(i) Equity settled transactions

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments,

whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

To provide these benefits, the Group currently has in place an Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black and Scholes option pricing model, further details of which are given in Note 15.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Carbon Conscious Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 4).

(ii) *Cash settled transactions*

The Group also provides benefits to employees in its electronics segment in the form of cash-settled share-based payments, whereby employees render services in exchange for cash, the amounts of which are determined by reference to movements in the price of the shares of Carbon Conscious Limited.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black and Scholes formula taking into account the terms and conditions upon which the instruments were granted (see Note 15). This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is re-measured to fair value at each balance date up to and including the settlement date with changes in fair value recognised in profit or loss.

(T) ISSUED CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(U) EARNINGS PER SHARE

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;

- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential Ordinary Shares; divided by the weighted average number of Ordinary Shares and dilutive potential Ordinary Shares, adjusted for any bonus element.

(V) COMPARATIVES

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(W) CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

(i) *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black and Scholes model, using the assumptions detailed in Note 15.

(ii) *Planting Program Completion*

The planting season program extends over a 12 month period and involves the identification, preparation and planting of suitable land to trees. The annual planting program finalises in approximately September of each year depending on the size of the planting activities for the season and the rainfall patterns. As at 30 June the Directors are required to make estimates of planting program activities completed and recognise appropriate income and expenses to reflect this activity. Directors utilise the methods as outlined in AASB 111 Construction Contracts to provide conceptual framework for such estimations.

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(iii) Land Valuation

The Company reviews the value of land held as an asset on an annual basis. A combination of external valuation processes and internal valuation models are used to assess any potential impairment of this value.

(X) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the CEO and Board. Reportable segments are consistent with operating segments.

(Y) INTEREST BEARING LOANS AND BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects where material.

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

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

(Z) ADOPTION OF NEW AND REVISED STANDARDS

In the year ended 30 June 2011, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting year.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

(AA) PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, Carbon Conscious Limited, disclosed in note 22 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 Carbon Conscious Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

NOTE 2: REVENUES AND EXPENSES

	Consolidated	
	2011	2010
(a) Revenue	\$	\$
Bank interest received	38,924	76,017
Planting income	6,661,025	6,479,688
Carbon sales	87,490	270,451
Land licence fees	112,500	37,500
Other income	134,492	4,441
Total	7,034,431	6,868,097
(b) Expenses	\$	\$
Operating lease rental expense	80,904	60,363
Impairment of financial assets	9,306	29,700
Share-based payment expense	241,912	211,491

NOTE 3: INCOME TAX BENEFIT

	Consolidated	
	2011	2010
Income tax recognised in profit and loss	\$	\$
The major components of the income tax benefit are:		
R&D tax offset refund in respect of prior years	281,483	51,775
Deferred tax expense – temporary differences	(55,240)	-
Income tax benefit	226,243	51,775
The prima facie tax on profit before income tax is reconciled to the income tax benefit as follows:		
Profit from continuing operations before income tax benefit	628,519	265,555
Notional income tax at the Australian corporate tax rate of 30%	188,556	79,666
Tax effect of tax concessions associated with capital raising expenditure	(41,006)	(32,137)
Tax effect of permanent differences which are not deductible in calculating taxable income	99,671	105,772
Deferred tax in relation to timing differences	(46,573)	(30,148)
Benefit of tax losses not previously recognised	(190,082)	(123,153)
Deferred tax asset not recognised	44,674	-
R&D tax offset	(281,483)	(51,775)
Income tax benefit	(226,243)	(51,775)
Deferred tax asset not recognised:		
Income tax losses	397,860	742,499
Other	475	66,895
Total	398,335	809,394
Deferred tax liabilities comprise:		
Timing differences	90,526	-
Income tax losses	(34,962)	-
Total	55,564	-

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NOTE 4: EARNINGS PER SHARE

	Consolidated	
	2011	2010
	Cents per share	Cents per share
Basic earnings/(loss) per share	1.62	0.80

The earnings and weighted average number of Ordinary Shares used in the calculation of basic earnings per share is as follows:

	\$	\$
Profit for the year	854,762	317,330
	No.	No.
Weighted average number of Ordinary Shares outstanding during the year used in calculating basic EPS	52,831,213	39,741,707

DILUTED EARNINGS PER SHARE

The Company has options outstanding that are potential Ordinary Shares. They are not considered to be dilutive in nature as options only have a dilutive effect when the average market price of Ordinary Shares during the period exceeds the exercise price of the options.

The Company has convertible notes which have terms that may see these notes converted from debt to equity at 30 June 2011. The number of shares converted under these convertible notes is a function of the share price at and around the time of conversion and therefore it is not possible to calculate the impact on earnings per share calculations.

NOTE 5: SEGMENT REPORTING

The Group has two reportable segments, as described below, which are the Group's strategic divisions. These divisions offer different products and services, and are managed separately as they require different expertise, marketing strategies and fall under different jurisdictions. For each of the strategic divisions, the CEO and Board of Directors review internal management reports on at least a quarterly basis.

The following summary describes the operations in each of the Group's reportable segments:

- Australia – Includes the planting of Mallee trees in the marginal wheatbelt land of Western Australia to produce carbon credits.
- New Zealand – Includes the planting of Pine trees in Northern New Zealand to produce carbon credits under the Emissions Trading Scheme in New Zealand.

Information regarding the results of each reportable segment is included below. Performance is measured on net profit before taxation as detailed in the management reports presented to the CEO and Board of Directors.

Year ended 30 June 2011	Australia	New Zealand	Eliminations	Consolidated
	\$	\$	\$	\$
REVENUE				
Sales to external customers	5,136,587	1,380,240	-	6,516,827
Other revenues from external customers	111,770	366,910	-	478,680
Interest revenue	38,740	184	-	38,924
Total segment revenue	5,287,097	1,747,334	-	7,034,431
EXPENSES				
Cost of sales	3,284,401	451,226	-	3,735,627
Interest expense	349,820	4,136	-	353,956
Depreciation and amortisation	138,228	4,293	-	142,521
Other costs	1,021,032	1,146,991	5,785	2,173,808
Total segment expenses	4,793,481	1,606,646	5,785	6,405,912
Net profit before tax	493,616	140,688	(5,785)	628,519
Income tax benefit / (expense)	281,483	(55,240)	-	226,243
Net profit after tax	775,099	85,448	(5,785)	854,762
Foreign exchange translation	-	-	31,476	31,476
Total comprehensive income	775,099	85,448	25,691	886,238

SEGMENT ASSETS				
Current assets	6,709,403	974,433	(1,739,017)	5,944,819
Non-current assets	8,534,740	1,401,467	-	9,936,207
Total segment assets	15,244,143	2,375,900	(1,739,017)	15,881,026
SEGMENT LIABILITIES				
Current liabilities	6,862,356	2,205,995	(1,764,130)	7,304,221
Non-current liabilities	79,282	83,878	-	163,160
Total segment liabilities	6,941,638	2,289,873	(1,764,130)	7,467,381
Net segment assets	8,302,505	86,027	25,113	8,413,645
EQUITY				
Issued Capital	9,839,094	80	(80)	9,839,094
Reserves	868,590	499	30,977	900,066
Accumulated (losses) / profits	(2,405,179)	85,448	(5,784)	(2,325,515)
Total Equity	8,302,505	86,027	25,113	8,413,645
Capital expenditure	4,144,082	1,379,893	-	5,523,975

CASH FLOW INFORMATION				
Net cash flow from operating activities	(87,784)	(125,913)	-	(213,697)
Net cash flow from investing activities	(5,898,172)	(1,379,893)	1,764,090	(5,513,975)
Net cash flow from financing activities	6,710,485	1,764,093	(1,764,090)	6,710,488
Net increase/(decrease) in cash	724,529	258,287	-	982,816
Cash at beginning of year	271,919	-	-	271,919
Cash at end of year	996,448	258,287	-	1,254,735

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NOTE 6: CASH AND CASH EQUIVALENTS

	Consolidated	
	2011	2010
	\$	\$
Cash at bank and on hand	1,254,735	271,919

Cash at bank earns interest at floating rates based on daily bank deposit rates.

NOTE 7: TRADE AND OTHER RECEIVABLES

	Consolidated	
	2011	2010
Current	\$	\$
Trade receivables ⁽ⁱ⁾	2,017,608	1,419,693
GST recoverable	35,781	135,057
Total	2,053,389	1,554,750

(i) Trade receivables are non-interest bearing and are generally on 7 to 30 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. No impairment loss has been recognised by the Group in the current year (2010: nil).

At the 30 June, the ageing analysis of trade receivables is as follows:	\$	\$
0 – 30 days	1,923,807	1,388,549
31 – 60 days	90,500	-
61 – 90 days, past due not impaired	-	-
61 – 90 days, considered impaired	-	-
+ 91 days, past due not impaired	3,301	31,144
+ 91 days, considered impaired	-	-
Total	2,017,608	1,419,693

NOTE 8: INVENTORIES

	Consolidated	
	2011	2010
	\$	\$
Plantations	2,454,637	282,857

NOTE 9: OTHER ASSETS

	Consolidated	
	2011	2010
	\$	\$
Prepayments	171,564	205,279
Other	-	1,925
Total	171,564	207,204

NOTE 10: OTHER FINANCIAL ASSETS

	Consolidated	
	2011	2010
	\$	\$
Available-for-sale investments carried at fair value:		
Listed shares ⁽ⁱ⁾	10,494	19,800

(i) Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	Consolidated				
	Leasehold improvements	Plant & Equipment	Motor Vehicles	Land	Total
	\$	\$	\$	\$	\$
Year ended 30 June 2011					
As at 1 July 2010, net of accumulated depreciation	-	410,747	132,865	5,699,985	6,243,597
Additions	-	157,677	138,418	3,553,534	3,849,629
Disposals	-	-	(21,254)	-	(21,254)
Depreciation charge for the year	-	(91,693)	(44,072)	-	(135,765)
At 30 June 2011 net of accumulated depreciation	-	476,731	205,957	9,253,519	9,936,207
Year ended 30 June 2010					
As at 1 July 2009 net of accumulated depreciation	13,626	127,109	111,188	853,932	1,105,855
Additions	-	344,852	74,346	4,846,053	5,265,251
Disposals	-	-	(24,090)	-	(24,090)
Depreciation charge for the year	(13,626)	(61,214)	(28,579)	-	(103,419)
At 30 June 2010 net of accumulated depreciation	-	410,747	132,865	5,699,985	6,243,597
At 30 June 2011					
Cost	-	648,645	283,745	9,253,519	10,185,909
Accumulated depreciation	-	(171,914)	(77,788)	-	(249,702)
Net carrying amount	-	476,731	205,957	9,253,519	9,936,207
At 30 June 2010					
Cost	31,502	490,968	173,007	5,699,985	6,395,462
Accumulated depreciation	(31,502)	(80,221)	(40,142)	-	(151,865)
Net carrying amount	-	410,747	132,865	5,699,985	6,243,597

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NOTE 12: TRADE AND OTHER PAYABLES

	Consolidated	
	2011	2010
Current	\$	\$
Trade payables	994,603	488,955
Employee benefits accrual	150,295	114,307
Land settlement creditors	-	1,803,050
Sundry payables and accrued expenses	709,025	469,895
Total	1,853,923	2,876,207

Trade payables are non-interest bearing and are normally settled on 30-day terms. Information regarding the effective interest rate and credit risk of current payables is set out in Note 18.

NOTE 13: INTEREST-BEARING LIABILITIES

	Consolidated	
	2011	2010
	\$	\$
Current		
<i>Secured</i>		
Bank Bill	4,150,000	-
Lease liabilities (note 21)	43,431	24,995
Total secured	4,193,431	24,995
<i>Unsecured</i>		
Convertible note	1,233,730	1,000,000
Other	23,137	21,424
Total unsecured	1,256,867	1,021,424
Total secured and unsecured current liabilities	5,450,298	1,046,419
Non-Current		
<i>Secured</i>		
Lease liabilities (note 21)	107,596	59,535
Total current and non-current secured liabilities:		
Bank Bill	4,150,000	-
Lease liabilities	151,027	84,530
Total non-current liabilities	4,301,027	84,530
Carrying amounts of non-current assets pledged as security:		
Fixed and floating charge over assets	9,936,207	-
Bank Bill		
Facility	4,150,000	-
Drawn	4,150,000	-

COLLATERAL PROVIDED

Lease liabilities are secured by the underlying leased assets.

The bank bill is secured by a first registered mortgage over certain freehold properties owned by the group together with a floating charge over all of the assets of Carbon Conscious Limited, Carbon Management Pty Ltd and Carbon Fund Australia Pty Ltd. Covenants imposed by the bank require the Group to maintain a net worth of at least \$4.5m and a net worth of no less than 55% of tangible assets.

At 30 June 2011, the Group is in breach of its bank bill covenants with respect to net worth of no less than 55% of tangible assets. As a result, the Group has classified \$3.75m of borrowings that are due for repayment in excess of 12 months from 30 June 2011 as current liabilities on the statement of financial position, reflecting the fact that the lender had the right to call these funds immediately. In August 2011, the Group received confirmation from the relevant financial institution that it will not take action.

CONVERTIBLE NOTE – AUGUSTUS MINERALS LIMITED

On 20 May 2010 Carbon Conscious Ltd announced it was to receive convertible note funding from Augustus Minerals Limited totalling \$1,000,000 commencing on the 1 June 2010. The funding term of the convertible note was 13 months with a coupon interest rate of 12%.

At the end of the funding term the noteholder had the option to:

- Extend the Funding Term on the terms offered by the Company;
- Require the Company to redeem the notes for the face value; or
- Convert the notes to shares in the Company at the lower of:
 - 10% discount to the volume weighted average price of the shares on ASX over the previous 20 days in which trades in the shares occurred; or
 - \$0.15 per share.

As announced on 24 December 2010, Carbon Conscious Limited repaid the full amount of \$1,000,000 (plus accrued interest) and the facility was terminated with no residual obligations between the parties existing.

CONVERTIBLE NOTE – BROADACRE ASSET MANAGEMENT (BAM)

At 30 June 2010, the Company had 10 convertible notes with a face value of \$100,000 each with Broadacre Asset Management (BAM Convertible Note Facility) on primarily the same terms and conditions as above, which the Company had not drawn down.

On 12 September 2010 the Company called and received funds of \$500,000 for five (5) \$100,000 convertible notes and on 22 November 2010, the Company called and received funds of \$500,000, representing the remaining five (5) \$100,000 convertible notes under the BAM Convertible Note Facility.

As announced on 24 December 2010, Carbon Conscious Limited repaid the full amount of \$1,000,000 (plus accrued interest), but retained the right to draw down on the convertible note in the future while Broadacre Asset Management Pty Ltd retained the right to subscribe for convertible notes at the end of the funding term and exercise its conversion option.

On 28 June 2011, BAM elected to subscribe for convertible notes prior to the end of the funding term. As a result, the Board negotiated revised terms to the following extent:

- \$500,000 will be converted into shares in the Company (subject to shareholder approval) at the lower of:
 - 10% discount to the volume weighted average price of the shares on ASX over the 5 days prior to conversion; or
 - \$0.10 per share.
- Extend the funding term to 30 September 2011 in respect of the remaining \$500,000.
- The remaining \$500,000 notes can be converted during the revised funding term to shares in the Company (subject to shareholder approval) at the lower of:
 - 10% discount to the volume weighted average price of the shares on ASX over the previous 5 days prior to conversion; or
 - \$0.115 per share.

During the revised funding term, no interest will be payable.

CONVERTIBLE NOTE – SOPHISTICATED INVESTORS

On 19 July 2010 the Company raised \$500,000 by way of an issue of convertible notes to wholesale clients to further facilitate future funding and growth of the Company.

The key terms of the convertible notes are summarised below:

- The funding term commences on 16 July 2010 until 30 June 2011.
- The notes will each have a face value of \$100,000.
- 5 notes will be issued to raise \$500,000 at the commencement of the Funding Term. The Company may repay and redeem the notes at its election during the Funding Term.

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- A coupon rate of 11% per annum will be paid quarterly in arrears on the outstanding amounts of the notes.
- At the expiry of the Funding Term the note holders have the option to:
 - Extend the Funding Term on the terms offered by the Company.
 - Require the Company to redeem the notes for the face value.
 - Convert the notes to shares in the Company at the lower of:
 - 10% discount to the volume weighted average price of the shares on ASX over the previous 20 days in which trades in the shares occurred.
 - \$0.10 per share.

As announced on 24 December 2010, Carbon Conscious Limited repaid the full amount of \$500,000 (plus accrued interest). The original terms of the convertible notes were altered such that the Company could not redraw this facility. The financing party retains the right to subscribe for convertible notes at the end of the funding term and exercise the conversion option. The conversion option is subject to shareholder approval, which, if not granted, will incur a penalty of 20% of the face value of the note upon repayment.

On 17 June 2011 it was announced that note holders advised of their intention to convert the note into shares. As disclosed in note 25, on 1 July 2011 the company issued 2,662,700 shares to note holders with the remaining 2,337,300 shares subject to shareholder approval.

NOTE 14: ISSUED CAPITAL AND RESERVES

	Consolidated			
	2011	2011	2010	2010
	No.	\$	No	\$
ISSUED CAPITAL				
60,684,672 (2010: 39,697,172) fully paid Ordinary Shares		9,839,094		7,512,431
Movement in ordinary shares on issue				
At beginning of the financial period	39,697,172	7,512,431	37,375,000	7,316,014
Shares issued on 23 June 2010	-	-	2,322,172	232,217
Shares issued on 19 July 2010	5,000,000	500,000	-	-
Shares issued on 13 September 2010	4,587,500	458,750	-	-
Shares issued on 15 September 2010	5,800,000	580,000	-	-
Exercise of convertible note on 17 June 2011*	-	266,270	-	-
Shares issued on 22 June 2011	5,600,000	560,000	-	-
Share issue costs	-	(38,357)	-	(35,800)
At 30 June	60,684,672	9,839,094	39,697,172	7,512,431
RESERVES				
<i>Share based payment reserve</i>				
At beginning of financial year		626,678		415,187
Share based payments		241,912		211,491
At end of financial year		868,590		626,678
<i>Foreign currency translation reserve</i>				
At beginning of financial year		-		-
Foreign currency translation differences		31,476		-
At end of financial year		31,476		-
Total		900,066		626,678

* 2,662,700 shares were issued to note holders on 1 July 2011, as disclosed in note 25.

Share based payment reserve

This reserve is used to record the value of equity benefits provided to directors and key executives as part of their remuneration and to related parties in consideration for the establishment and ongoing promotion of the Group's activities. Details of all options on issue by the Company are disclosed in Note 15.

Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

NOTE 15: SHARE BASED PAYMENTS

The following table illustrates the number (No.) and weighted average exercise prices of and movements in share options issued during the year:

	Weighted average exercise price			
	2011		2010	
	No.	\$	No.	\$
Outstanding at the beginning of the year	12,175,000	\$0.53	9,575,000	\$0.52
Granted during the year	7,975,000	\$0.21	3,200,000	\$0.56
Cancelled during the year	(3,275,000)	\$0.37	(600,000)	\$0.52
Exercised during the year	-	-	-	-
Expired during the year	(7,700,000)	\$0.60	-	-
Outstanding at the end of the year	9,175,000	\$0.25	12,175,000	\$0.53
Exercisable at the end of the year	2,700,000	\$0.26	10,875,000	\$0.52

The outstanding balance as at 30 June 2011 is represented by:

- 500,000 options over Ordinary Shares with an exercise price of \$0.60 each, exercisable upon meeting various conditions and until 8 August 2013;
- 300,000 options over Ordinary Shares with an exercise price of \$0.58 each until 31 December 2011;
- 300,000 options over Ordinary Shares with an exercise price of \$0.40 each, exercisable upon meeting various conditions and until 31 December 2013;
- 100,000 options over Ordinary Shares with an exercise price of \$0.60 each, until 31 December 2011;
- 2,300,000 options over Ordinary Shares with an exercise price of \$0.20 each until 30 November 2012;
- 2,675,000 options over Ordinary Shares with an exercise price of \$0.20 each, exercisable upon meeting various conditions and until 30 November 2012;
- 2,000,000 options over Ordinary Shares with an exercise price of \$0.25 each, exercisable upon meeting various conditions and until 30 November 2013;
- 1,000,000 options over Ordinary Shares with an exercise price of \$0.15 each, exercisable upon meeting various conditions and until 27 January 2014;

The weighted average remaining contractual life for the share options outstanding as at 30 June 2011 is 1.8 years (2010: 0.9 years).

The range of exercise prices for options outstanding at the end of the year was \$0.15 - \$0.60 (2010: \$0.20 - \$0.60).

The weighted average fair value of options granted during the year was \$0.03 (2010: \$0.11).

The fair value of the equity-settled share options granted is estimated as at the date of grant using a Black and Scholes option pricing model taking into account the terms and conditions upon which the options were granted.

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The following table lists the inputs to the model used:

	2011	2010
Volatility (%)	100.00	100.00
Risk-free interest rate (%)	6.00	4.71 - 5.25
Expected life of option (years)	1.42 - 2.58	0.92 - 4.09
Exercise price (cents)	15 - 25	40 - 60
Weighted average share price at grant date (cents)	12	39
Discount for lack of marketability (%)	30	30

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The fair value of the cash-settled options is measured at the grant date using the Black and Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The services received and the cost of those services are recognised over the expected vesting period.

NOTE 16: CONTROLLED ENTITIES

SUBSIDIARIES OF CARBON CONSCIOUS LIMITED

Name	Country of incorporation	Ownership interest	
		2011	2010
Carbon Fund Australia Pty Ltd	Australia	100%	100%
Carbon Management Pty Ltd	Australia	100%	100%
Carbon Conscious New Zealand Ltd	New Zealand	100%	-

NOTE 17: AUDITOR'S REMUNERATION

The auditor of Carbon Conscious Limited is HLB Mann Judd.

	Consolidated	
	2011	2010
Amounts received or due and receivable by HLB Mann Judd for:		
An audit or review of the financial report of the entity and any other entity in the Company	\$47,250	\$40,350

NOTE 18: FINANCIAL INSTRUMENTS

(A) CAPITAL RISK MANAGEMENT

The Group's activities may expose it to a variety of 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's overall strategy remains unchanged from 2010.

(B) CATEGORIES OF FINANCIAL INSTRUMENTS

	Consolidated	
	2011	2010
	\$	\$
Financial assets		
Trade and other receivables	2,053,389	1,554,750
Cash and cash equivalents	1,254,735	271,919
Available-for-sale financial assets at fair value		
- listed investments	10,494	19,800
Total financial assets	3,318,618	1,846,469
Financial liabilities		
Trade and other payables	1,853,923	2,876,207
Other financial liabilities	5,450,298	1,046,419
Total financial liabilities	7,304,221	3,922,626
Net financial liabilities	(3,985,603)	(2,076,157)

During the financial year no loans or receivables were revalued through profit or loss.

(C) MARKET RISK

The Group is exposed to market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The carbon market is a newly developing market and as such there are limited avenues to negate market risk in traditional manners. The Group monitors and understands movements within the market on a daily basis.

(D) CREDIT RISK MANAGEMENT

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, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses publicly available financial information and its own trading record to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

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 and derivative financial instruments is limited because the counterparty is a bank with a high credit rating assigned by international credit rating agencies.

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

(E) LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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Liquidity and interest rate risk tables

The following table details the Group's remaining contractual maturity for its financial liabilities. These are based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month	1 – 3 Months	3 months – 1 year	1 – 5 years	5+ years
2011						
Non-interest bearing	-	1,853,923	-	-	-	-
Finance leases	11.62	3,619	7,239	32,573	137,699	-
Other fixed rate instruments	4.85	3,554	7,108	14,212		-
Bank bill	9.90	4,184,330	-	-	-	-
Convertible notes	12.00	738,325	504,595	-	-	-
Total		6,783,751	518,942	46,785	137,699	-
2010						
Non-interest bearing	-	2,876,207	-	-	-	-
Finance leases	11.23	2,766	5,532	24,896	69,967	-
Other fixed rate instruments	4.85	4,833	9,655	9,655	-	-
Convertible note	12.00	10,000	20,000	1,090,000	-	-
Total		2,893,806	35,187	1,124,551	69,967	-

(F) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair value of other financial assets and liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

(G) INTEREST RATE SENSITIVITY ANALYSIS

The sensitivity analyses below have been determined based on the exposure to interest rates for variable rate instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the change in interest rates.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's:

- Net profit before tax would decrease by \$15,056 (2010: increase by \$1,360) and increase by \$15,056 (2010: decrease by \$1,360). This is attributable to the Group's exposure to interest rates on its variable rate instruments.
- Total equity would decrease by \$15,056 (2010: increase by \$1,360) and increase by \$15,056 (2010: decrease by \$1,360) attributable to the Company's exposure to interest rates on its variable rate instruments.

NOTE 19: CASH FLOW INFORMATION

RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated	
	2011	2010
	\$	\$
Profit for the year	854,762	317,330
Loss on sale of fixed assets	11,228	-
Employee leave benefits	35,988	12,410
Depreciation and amortisation expense	142,521	174,698
Equity settled transactions	241,912	211,491
Impairment of financial assets	9,306	29,700
(Increase)/decrease in inventories	(1,908,316)	(234,648)
(Increase)/decrease in receivables	(498,639)	(1,405,869)
Increase/(decrease) in trade and other payables	868,657	353,615
(Increase)/decrease in other assets	28,884	123,452
Net cash used in operating activities	(213,697)	(417,821)

NON-CASH FINANCING AND INVESTING ACTIVITIES

	Consolidated	
	2011	2010
	\$	\$
Unpaid settlement of land	-	1,803,050
Acquisition of fixed assets by means of finance leases	97,202	70,474

NOTE 20: INTERESTS OF KEY MANAGEMENT PERSONNEL (KMP)

Refer to the remuneration report contained within the directors' report for details of remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2011.

The totals of remuneration paid to KMP of the Company and the Group during the year are as follows:

	Consolidated	
	2011	2010
	\$	\$
Short-term employment benefits	979,209	819,721
Post-employment benefits	61,021	62,655
Share based payments	191,461	154,399
Total	1,231,691	1,036,775

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OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL YEAR ENDING JUNE 2011

30 June 2011	Balance at beginning of year	Granted as remuneration	Options exercised	Net change Other	Balance at end of year	Vested as at end of year	
						Exercisable	Not Exercisable
Directors							
Peter Balsarini	900,000	3,000,000	-	(400,000) ⁽ⁱ⁾	3,500,000	1,500,000	2,000,000
Nadaisan Logaraj	300,000	-	-	(300,000) ⁽ⁱⁱ⁾	-	-	-
Stephen Lowe	600,000	1,000,000	-	-	1,600,000	500,000	1,100,000
Michael Shields	300,000	-	-	(300,000) ⁽ⁱⁱⁱ⁾	-	-	-
Andrew McBain	300,000	-	-	(300,000) ^(iv)	-	-	-
Trevor Stoney	-	-	-	-	-	-	-
Kent Hunter	-	-	-	-	-	-	-
Robert Payne	-	-	-	-	-	-	-
Executives							
Steven Blakely	-	400,000	-	-	400,000	-	400,000
Stephen Bodeker	-	-	-	-	-	-	-
Daniel Stevens	400,000	400,000	-	(400,000) ^(v)	400,000	400,000	-
Richard Collins	1,337,500	937,500	-	(1,337,500) ^(vi)	937,500	-	937,500
Tom Reynolds	-	100,000	-	-	100,000	100,000	-
Timothy Jones	800,000	-	-	(800,000) ^(vii)	-	-	-
Total	4,937,500	5,837,500	-	(3,837,500)	6,937,500	2,500,000	4,437,500

(i) Options granted to Mr Balsarini expired on 31 December 2010.

(ii) Options granted to Mr Logaraj were cancelled on his resignation as Non-Executive Director on 24 November 2010.

(iii) Options granted to Mr Shields were cancelled on his resignation as Non-Executive Director on 2 July 2010.

(iv) Options granted to Mr McBain were cancelled on his resignation as Non-Executive Director on 21 July 2010.

(v) Options granted to Mr Stevens expired on 31 December 2010.

(vi) Options granted to Mr Collins expired on 31 December 2010.

(vii) Options granted to Mr Jones were cancelled on his resignation as COO and Company Secretary on 7 July 2010.

OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL YEAR ENDING JUNE 2010

30 June 2010	Balance at beginning of year	Granted as remuneration	Options exercised	Net change Other	Balance at end of year	Vested as at end of year	
						Exercisable	Not Exercisable
Directors							
Matthew Birney	300,000	-	-	(300,000) ⁽ⁱ⁾	-	-	-
Peter Balsarini	900,000	500,000	-	(500,000) ⁽ⁱⁱ⁾	900,000	-	900,000
Nadaisan Logaraj	300,000	-	-	-	300,000	-	300,000
Stephen Lowe	-	600,000	-	-	600,000	-	600,000
Michael Shields	-	300,000	-	-	300,000	-	300,000
Andrew McBain	-	300,000	-	-	300,000	-	300,000
Executives							
Richard Collins	1,337,500	-	-	-	1,337,500	-	1,337,500
Daniel Stevens	400,000	-	-	-	400,000	-	400,000
Timothy Jones	-	800,000	-	-	800,000	-	800,000
Total	3,237,500	2,500,000	-	(800,000)	4,937,500	-	4,937,500

(i) Mr Birney resigned as Non Executive Chairman effective 15 March 2010.

(ii) Options granted to Mr Balsarini were cancelled at his request.

SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL YEAR ENDING JUNE 2011

30 June 2011	Balance at beginning of year	Granted as remuneration	On exercise of options	Net change other ⁽ⁱ⁾	Balance at end of year
Directors					
Peter Balsarini	241,875	-	-	-	241,875
Nadaisan Logaraj	1,041,997	-	-	50,000	1,091,997
Stephen Lowe	15,000	-	-	4,350	19,350
Michael Shields	2,597,702	-	-	(2,291,452)	306,250
Andrew McBain	51,000	-	-	1,050,000	1,101,000
Trevor Stoney	-	-	-	5,315,000	5,315,000
Kent Hunter	-	-	-	1,145,000	1,145,000
Robert Payne	-	-	-	-	-
Executives					
Steven Blakely	-	-	-	-	-
Stephen Bodeker	-	-	-	-	-
Daniel Stevens	753,083	-	-	(753,083)	-
Richard Collins	568,750	-	-	140,000	708,750
Thomas Reynolds	-	-	-	-	-
Timothy Jones	-	-	-	-	-
Total	5,269,407	-	-	4,659,815	9,929,222

(i) Shares were acquired by Directors/executives or their related entities both on and off market.

SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL YEAR ENDING JUNE 2010

30 June 2010	Balance at beginning of year	Granted as remuneration	On exercise of options	Net change other ⁽ⁱ⁾	Balance at end of year
Directors					
Matthew Birney	256,250	-	-	(256,250)	-
Peter Balsarini	161,250	-	-	80,625	241,875
Nadaisan Logaraj	694,664	-	-	347,333	1,041,997
Stephen Lowe	-	-	-	15,000	15,000
Michael Shields	311,250	-	-	2,286,452	2,597,702
Andrew McBain	-	-	-	51,000	51,000
Executives					
Richard Collins	468,750	-	-	100,000	568,750
Daniel Stevens	753,083	-	-	-	753,083
Timothy Jones	-	-	-	-	-
Total	2,645,247	-	-	2,624,160	5,269,407

(i) Shares were acquired by Directors/executives or their related entities both on and off market.

NOTE 21: COMMITMENTS

OPERATING COMMITMENTS

The Company had no operating commitments at year end that are not included as liabilities in the Statement of Financial Position (2010: \$nil).

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FINANCE LEASE COMMITMENTS

The Company has finance leases for several motor vehicles. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Consolidated	
	2011	2010
	\$	\$
Within one year	59,696	33,265
After one year but not more than five years	125,423	69,825
Total minimum lease repayments	185,119	103,090
Less amounts representing finance charges	(34,092)	(18,560)
Present value of minimum lease payments	151,027	84,530
Included in the financial statements as:		
Current interest-bearing liabilities	43,431	24,995
Non current interest-bearing liabilities	107,596	59,535
Total included in interest-bearing liabilities	151,027	84,530

CAPITAL COMMITMENTS

The Company had no capital commitments at year end that are not included as liabilities in the Statement of Financial Position (2010: \$nil).

NOTE 22: PARENT ENTITY DISCLOSURES

FINANCIAL POSITION

	2011	2010
	\$	\$
Assets		
Current assets	4,924,109	2,336,528
Non-current assets	10,317,736	4,811,887
Total assets	15,241,845	7,148,415
Liabilities		
Current liabilities	6,817,662	2,119,577
Non-current liabilities	88,711	59,535
Total liabilities	6,906,373	2,179,112
Equity		
Issued capital	9,839,094	7,512,431
Accumulated losses	(2,372,212)	(3,169,806)
Reserves		
Share-based payments	868,590	626,678
Total equity	8,335,472	4,969,303

FINANCIAL PERFORMANCE

	2011	2010
	\$	\$
Profit for the year	797,594	327,067
Total comprehensive income	797,594	327,067

Refer to Note 21 for commitments of the parent which are the same as the Group.

NOTE 23: RELATED PARTY TRANSACTIONS

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year:

Related Party	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
	\$	\$	\$	\$
2011				
Broadacre Asset Management Pty Limited	-	-	-	-
Mining Corporate Pty Ltd	-	11,359	-	-
2010				
Broadacre Asset Management Pty Limited	-	96,507	-	19,382

TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

Purchases from Broadacre Asset Management Pty Limited during the year comprise remuneration associated with the services agreement dated 22 February 2008, and revised 11 December 2008 to provide administration, marketing and promotional services.

In December 2008 Carbon Conscious, as part of the amended services agreement between the parties, paid an amount of \$340,299 as prepayment for these services for the next 24 months of service provision. At 30 June 2011 an amount of \$nil (2010: \$77,340) is represented in the financial statements of Carbon Conscious as a prepayment for these services. The full amount of this payment is represented in the Purchases from related parties as noted above.

On 20 March 2010 the Company entered into a convertible note arrangement with Broadacre Asset Management Pty Ltd, the key terms of which are disclosed below:

- (a) The funding term commences on 1 June 2010 and will be 13 months in duration (Funding Term).
- (b) The notes will each have a face value of \$100,000.
- (c) Notes will be issued to Broadacre Asset Management Pty Ltd to a maximum number of 10 (equal to \$1,000,000) at any one time at the election of the Company during the Funding Term. Notes may be redeemed by the Company at its election during the Funding Term.
- (d) A coupon rate of 12% per annum will be paid quarterly in arrears on the outstanding amounts of the notes.
- (e) At the expiry of the Funding Term the noteholders have the option to:
 - Extend the Funding Term on the terms offered by the Company.
 - Require the Company to redeem the notes for the face value.
 - Convert the notes to shares in the Company at the lower of:
 - 10% discount to the volume weighted average price of the shares on ASX over the previous 20 days in which trades in the shares occurred.
 - \$0.15 per share.
- (f) Conversion of the notes to shares will be subject to all necessary shareholder and regulatory approvals having been obtained. If those approvals are not obtained, the Company will redeem the notes and will pay an additional amount to the noteholders equal to 20% of the face value of the notes.
- (g) If the conversion price calculated above is \$0.10 or less, the Company can elect to redeem the notes at their face value.

All transactions between Carbon Conscious and Broadacre Asset Management Pty Ltd occurred on an arm's length basis.

Purchases from Mining Corporate Pty Ltd during the year comprised remuneration associated with certain accounting services transacted on an arm's length basis.

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DIRECTORS – RELATED PARTY INTERESTS

Mr Andrew McBain, a Non-Executive Director of the Company, is also a Director of Broadacre Asset Management Pty Ltd. At the date of this report the following represents the interests of Broadacre Asset Management Pty Ltd in the Company of which this Director has a related party interest in:

BAM shareholding – 5,628,880 Ordinary Shares (2010: 14,320,750 Ordinary Shares)

BAM Options – nil options (2010: 5,400,000 options)

Mr Kent Hunter, a Non-Executive Director of the Company, is also a Director of Mining Corporate Pty Ltd which, as at the date of this report, holds no interest in Carbon Conscious Limited.

NOTE 24: CONTINGENT LIABILITIES

The Company has no contingent liabilities at year end (2010: nil).

NOTE 25: EVENTS AFTER BALANCE DATE

The following significant events after balance date have occurred:

- On 1 July 2011, the Company announced that it had negotiated revised terms to the Broadacre Asset Management Convertible Note to the following extent:
 - \$500,000 will be converted into shares in the Company (subject to shareholder approval) at the lower of:
 - 10% discount to the volume weighted average price of the shares on ASX over the 5 days prior to conversion; or
 - \$0.10 per share.
 - Extend the funding term to 30 September 2011 in respect of the remaining \$500,000.
 - Convert the remaining \$500,000 notes to shares in the Company (subject to shareholder approval) at the lower of:
 - 10% discount to the volume weighted average price of the shares on ASX over the previous 5 days prior to conversion; or
 - \$0.115 per share.

During the revised funding term, no interest will be payable.
- On 1 July 2011, the Company issued 2,662,700 shares to note holders who exercised their \$500,000 convertible notes at \$0.10 per share on 17 June 2011. The remaining 2,337,300 shares were issued on 2 September 2011, following shareholder approval at the general meeting held on 30 August 2011.
- On 2 September 2011, the Company issued 5,000,000 shares to Broadacre Asset Management Pty Ltd on conversion of \$500,000 in convertible notes at \$0.10 per share, following shareholder approval at the general meeting held on 30 August 2011.
- On 9 September 2011, the Company received confirmation from its financier, the Commonwealth Bank of Australia, that it will take no further action in respect of the Company's breach of a debt covenant.
- On 27 September 2011, the Company received notice from Broadacre Asset Management Pty Ltd to convert the remaining \$500,000 notes subject to shareholder approval which will be sort at the Annual General Meeting.

There have been no other matters or circumstances that have arisen after balance date that have significantly affected, or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

- 1. In the opinion of the Directors of Carbon Conscious Limited (the 'Company') :**
- (a) the accompanying financial statements, notes and additional disclosures of the Company and of the consolidated entity are in accordance with the Corporations Act 2001 including:
 - i. giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year then ended; and
 - ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
 - (c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
- 2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2011.**

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This declaration is signed in accordance with a resolution of the Board of Directors.



PETER BALSARINI

Director

Dated this 27th day of September 2011





INDEPENDENT AUDITOR'S REPORT

To the members of Carbon Conscious Limited

Report on the Financial Report

We have audited the accompanying financial report of Carbon Conscious Limited ("the company"), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies 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 and fair presentation of the financial report 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report and remuneration report of Carbon Conscious Limited for the financial year ended 30 June 2011 included on Carbon Conscious Limited's website. The company's directors are responsible for the integrity of the Carbon Conscious Limited website. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report identified in this report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- (a) the financial report of Carbon Conscious 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 June 2011 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 financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

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

Auditor's Opinion

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

**Perth, Western Australia
27 September 2011**



**HLB MANN JUDD
Chartered Accountants**



**W M CLARK
Partner**

SHAREHOLDING

The distribution of members and their holdings of equity securities in the Company as at 20 September 2011 were as follows:

Class of Equity Securities	
Number Held as at 30 June 2011	Fully Paid Ordinary Shares
1-1,000	4,507
1,001 - 5,000	1,067,032
5,001 – 10,000	791,933
10,001 - 100,000	9,917,673
100,001 and over	58,903,527
Total	70,684,672

Holders of less than a marketable parcel:

- fully paid shares 43

SUBSTANTIAL SHAREHOLDERS

The Company has the following substantial shareholders listed in the Company's register as at 20 September 2011:

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
Broadacre Asset Management Limited	10,628,880	15.04%
Stoney Pastoral Co Pty Ltd	5,250,000	7.43%

RESTRICTED SECURITIES

The Company has no restricted securities on issue.

VOTING RIGHTS – ORDINARY SHARES

In accordance with the Company's Constitution, on a show of hands every member present in person or by proxy or attorney or duly authorised representative has one vote. On a poll every member present in person or by proxy or attorney or duly authorised representative has one vote for every Fully Paid Ordinary Share held.

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TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest ordinary fully paid shareholders as at 20 September 2011 are as follows:

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
BROADACRE ASSET MANAGEMENT	10,628,880	15.04%
STONEYPASTORAL CO PTY LTD	5,250,000	7.43%
SUBIACO ASSET MANAGEMENT P/L	2,496,484	3.53%
MR CHRISTOPHER NEIL STEVENS	2,407,000	3.41%
MACRO FUND SERVICES PTY LTD	2,279,922	3.23%
KOUTA BAY PTY LTD	2,205,618	3.12%
SHARIC SUPERANNUATION PTY LTD	2,000,000	2.83%
BALLYBUNNION TRADING CO	1,719,696	2.43%
WILNOM PTY LTD	1,500,000	2.12%
GILPIN PARK PTY LTD	1,300,000	1.84%
MARDIC (AUSTRALIA) PTY LTD	1,075,000	1.52%
MR DAVID ADAM LENYSZYN	1,000,000	1.41%
MR ANTHONY DEAN LAZENBY	1,000,000	1.41%
L&M GROUP HOLDINGS PTY LTD	1,000,000	1.41%
BARCLAY WELLS LTD	950,910	1.35%
MR ROBERT CHARLES JOHNSTON & MRS LINDA MICHELLE STONEY	900,000	1.27%
GRYPHON ASSET MANAGEMENT PTY	900,000	1.27%
MR RICHARD ALFRED COLLINS & MRS VIVIEN THERESE COLLINS	708,750	1.00%
MR FRANK GERARD BARBARICH & MRS KERRY-ANN BARBARICH	700,273	0.99%
CVC LIMITED	684,947	0.97%
TOTAL	40,707,480	57.58%





“ We have successfully developed our carbon forecasting model through exhaustive research and development involving the extensive collection and analysis of real growth data from existing plantations. “

