

30 September 2010

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Australian Securities Exchange
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20 Bond Street
SYDNEY NSW 2000

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Dear Sir

ASX Announcement No. 100 – Annual Financial Report 2010

Please find enclosed the Annual Financial Report for the period 1 July 2010 to 30 June 2010.

Yours faithfully



Peter Balsarini
CEO & Executive Director
Carbon Conscious

carbonconscious



ABN 20 129 035 221

and Controlled Entities

**Annual Financial Report
For the Year ended 30 June 2010**

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CORPORATE INFORMATION

ABN 20 129 035 221

Directors

PETER BALSARINI, Chief Executive Officer

STEPHEN LOWE, Chairman and Non-Executive Director

NADAISAN LOGARAJ, Non-Executive Director

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

Company Secretary

PETER BALSARINI

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

NATIONAL AUSTRALIA BANK

150 ST GEORGES TERRACE, PERTH WA 6000

Auditors

HLB MANN JUDD

LEVEL 4, 130 STIRLING STREET, PERTH WA 6000

DIRECTORS' REPORT

Your directors submit the annual financial report of the Company and the entities it controls (hereafter referred to as "Group") for the financial year ended 30 June 2010. In order to comply with the provisions of the Corporations Act, the directors report as follows:

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.

Names, Qualifications, Experience and Special Responsibilities

PETER BALSARINI, 42, 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, 48, Diploma of Financial Services (Chairman and Non-Executive Director)

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 as the 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.

NADAI SAN LOGARAJ, 62, LL.B (Hons), LL. M., FAICD (Non-Executive Director)

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.

DIRECTORS' REPORT (continued)

TREVOR STONEY, 65, (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.

MATTHEW BIRNEY, 41, (Chairman) – resigned 15 March 2010

Mr Birney is the former Leader of the Opposition in Western Australia and is the only Liberal Member of Parliament ever to win the State seat of Kalgoorlie in its 100 year history. During his political career, Mr Birney also held the positions of Shadow State Treasurer for Western Australia, Shadow Minister for Commerce, International Trade and Communications and Shadow Minister for Police. Mr Birney is also a former Deputy Chairman of the West Australian Government's Corruption and Crime Commission (JSC) sometimes known as the "CCC". In addition to his political career Mr Birney is also a successful businessman of some 16 years standing and the recipient of a number of business awards from industry peak bodies and other notable organisations. His business interests both past and present include automotive, marine, retail, food & beverage, import/wholesale and commercial property development.

MICHAEL SHIELDS, 37, 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 Fertilizers 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 the following listed company:

- Pilbara Minerals Limited (formerly known as Fortuna Minerals Limited) – 12 November 2007 to 21 November 2008

ANDREW MCBAIN, 36, (Non-Executive Director) – appointed 28 August 2009 resigned 21 July 2010

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 a partly owned by Broadacre Asset Management Limited, a company which holds 10.219% (as at 28 September 2010) of Carbon Conscious Limited's shares. Mr McBain was also an Executive Director of Broadacre Asset Management Limited.

DIRECTORS' REPORT (continued)

Company Secretary

TIMOTHY JONES – appointed 1 December 2009, 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.

GERALDINE HOLLAND – resigned 1 December 2009

Ms Holland has over 12 years experience in the role of corporate compliance, insurance, procedures and document control, and attending to statutory corporate requirements. She assumes the role of Company Secretary and assists the directors in all aspects of compliance and statutory reporting that Carbon Conscious is responsible for. Prior to Carbon Conscious, she assumed a compliance role with a Melbourne based funds management company for six years and prior to that had five years experience working in Singapore assuming similar responsibilities. Ms Holland has a Masters in Business Administration from the University of Western Australia.

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	900,000	241,875
Nadaisan Logaraj	300,000	1,041,997
Stephen Lowe	600,000	15,000
Trevor Stoney	-	5,065,000

During the financial year the following options were issued to directors as approved by shareholders at the annual general meeting held 30 November 2009.

Directors	Number of options over ordinary shares	Exercise price	Expiry date
Peter Balsarini	500,000	\$0.50	30 November 2010
Stephen Lowe	300,000	\$0.58	31 December 2011
	300,000	\$0.40	31 December 2013
Andrew McBain	300,000	\$0.58	31 December 2011
Michael Shields	300,000	\$0.58	31 December 2011

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

DIRECTORS' REPORT (continued)

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

Number of options	Exercise price	Expiry date
1,875,000	\$0.20	31 March 2011
7,200,000	\$0.60	31 December 2010
500,000	\$0.60	8 August 2013
300,000	\$0.58	31 December 2011
300,000	\$0.40	31 December 2013
500,000	\$0.58	31 October 2010
100,000	\$0.60	31 December 2011

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 \$317,330 (2009: loss of \$2,367,675).

Review of Financial Conditions

The Company continues to improve its performance recognising its first profit in the financial year ended 30 June 2010.

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

DIRECTORS' REPORT (continued)

Significant Changes in the State of Affairs

On 16 July 2009, the Company announced the completion of an Agreement with Origin Energy for a large scale native Mallee Eucalypt tree planting in the wheat belt area of Australia. This announcement was confirmation of the announcement of 7 May 2009 in relation to agreement of commercial terms.

On 14 October 2009 the Company announced it had entered into an Agreement with BP Singapore Pte Limited for a tree planting carbon offset deal, involving the planting of up to 10 million trees.

On 7 December 2009 the Company issued the following options as approved by shareholders at the annual general meeting held 30 November 2009:

- 500,000 director options exercisable at \$0.50 on or before 30 November 2010;
- 900,000 director options exercisable at \$0.58 on or before 31 December 2011 which shall not vest before the completion of one year of service;
- 300,000 options exercisable at \$0.40 on or before 31 December 2013 which shall not vest before 31 December 2012;
- 800,000 options exercisable at \$0.60 on or before 31 March 2012, of which 400,000 shall not vest before the completion of one year of service and the remaining 400,000 shall not vest until the completion of the second year of service;
- 500,000 options exercisable at \$0.58 on or before 31 October 2010 and shall vest on a pro-rata entitlement basis based on the period of service completed; and
- 200,000 employee options exercisable at \$0.60 on or before 31 December 2011 which shall not vest until 1 November 2010.

On 17 March 2010 the Company announced that Origin Energy has exercised an option for 2011 plantings pursuant to its plantation agreement of 16 July 2009.

On 20 May 2010, the Company issued a prospectus for a non-renounceable entitlements issue (Prospectus) on the basis of one (1) ordinary fully paid share for every two (2) shares held at the record date of 28 May 2010. The entitlements issue closed on Tuesday 15 June 2010 leaving a shortfall of \$1,636,533 in terms of the total amount being sought in the Prospectus.

In addition to the Rights Issue to existing shareholders, the Company has facilities in place to raise up to \$2,000,000 by way of the issue of Convertible Notes to two sophisticated investors to further facilitate future funding and growth of the Company.

As mentioned below, the Convertible Notes are subject to shareholder approval, which will be sought by the Company in compliance with ASX Listing Rule 10.11.

The key terms of the Convertible Notes are summarised 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) 10 notes were issued to Augustus Minerals Limited (ASX Code AUJ) to raise \$1,000,000 at the commencement of the Funding Term and will remain on issue during the entire Funding Term.

DIRECTORS' REPORT (continued)

- (d) Notes are available to be issued to Broadacre Asset Management Limited 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.
- (e) A coupon rate of 12% per annum will be paid quarterly in arrears on the outstanding amounts of the Notes.
- (f) 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.
- (g) 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.
- (h) If the conversion price calculated above is \$0.10 or less, the Company can elect to redeem the notes at their face value.

There have been no other significant changes in the state of affairs of the Group to the date of this report.

Significant Events after Balance Date

On 19 July 2010 the Company placed an amount of \$500,000 (5 million Ordinary Shares) to an investor party 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 to further facilitate future funding and growth of the Company.

The key terms of the Convertible Notes are summarised below:

- (i) The funding term commences on 19 July 2010 until 30 June 2011 (**Funding Term**).
- (ii) The notes will each have a face value of \$100,000.
- (iii) 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 their election during the Funding Term.
- (iv) A coupon rate of 11% per annum will be paid quarterly in arrears on the outstanding amounts of the Notes.
- (v) 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.

DIRECTORS' REPORT (continued)

- (vi) 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 note holders equal to 20% of the face value of the notes.
- (vii) If the conversion price calculated above is \$0.10 or less, the Company can elect to redeem the notes at their face value.

On 9 September 2010, the Company placed an amount of \$458,750 (4.58 million Ordinary Shares) to five (5) investor party under the terms of the Entitlement Issue Prospectus.

On 15 September 2010, the Company placed an amount of \$580,000 (5.8 million Ordinary Shares) to seven (7) investor party under the terms of the Entitlement Issue Prospectus.

On 20 September 2010, the Company called and subsequently received funds for five (5) \$100,000 convertible notes under the Broadacre Asset Management Convertible Note facility.

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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

Likely Developments and Expected Results

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

Environmental Legislation

The Group 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.

DIRECTORS' REPORT (continued)

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)

NADAISAN LOGARAJ (Non-Executive Director)

STEPHEN LOWE (Non-Executive Director)

ANDREW MCBAIN (Non-Executive Director) – appointed 28 August 2009, resigned 21 July 2010

MATTHEW BIRNEY (Non-Executive Chairman) – resigned 15 March 2010

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

TREVOR STONEY (Non-Executive Director) – appointed 21 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:

RICHARD COLLINS (Director Carbon Estates)

DANIEL STEVENS (Director Business Development)

TIMOTHY JONES (COO and Company Secretary) – appointed 1 December 2009, resigned 7 July 2010

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 \$297,534 per year.

DIRECTORS' REPORT (continued)

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 2010 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 incentive available is 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 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.

DIRECTORS' REPORT (continued)

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 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.

DIRECTORS' REPORT (continued)**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

DIRECTORS' REPORT (continued)**Options Granted during the year 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	26.55
Michael Shields	37,339	-	-	37,339	(37,339)	-	-
Nadaisan Logaraj	-	-	-	-	-	-	-
Stephen Lowe	95,932	-	-	95,932	-	32,866	37.60
Andrew McBain	37,339	-	-	37,339	-	21,781	32.40
Total	213,943	-	-	213,943	(37,339)	97,980	
Executives	\$	\$	\$	\$	\$	\$	
Daniel Stevens	-	-	-	-	-	5,642	3.90
Richard Collins	-	-	-	-	-	25,959	14.50
Timothy Jones	105,451	-	-	105,451	(105,451)	-	-
Total	105,451	-	-	105,451	(105,451)	71,145	

For details on the valuation of the options, including models and assumptions used, please refer to Note 13. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

DIRECTORS' REPORT (continued)**2009 Remuneration of Directors and Named Executives****Table 1: Directors' Remuneration for the year ended 30 June 2009**

	Primary Benefits			Post employment		Equity	Other	Total	%
	Salary & Fees	Bonuses	Non-Monetary Benefits	Superannuation	Prescribed Benefits	Options			Performance Related
	\$	\$	\$	\$	\$	\$	\$	\$	
Matthew Birney	50,000	-	-	4,500	-	8,463	-	62,963	-
Peter Balsarini	149,272	-	-	8,100	-	22,456	-	179,828	-
Richard Collins	120,000	-	-	8,100	-	35,631	-	163,731	-
Daniel Stevens	120,000	-	-	8,100	-	9,672	-	137,772	-
Michael Shields	20,833	-	-	1,875	-	-	-	22,708	-
Nadaisan Logaraj	50,000	-	-	4,500	-	8,463	-	62,963	-
Stephen Lowe*	12,500	-	-	1,125	-	32,866	50,000	63,625	-
Total	522,605	-	-	36,300	-	117,551	50,000	693,590	-

* Prior to his appointment on the board of Carbon Conscious Mr Lowe acted in a consulting capacity to the Company. The amount noted in "Other" represents fees paid to Mr Lowe for this consulting work. No consultancy fees have been paid to Mr Lowe since his appointment to the board.

DIRECTORS' REPORT (continued)**Options Granted during the year as Part of Remuneration 2009**

	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
	\$	\$	\$	\$	\$	\$	
Matthew Birney	-	-	-	-	-	-	-
Peter Balsarini	55,959	-	-	55,959	-	22,456	12.49
Michael Shields	-	-	-	-	-	-	-
Nadaisan Logaraj	-	-	-	-	-	-	-
Stephen Lowe	-	-	-	-	-	-	-
Daniel Stevens	-	-	-	-	-	-	-
Richard Collins	-	-	-	-	-	-	-
Total	55,959	-	-	55,959	-	22,456	12.49

For details on the valuation of the options, including models and assumptions used, please refer to Note 13. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

DIRECTORS' REPORT (continued)

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
MATTHEW BIRNEY	5	5
PETER BALSARINI	8	8
RAJ LOGARAJ	8	6
STEPHEN LOWE	8	8
ANDREW McBAIN	7	7
MICHAEL SHIELDS	7	7

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.

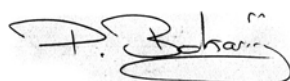
Auditor Independence and Non-Audit Services

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 29 and forms part of this directors' report for the year ended 30 June 2010.

Non-Audit Services

No non-audit services were provided by the external auditors during the year ended 30 June 2010.

Signed in accordance with a resolution of the directors.



Peter Balsarini
CEO & Executive Director

Perth, 30 September 2010

CORPORATE GOVERNANCE STATEMENT

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 2010 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;

CORPORATE GOVERNANCE STATEMENT (continued)

- 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).

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.

CORPORATE GOVERNANCE STATEMENT (continued)

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
NADAISAN LOGARAJ	Non-Executive Director
STEPHEN LOWE	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	2.5 years
NADAISAN LOGARAJ	2.5 years
STEPHEN LOWE	1.5 years
TREVOR STONEY	<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.

CORPORATE GOVERNANCE STATEMENT (continued)

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 Board's duties and responsibilities. The induction process involves site visits, company inspections, 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 carry 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).

CORPORATE GOVERNANCE STATEMENT (continued)

3.2 Trading in Company Shares

The Board periodically reminds Directors, senior executives and employees of the prohibition in the Corporations Act 2001 concerning trading in the Company's securities when in possession of "inside information". The Board also periodically reminds Directors of their obligations to notify the Company Secretary of any trade in securities to ensure that ASX Listing Rule requirements are met. The Company's Share Trading Policy is located on its website (www.carbonconscious.com.au).

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).

CORPORATE GOVERNANCE STATEMENT (continued)

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 weekly 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.

CORPORATE GOVERNANCE STATEMENT (continued)

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;
- quarterly rolling forecasts prepared; and
- circulate minutes of and relevant Committees to the Board and the Chairman of each respective committee and provide a report to the Board on an annual basis.

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. However, as at the date of this report the Company does not have a designated CEO or CFO. These roles are performed by the Managing Director. The Managing Director has declared to the Board that the Company's management of its material business risks is effective.

PRINCIPLE 8: RENUMERATE FAIRLY AND RESPONSIBLY

8.1 Remuneration Committee

The two members of the Board are appointed as the remuneration committee. The Company have 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.

CORPORATE GOVERNANCE STATEMENT (continued)

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 IP.

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.

CORPORATE GOVERNANCE STATEMENT (continued)

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.

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

CORPORATE GOVERNANCE STATEMENT (continued)

Principle / Recommendation	Requirement	Compliance	Reference
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	Company Security Trading Policy	Yes	3.2, Website
Recommendation 3.3	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	No	8.1, 8.2, Website
Recommendation 8.2	Executive and Non-Executive Director Remuneration	Yes	8.3, 8.4
Recommendation 8.3	Reporting on Principle 8	Yes	8.1, 8.2, 8.3, 8.4, 8.5, Website



Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Carbon Conscious Limited for the year ended 30 June 2010, 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.

This declaration is in respect of Carbon Conscious Limited.

A handwritten signature in blue ink, appearing to read 'W M Clark'.

Perth, Western Australia
30 September 2010

W M CLARK
Partner, HLB Mann Judd

STATEMENT OF COMPREHENSIVE INCOME**FOR THE YEAR ENDED 30 JUNE 2010**

		Group	
	Note	2010	2009
		\$	\$
Revenue	2	6,868,097	268,170
Administrative expense		(572,355)	(463,316)
Compliance and regulatory expenses		(126,216)	(54,031)
Consultancy expenses		(183,466)	(301,640)
Depreciation and amortisation expense		(174,698)	(47,199)
Directors' benefits expense		(431,387)	(558,905)
Employee benefits expense		(707,160)	(523,373)
Financing expenses		(20,620)	(2,479)
Marketing expenses		(304,510)	(183,070)
Occupancy expense		(103,865)	(110,678)
Operating expenses		(3,592,396)	(25,665)
Travel expenses		(144,678)	(263,307)
Share-based payment		(211,491)	(102,182)
Impairment of financial assets		(29,700)	-
Profit/(loss) before income tax		265,555	(2,367,675)
Income tax benefit	3	51,775	-
Net Profit/(loss) for the year		317,330	(2,367,675)
Total comprehensive income for the year		317,330	(2,367,675)
Basic and diluted earnings/(loss) per share (cents per share)	5	0.80	(6.33)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION**FOR THE YEAR ENDED 30 JUNE 2010**

		Group	
	Note	2010	2009
		\$	\$
Current Assets			
Cash and cash equivalents	6	271,919	2,854,109
Trade and other receivables	7	1,554,750	148,881
Inventories	8	282,857	48,209
Other financial assets	10	19,800	-
Other assets	9	207,204	250,331
Total Current Assets		2,336,530	3,301,530
Non-Current Assets			
Carbon development expenditure		360,866	562,469
Property, plant and equipment	12	6,243,597	1,105,855
Total Non-Current Assets		6,604,463	1,668,324
Total Assets		8,940,993	4,969,854
Current Liabilities			
Trade and other payables	14	2,761,900	596,976
Provisions	16	114,307	101,897
Interest-bearing liabilities	15	1,046,419	37,387
Total Current Liabilities		3,922,626	736,260
Non-Current Liabilities			
Interest-bearing liabilities	15	59,535	-
Total Non-Current Liabilities		59,535	-
Total Liabilities		3,982,161	736,260
Net Assets		4,958,832	4,233,594
Equity			
Issued capital	17	7,512,431	7,316,014
Reserves	17	626,678	415,187
Accumulated losses		(3,180,277)	(3,497,607)
Total Equity		4,958,832	4,233,594

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Group	
Note	<i>Inflows/ (Outflows)</i> 2010 \$	<i>Inflows/ (Outflows)</i> 2009 \$
Cash flows from operating activities		
	5,614,683	-
	(6,159,845)	(3,404,866)
	81,745	276,746
	(10,620)	(2,835)
	56,216	6,061
Net cash used in operating activities	6 (417,821)	(3,124,894)
Cash flows from investing activities		
	(3,348,176)	(661,882)
	26,500	-
	(49,500)	-
	(3,371,176)	(661,882)
Cash flows from financing activities		
	240,968	-
	(10,800)	-
	1,000,000	-
	(23,361)	(8,218)
Net cash provided by/(used in) financing activities	1,206,807	(8,218)
	(2,582,190)	(3,794,994)
	2,854,109	6,649,103
Cash and cash equivalents at end of year	6 271,919	2,854,109

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY**FOR THE YEAR ENDED 30 JUNE 2010**

	Ordinary Shares	Accumulated Loss	Share-Based Payment Reserve	Total
Group	\$	\$	\$	\$
Balance at 30 June 2008	7,316,014	(1,129,932)	313,006	6,499,088
Loss attributable to members	-	(2,367,675)	-	(2,367,675)
Total comprehensive income for the year	-	(2,367,675)	-	(2,367,675)
Share based payments	-	-	102,181	102,181
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

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(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 has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

The Company is a listed public company, incorporated in Australia and operating in Australia. The entity's principal activity is to produce large quantities of quality Carbon Credits utilising the process of Bio-Sequestration. This will be achieved by establishing Mallee Tree Carbon Sinks across various regions of Western Australia and other Australian wheatbelt areas.

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Principles of Consolidation

The consolidated financial statements comprise the separate financial statements of Carbon Conscious Limited and its subsidiaries (the "Group") as at 30 June each year. 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.

A list of controlled entities is contained in Note 11 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the consolidated 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) Adoption of new and revised standards

Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2010, 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 2010. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(d) Statement of Compliance**

The financial report was authorised for issue on 30 September 2010.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(e) 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 13.

(ii) Planting Program Completion

The planting season program extends over a 12 month period and involves the identification, preparation and planting of trees on suitable land. The annual planting program finalises in approximately September of each year. As at balance date, 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 a conceptual framework for such estimations.

(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.

(f) 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:

(i) 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.

(ii) 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.

(iii) Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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.

(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(g).

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.

(i) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(j) 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.

(k) Inventories

Inventories of carbon emission reductions 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 and is aggregated on a weighted average basis. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(I) 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 either:
 - (a) has transferred substantially all the risks and rewards of the asset, or
 - (b) has 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 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(m) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(n) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(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) 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 and less any impairment losses recognised after the date of the recognition.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment – over 2 to 15 years

Leasehold improvements – over 2 years

Motor vehicles – over 4 to 10 years

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 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 units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the Statement of Comprehensive Income in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(p) Property, plant and equipment (continued)***(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.

Independent valuations are performed with sufficient regularity to ensure that the carrying amounts do not differ materially from the assets' fair values at the balance date.

(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.

(q) Financial assets

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(q) Financial assets (continued)***(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(r) 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 Group's 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 balance 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.

(s) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(t) 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 assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of 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.

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.

(u) 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 balance date are recognised in other payables in respect of employees' services up to the balance 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 balance 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 balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(v) 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 13.

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).

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(v) Share-based payment transactions (continued)**

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.

(i) Equity-settled transactions

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.

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.

(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-Scholes formula taking into account the terms and conditions upon which the instruments were granted (see Note 13). 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.

(w) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) 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.

(y) 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.

(z) Financial instruments issued

(i) Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(aa) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(ab) Going Concern Note**

The financial report has been prepared on a going concern basis notwithstanding the deficiency in working capital of \$1,586,096. The Directors believe this basis is appropriate because of the following:

- At 30 June 2010, the Company was in the process of a large planting program and a proportion of the contractual revenue is derived at the completion of this program.
- The Company has secured additional lines of working capital of \$1M via Convertible Note facility as at 30 June 2010.
- The Company has net assets of \$4.958M as at 30 June 2010, the majority of which relates to Property, plant and equipment, a portion of which could be sold to release working capital should the need arise.

As disclosed in Note 23, the Company has secured additional equity and debt funding in the period between 30 June 2010 and 30 September 2010.

(ac) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Carbon Conscious Limited. Reportable segments are consistent with operating segments.

NOTE 2: REVENUES AND EXPENSES

	Group	
	2010	2009
	\$	\$
	<u> </u>	<u> </u>
(a) Revenue		
Bank interest received	76,017	259,497
Planting income	6,479,688	7,998
Carbon sales	270,451	-
Land licence fees	37,500	-
Other income	4,441	675
	<u>6,868,097</u>	<u>268,170</u>
(b) Expenses		
Operating lease rental expense	60,363	64,916
Share-based payment expense	211,491	102,182
Impairment of financial assets	29,700	-
	<u>29,700</u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 3: INCOME TAX RECOGNISED IN PROFIT AND LOSS**

The prima facie tax expense on the loss before income tax is reconciled to the income tax benefit as follows:

	Group	
	2010	2009
	\$	\$
Profit/(Loss) from continuing operations before income tax benefit	265,555	(2,367,675)
Notional Income tax at the Australian corporate tax rate of 30%	79,666	(710,303)
Plus		
Tax effect of tax concessions associated with capital raising expenditure	(32,137)	(32,137)
Less		
Tax effect of permanent differences which are not deductible in calculating taxable income	105,772	33,185
Deferred tax in relation to timing differences	(30,148)	12,871
Benefit of tax losses not previously recognised	(123,153)	-
Deferred tax asset not recognised	-	696,393
R&D tax offset	(51,775)	-
Income tax benefit	<u>(51,775)</u>	<u>-</u>
Deferred tax asset not recognised:		
Income tax losses	742,499	884,107
Other	66,895	67,125
	<u>809,394</u>	<u>951,232</u>

NOTE 4: SEGMENT REPORTING

The Group operated in the one geographical segment, being Western Australia and one business segment being bio sequestration.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 5: EARNINGS PER SHARE**

	2010	Group 2009
	Cents per share	Cents per share
	<u> </u>	<u> </u>
Basic earnings/(loss) per share	0.80	(6.33)

Earnings/(loss) per share (EPS)

The earnings/(loss) and weighted average number of ordinary shares used in the calculation of basic and dilutive earnings per share is as follow:

Profit/(loss)	<u>\$ 317,330</u>	<u>\$ (2,367,675)</u>
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	<u>39,741,707</u>	<u>37,375,000</u>

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 is not possible to calculate the impact on earnings per share calculations.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 6: CASH AND CASH EQUIVALENTS**

	Group	
	2010	2009
	\$	\$
Cash at bank and on hand	271,919	79,109
Short-term deposits	-	2,775,000
	<u>271,919</u>	<u>2,854,109</u>

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

Short-term deposits are made for varying periods of between one and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

(i) Reconciliation to Cash Flow Statement

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents as shown in the cash flow statement is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank and on hand	<u>271,919</u>	<u>2,854,109</u>
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(ii) Reconciliation of profit/(loss) for the year to net cash flows from operating activities

Profit/(Loss) for the year	317,330	(2,367,675)
Employee leave benefits	12,410	30,525
Depreciation and amortisation expense	174,698	47,199
Equity settled transactions	211,491	102,181
Impairment of financial assets	29,700	-
(Increase)/decrease in inventories	(234,648)	(48,209)
(Increase)/decrease in operating receivables	(1,405,869)	(14,883)
Increase/(decrease) in operating trade and other payables	353,615	(92,202)
(Increase)/decrease in other operating assets	123,452	(781,830)
Net cash used in operating activities	<u>(417,821)</u>	<u>(3,124,894)</u>

	Group	
	2010	2009
	\$	\$
(iii) Non-cash financing and investing activities		
Unpaid settlement of land	1,803,050	368,010
Acquisition of fixed assets by means of finance leases	<u>70,474</u>	<u>30,493</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 7: TRADE AND OTHER RECEIVABLES**

	Group	
	2010	2009
	\$	\$
Trade receivables (i)	1,419,693	-
Interest accrued	-	5,728
GST recoverable	135,057	78,589
Other receivables	-	64,564
Other receivables	<u>1,554,750</u>	<u>148,881</u>

(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 (2009: nil).

At the 30 June, the ageing analysis of trade receivables is as follows:

0 – 30 days	1,388,549	-
31 – 60 days	-	-
61 – 90 days, past due not impaired	-	-
61 – 90 days, considered impaired	-	-
+ 91 days, past due not impaired	31,144	-
+ 91 days, considered impaired	-	-
Total	<u>1,419,693</u>	<u>-</u>

NOTE 8: INVENTORIES

Plantations – at cost	<u>282,857</u>	<u>48,209</u>
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NOTE 9: OTHER ASSETS

Prepayments	205,279	250,131
Other	1,925	200
	<u>207,204</u>	<u>250,331</u>

NOTE 10: OTHER FINANCIAL ASSETS

	Group	
	2010	2009
	\$	\$
Available-for-sale investments carried at fair value:		
Listed shares (i)	<u>19,800</u>	<u>-</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 11: CONTROLLED ENTITIES***Subsidiaries of Carbon Conscious Limited*

Name	Country of Incorporation	Ownership Interest	
		2010	2009
Carbon Fund Australia Pty Ltd	Australia	100%	100%
Carbon Management Pty Ltd	Australia	100%	-

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold improvements \$	Plant & Equipment \$	Motor Vehicles \$	Land \$	Total \$
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
Year ended 30 June 2009					
As at 1 July 2008 net of accumulated depreciation	4,522	28,772	-	-	33,294
Additions	26,980	116,097	122,751	853,932	1,119,760
Depreciation charge for the year	(17,876)	(17,760)	(11,563)	-	(47,199)
At 30 June 2009 net of accumulated depreciation	13,626	127,109	111,188	853,932	1,105,855
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
At 30 June 2009					
Cost	31,502	148,317	122,751	853,932	1,156,502
Accumulated depreciation	(17,876)	(21,208)	(11,563)	-	(50,647)
Net carrying amount	13,626	127,109	111,188	853,932	1,105,855

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 13: 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:

	2010 No.	2010 Weighted average exercise price	2009 No.	2009 Weighted average exercise price
Outstanding at the beginning of the year	9,575,000	\$0.52	9,375,000	\$0.52
Granted during the year	3,200,000	\$0.56	500,000	\$0.60
Cancelled during the year	(600,000)	\$0.52	(300,000)	\$0.60
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	<u>12,175,000</u>	<u>\$0.53</u>	<u>9,575,000</u>	<u>\$0.52</u>
Exercisable at the end of the year	7,200,000	\$0.52	9,575,000	\$0.52

The outstanding balance as at 30 June 2010 is represented by:

- 5,400,000 options over ordinary shares with an exercise price of \$0.60 each, exercisable immediately and until 31 December 2010;
- 1,800,000 options over ordinary shares with an exercise price of \$0.60 each, exercisable upon meeting various conditions and until 31 December 2010;
- 1,875,000 options over ordinary shares with an exercise price of \$0.20 each, exercisable upon meeting various conditions and until 31 March 2011;
- 500,000 options over ordinary shares with an exercise price of \$0.60 each, exercisable upon meeting various conditions and until 8 August 2013;
- 900,000 options over ordinary shares with an exercise price of \$0.58 each
- 300,000 options over ordinary shares with an exercise price of \$0.40 each, exercisable upon meeting various conditions and until 31 December 2013;
- 800,000 options over ordinary shares with an exercise price of \$0.60 each, exercisable upon meeting various conditions and until 31 March 2012;
- 500,000 options over ordinary shares with an exercise price of \$0.58 each, exercisable upon meeting various conditions and until 31 October 2010;
- 100,000 exercisable upon meeting various conditions and until 31 December 2011; 100,000 options over ordinary shares with an exercise price of \$0.60 each, exercisable upon meeting various conditions and until 31 December 2011;

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

The range of exercise prices for options outstanding at the end of the year was \$0.20 - \$0.60.

The weighted average fair value of options granted during the year was \$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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 13: SHARE-BASED PAYMENTS (continued)**

The following table lists the inputs to the model used:

	2010	2009
Volatility (%)	100.00	99.83
Risk-free interest rate (%)	4.71-5.25	5.65
Expected life of option (years)	0.92-4.09	4.84
Exercise price (cents)	40 - 60	60
Weighted average share price at grant date (cents)	39	25
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-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 14: TRADE AND OTHER PAYABLES

	Group	
	2010	2009
Current	\$	\$
Trade payables (i)	488,955	136,932
Land settlement creditors	1,803,050	-
Sundry payables and accrued expenses	469,895	460,044
	<u>2,761,900</u>	<u>596,976</u>

(i) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 15: INTEREST-BEARING LIABILITIES**

	Group	
	2010	2009
	\$	\$
Current		
Lease liabilities (note 19)	24,995	24,667
Convertible Note ⁽ⁱ⁾	1,000,000	-
Other	21,424	12,720
	<u>1,046,419</u>	<u>37,387</u>
Non-Current		
Lease liabilities (note 19)	<u>59,535</u>	<u>-</u>

- (i) On 20 May 2010, the Company announced it was to receive convertible note funding totalling \$1M commencing on 1 June 2010. The funding term of the convertible note is 13 months with a coupon interest rate of 12%.

At the end of the funding term the noteholder has 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 which ever is the lesser.

In addition to the Convertible Notes noted above the Company had at 30 June 2010 the facility of an additional 10 Convertible Notes of \$100,000 each on primarily the same terms and conditions as above. At 30 June 2010 the Company has not drawn down upon these notes.

NOTE 16: PROVISIONS

Current		
Employee benefits	<u>114,307</u>	<u>101,897</u>
	2010	2009
	\$	\$
<i>Movement in employee benefits provision</i>		
Opening balance at 1 July 2009	101,897	71,373
Additional provisions	45,251	41,199
Amounts used during the year	<u>(56,646)</u>	<u>(10,675)</u>
Carrying amount at the end of the year	<u>114,307</u>	<u>101,897</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 17: ISSUED CAPITAL AND RESERVES**

ISSUED CAPITAL	2010	2009		
	No.	No.		
Ordinary shares issued and fully paid	39,697,172	37,375,000		
	2010	2010	2009	2009
	No.	\$	No.	\$
Movement in ordinary shares on issue				
At beginning of the financial period	37,375,000	7,316,014	37,375,000	7,316,014
Shares issued on 23 June 2010	2,322,172	232,217	-	-
Share issue costs	-	(35,800)	-	-
Balance at end of financial year	39,697,172	7,512,431	37,375,000	7,316,014

OPTIONS

Details of all options on issue by the Company are disclosed in Note 13.

RESERVES	Share-based payment	Share-based payment
	reserve	reserve
	2010	2009
	\$	\$
At beginning of the financial year	415,187	313,006
Share based payments	274,039	116,690
Cancellation of share-based payments	(62,548)	(14,509)
Balance at end of financial year	626,678	415,187

Share-based payment reserve

This reserve is used to record the value of equity benefits provided to directors and key executives and employees as part of their remuneration and to related parties in consideration for the establishment and ongoing promotion of the Group's activities.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 18: FINANCIAL INSTRUMENTS****(a) Capital Risk Management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax and general administrative outgoings.

(b) Financial Risk Management Objectives

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 2009.

(c) Categories of Financial Instruments

	Group	
	2010	2009
	\$	\$
Financial assets		
Trade and other receivables	1,554,750	148,881
Cash and cash equivalents	271,919	2,854,109
Available-for-sale financial assets at fair value		
- listed investments	19,800	-
Total financial assets	<u>1,846,469</u>	<u>3,002,990</u>
Financial liabilities		
Trade and other payables	2,761,900	596,976
Other financial liabilities	1,105,954	37,387
Total financial liabilities	<u>3,867,854</u>	<u>634,363</u>

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

(d) 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 Group currently does not operate internationally and is not exposed to foreign exchange 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 18: FINANCIAL INSTRUMENTS (continued)****(e) 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.

(f) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 18: FINANCIAL INSTRUMENTS (continued)****(g) 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
Group 2010						
Non-interest bearing	-	2,761,900	-	-	-	-
Finance leases	11.23	2,766	5,532	24,896	69,967	-
Other fixed rate instruments	4.85	4,833	9,665	9,665	-	-
Convertible note	12.00	10,000	20,000	1,090,000	-	-
		<u>2,779,499</u>	<u>35,197</u>	<u>1,124,561</u>	<u>69,967</u>	<u>-</u>
Group 2009						
Non-interest bearing	-	596,976	-	-	-	-
Finance leases	10.96	998	1,995	8,980	15,964	-
Other fixed rate instruments	4.85	2,790	5,580	5,580	-	-
		<u>600,764</u>	<u>7,575</u>	<u>14,560</u>	<u>15,964</u>	<u>-</u>

(h) Fair Value of Financial Instruments

The fair values 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.

(i) 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 balance 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 increase by \$1,360 (2009: \$14,271) and decrease by \$1,360 (2009: \$14,271). This is attributable to the Group's exposure to interest rates on its variable rate instruments.
- Total equity would increase by \$1,360 (2009: \$14,271) and decrease by \$1,360 (2009: \$14,271) attributable to the Group's exposure to interest rates on its variable rate instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 19: COMMITMENTS**

Operating lease commitments – Company as lessee

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2010	2009
	\$	\$
Within one year	-	40,488
After one year but not more than five years	-	-
	<u>-</u>	<u>40,488</u>

Finance lease commitments – Company as lessee

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:

	2010	2009
	\$	\$
Within one year	33,265	27,936
After one year but not more than five years	69,825	-
Total minimum lease repayments	<u>103,090</u>	<u>27,936</u>
Less amounts representing finance charges	<u>(18,560)</u>	<u>(3,269)</u>
Present value of minimum lease payments	<u>84,530</u>	<u>24,667</u>
Included in the financial statements as:		
Current interest-bearing liabilities	24,995	24,667
Non-current interest-bearing liabilities	59,535	-
Total included in interest-bearing liabilities	<u>84,530</u>	<u>24,667</u>

Capital Commitments

The Company had no capital commitments at year end that are not included as liabilities in the Statement of Financial Position (2009: \$368,010).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 20: RELATED PARTY DISCLOSURE

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 \$
2010				
Broadacre Asset Management Limited	-	96,507	-	19,382
2009				
Broadacre Asset Management Limited	-	620,866	-	18,480

Terms and conditions of transactions with related parties

Purchases from Broadacre Asset Management 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, the Company 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 2010 an amount of \$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 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 Limited 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 20: RELATED PARTY DISCLOSURE (continued)**

(g) If the conversion price calculated above is \$0.10 or less, the Company can elect to redeem the notes at their face value.

At 30 June 2010, the Company had not drawn down upon these notes.

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

Directors – Related Party Interests

Mr Andrew McBain (appointed 28 August 2009), a Non-Executive Director of the Company during the year, is also a Director of Broadacre Asset Management Limited ("BAM") At the date of this report the following represents the interests of Broadacre Asset Management Limited in the Company of which this Director has a related party interest in:

BAM Shareholding – 14,320,750 Ordinary Shares (2009: 14,320,750 ordinary shares)

BAM Options – 5,400,000 options (2009: 5,400,000 options)

NOTE 21: PARENT ENTITY DISCLOSURES

Financial position

	2010	2009
	\$	\$
Assets		
Current assets	2,336,528	3,301,528
Non-current assets	4,811,887	1,106,591
Total assets	<u>7,148,415</u>	<u>4,970,588</u>
Liabilities		
Current liabilities	2,119,577	736,260
Non-current liabilities	59,535	-
Total liabilities	<u>2,179,112</u>	<u>736,260</u>
Equity		
Issued capital	7,512,431	7,316,014
Accumulated losses	(3,169,806)	(3,496,873)
Reserves		
Share-based payments	626,678	415,187
Total equity	<u>4,969,303</u>	<u>4,234,328</u>
Financial performance		
Profit/(loss) for the year	327,067	(2,366,941)
Total comprehensive income	327,067	(2,366,941)

Refer to Note 19 for commitments of the parent which are the same as the Group.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 22: CONTINGENT LIABILITIES

The Company has no contingent liabilities at year end (2009: nil).

NOTE 23: EVENTS AFTER THE BALANCE SHEET DATE

On 19 July 2010 the Company placed an amount of \$500,000 (5 million Ordinary Shares) to an investor party under the terms of an Entitlement Issue Prospectus.

On 19 July 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.

On 9 September 2010, the Company placed an amount of \$458,750 (4.58 million Ordinary Shares) to five (5) investor party under the terms of the Entitlement Issue Prospectus.

On 15 September 2010, the Company placed an amount of \$580,000 (5.8 million Ordinary Shares) to seven (7) investor party under the terms of the Entitlement Issue Prospectus.

On 20 September 2010, the Company called and subsequently received funds for five (5) \$100,000 convertible notes under the Broadacre Asset Management Convertible Note facility.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

NOTE 24: AUDITOR'S REMUNERATION

The auditor of Carbon Conscious Limited is HLB Mann Judd.

	2010	2009
	\$	\$
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 Group	40,350	26,100
Other services in relation to the entity and any other entity in the Company	-	-
	<u>40,350</u>	<u>26,100</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 25: DIRECTORS AND EXECUTIVES DISCLOSURES****(a) Details of Key Management Personnel***(i) Directors*

Matthew Birney	Non-Executive Chairman (resigned 15 March 2010)
Peter Balsarini	Chief Executive Officer
Nadaisan Logaraj	Non-Executive Director
Michael Shields	Non-Executive Director (resigned 2 July 2010)
Stephen Lowe	Non-Executive Chairman
Andrew McBain	Non-Executive Director (resigned 21 July 2010)
Trevor Stoney	Non-Executive Director (appointed 21 July 2010)

(ii) Executives

Richard Collins	Director Carbon Estates
Daniel Stevens	Director Business Development
Timothy Jones	Chief Operating Officer and Company Secretary

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

(b) Option Holdings of Key Management Personnel

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 25: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)****(b) Option holdings of Key Management Personnel (continued)**

30 June 2009	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	-	300,000
Peter Balsarini	400,000	500,000	-	-	900,000	-	900,000
Nadaisan Logaraj	300,000	-	-	-	300,000	-	300,000
Stephen Lowe	-	-	-	-	-	-	-
Michael Shields	300,000	-	-	(300,000) ⁽ⁱ⁾	-	-	-
Andrew McBain	-	-	-	-	-	-	-
Executives							
Richard Collins ⁽ⁱⁱ⁾	1,337,500	-	-	-	1,337,500	-	1,337,500
Daniel Stevens ⁽ⁱⁱⁱ⁾	400,000	-	-	-	400,000	-	400,000
Total	3,037,500	500,000	-	(300,000)	3,237,500	-	3,237,500

(i) Options granted to Mr Shields were cancelled on his resignation as non-executive director. Mr Shields was reappointed as a director on 25 June 2009.

(ii) Mr Collins was a director of the Company until 26 June 2009.

(iii) Mr Stevens was a director of the Company until 26 June 2009.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 30 JUNE 2010****NOTE 25: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)****(c) Shareholdings of Key Management Personnel***Shares held in Carbon Conscious Limited (number)*

	Balance at beginning of year	Granted as remuneration	On Exercise of Options	Net Change Other	Balance at end of year
30 June 2010	Ord	Ord	Ord	Ord	Ord
Directors					
Matthew Birney	256,250	-	-	(256,250) ⁽ⁱⁱ⁾	-
Peter Balsarini	161,250	-	-	80,625 ⁽ⁱ⁾	241,875
Michael Shields	311,250	-	-	2,286,452 ⁽ⁱ⁾	2,597,702
Nadaisan Logaraj	694,664	-	-	347,333 ⁽ⁱ⁾	1,041,997
Stephen Lowe	-	-	-	15,000 ⁽ⁱ⁾	15,000
Andrew McBain	-	-	-	51,000 ⁽ⁱ⁾	51,000
Executives					
Richard Collins	468,750	-	-	-	468,750
Daniel Stevens	753,083	-	-	-	753,083
Timothy Jones	-	-	-	-	-
	2,645,247	-	-	2,524,160	5,169,407

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

(ii) Mr Birney resigned as Non-executive Chairman effective 15 March 2010.

	Balance at beginning of year	Granted as remuneration	On Exercise of Options	Net Change ⁽ⁱ⁾	Other	Balance at end of year
30 June 2009	Ord	Ord	Ord	Ord	Ord	Ord
Directors						
Matthew Birney	256,250	-	-	-	-	256,250
Peter Balsarini	161,250	-	-	-	-	161,250
Michael Shields	291,250	-	-	20,000	-	311,250
Nadaisan Logaraj	156,250	-	-	538,414	-	694,664
Stephen Lowe	-	-	-	-	-	-
Andrew McBain	-	-	-	-	-	-
Executives						
Daniel Stevens ⁽ⁱⁱ⁾	156,250	-	-	596,833	-	753,083
Richard Collins ⁽ⁱⁱⁱ⁾	468,750	-	-	-	-	468,750
	1,490,000	-	-	1,155,247	-	2,645,247

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

(ii) Mr Stevens was a director of the Company until 26 June 2009.

(iii) Mr Collins was a director of the Company until 26 June 2009.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 25: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

(d) Key Management Personnel Remuneration

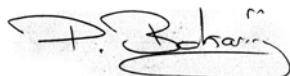
Refer to the remuneration report (audited) on pages 14 and 16 for details of key management personnel remuneration.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Carbon Conscious Limited (the 'Company') :
 - a. the financial statements, notes and additional disclosures of the consolidated entity are 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 2010 and of its performance for the year then ended; and
 - ii. complying with Australian Accounting Standards and Corporations Regulations 2001; 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. 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 2010.

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



PETER BALSARINI
Director

Dated this 30th day of September 2010



Accountants | Business and Financial Advisers

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 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 30 to 69.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1(d), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing 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 opinions.



Accountants | Business and Financial Advisers

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 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1(d).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 17 of the directors' report for the year ended 30 June 2010. 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 2010 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in blue ink that reads 'HLB Mann Judd'.

HLB MANN JUDD
Chartered Accountants

A handwritten signature in blue ink that reads 'W M Clark'.

Perth, Western Australia
30 September 2010

W M CLARK
Partner

ASX ADDITIONAL INFORMATION

Shareholding

The distribution of members and their holdings of equity securities in the Company as at 28 September 2010 was as follows:

Number Held as at 28 September 2010	Class of Equity Securities
	Fully Paid Ordinary Shares
1-1,000	5,673
1,001 - 5,000	1,025,249
5,001 – 10,000	856,106
10,001 - 100,000	7,002,084
100,001 and over	46,195,560
Total	55,084,672

Holders of less than a marketable parcel:

- fully paid shares Nil

Substantial Shareholders

The Company has the following substantial shareholders listed in the Company's register as at 28 September 2010:

Holder	Number
Mr Michael Shields	7,475,400
Broadacre Asset Management Limited	5,628,880
Stoney Pastoral Co Pty Ltd	5,000,000
Barclay Wells Limited <Nominee A/C>	3,600,000

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.

ASX ADDITIONAL INFORMATION*Twenty Largest Shareholders*

The names of the twenty largest ordinary fully paid shareholders as at 28 September 2010 are as follows:

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
MR MICHAEL GRAHAM SHIELDS	7,475,400	13.571
BROADACRE ASSET MANAGEMENT LIMITED	5,628,880	10.219
STONE PASTORAL CO PTY LTD	5,000,000	9.077
BARCLAY WELLS LIMITED <NOMINEE A/C>	3,600,000	6.535
MACRO FUND SERVICES PTY LTD	2,279,922	4.139
KOUTA BAY PTY LTD <THE HOUNDY FAMILY A/C>	2,010,000	3.649
WILNOM PTY LTD <THE MORRISON FAMILY A/C>	1,500,000	2.723
GURRAVEMBI INVESTMENTS PTY LTD <SUPER FUND A/C>	1,250,000	2.269
OZEAN INVESTMENTS PTY LIMITED <LOGARAJ NADAISAN S/F A/C>	1,091,997	1.982
L&M GROUP HOLDINGS PTY LTD <L&M A/C>	1,000,000	1.815
MR ANTHONY DEAN LAZENBY	1,000,000	1.815
PATICOA NOMINEES PTY LTD	803,468	1.459
BRIDGESUN PTY LIMITED	675,000	1.225
AVANTEOS INVESTMENTS LIMITED <DNR IMA A/C>	645,000	1.171
A P REYEM PTY LIMITED	608,750	1.105
TROJAN EQUITY LIMITED	577,000	1.047
RICHARD ALFRED COLLINS & VIVIEN THERESE COLLINS <THE RA COLLINS SUPER FUND>	568,750	1.033
KATIE ANNE MCMAHON <SHANNON AND KATIE A/C>	500,000	0.908
STEVE BROWN	500,000	0.908
TPC NOMINEES PTY LTD	500,000	0.908
TOTAL	37,214,167	67.558