



**carbonconscious**

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Carbon Conscious Limited ABN 20 129 035 221

30 September 2009

Company Announcements Office  
Australian Securities Exchange  
10<sup>th</sup> Floor  
20 Bond Street  
SYDNEY NSW 2000

**ANNOUNCEMENT NUMBER 52**

**Via: ASX Online**

**Number of Pages: 56** (including this page)

**ASX Code: CCF**

Dear Sir,

**ASX Announcement No 52 – Annual Financial Report**

Please find enclosed the Annual Financial Report for the period 1 July 2009 to 30 June 2009.

Yours sincerely

**Geraldine Holland**  
Company Secretary



**carbonconscious**

**ABN 20 129 035 221**

**And Controlled Entities**

**Annual Financial Report**

**For the year ended 30 June 2009**

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## **CORPORATE INFORMATION**

**ABN 20 129 035 221**

### **Directors**

MATTHEW BIRNEY, Non-Executive Chairman  
PETER BALSARINI, Chief Executive Officer  
NADAISAN LOGARAJ, Non-Executive Director  
STEPHEN LOWE, Non-Executive Director  
MICHAEL SHIELDS, Non-Executive Director  
ANDREW MCBAIN, Non- Executive Director (appointed 28 August 2009)

### **Company secretary**

GERALDINE HOLLAND

### **Registered office**

LEVEL 1, 1 OUTRIDGE CRESCENT, SUBIACO WA 6008

### **Principal place of business**

LEVEL 1, 1 OUTRIDGE CRESCENT, 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 2, 15 RHEOLA STREET, WEST PERTH WA 6005

## DIRECTORS' REPORT

Your directors submit the annual financial report of the Company and the entity it controls (hereafter referred to as "The Group") for the financial year ended 30 June 2009. 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

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MATTHEW BIRNEY, 40 (Chairman)

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 organizations. His business interests both past and present include automotive, marine, retail, food & beverage, import/wholesale and commercial property development.

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PETER BALSARINI, 41, BEc, M.Bus, CPA (Chief Executive Officer)

Mr Balsarini holds a Bachelor of Economics Degree, is a CPA and has a Masters Degree in Business. He has over 17 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. He has significant experience in the development and ongoing operation of Managed Investment Schemes, including regulatory and compliance requirements.

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NADAISAN LOGARAJ, 60, LL.B (Hons), LL. M., FAICD (Non-Executive Director)

Mr Logaraj's career spans law and investment banking. He 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. He 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. He holds a Master of Laws degree in International Tax and Public Company Finance from the University of Sydney

He 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;

Ambassador of the University of Sydney and a Mentor (Honorary Associate) at its Graduate School of Government.

During the last three years, Mr Logaraj has also served as a director of the following listed companies:

China Century Capital Limited	31 March 2009 to present
Cauldron Energy Limited (previously known as Scimitar Resources Limited)	13 December 2007 to 4 June 2009
Karmelsonix Limited	16 April 2008 to 21 November 2008.

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MICHAEL SHIELDS 35, B.Com (Non-Executive Director) – resigned 25 November 2008, re-appointed 26 June 2009

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 companies:

Fortuna Minerals Limited (Formerly Margin Bet Limited)	12 November 2007 to present
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## **DIRECTORS' REPORT**

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STEPHEN LOWE, 47, Diploma of Financial Services (Non-Executive Director) – appointed 19 March 2009

Mr Lowe has 27 years' experience in capital and financial markets, with a focus on energy commodities for the last 13 years. He 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. He brings to Carbon Conscious senior relationships with major energy and mining companies, investment banks and fund managers in national and international markets.

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ANDREW MCBAIN, 35 (Non-Executive Director) – appointed 28 August 2009

Mr McBain is 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 is 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 100 per cent subsidiary of Broadacre Asset Management Limited, a company which holds 38% of Carbon Conscious Limited's shares. Mr McBain is also an Executive Director of Broadacre Asset Management Limited.

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DANIEL STEVENS, 32, BBus (Executive Director, Business Development) – resigned 26 June 2009

Mr Stevens joined AACL in 2004 and was AACL's General Manager since 2006. Mr Stevens was instrumental in developing AACL during that time. Mr Stevens holds a Bachelor of Business (Marketing and Human Resource Management) and has previously held senior positions in marketing, sales and management across a number of businesses involved in various industries.

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RICHARD COLLINS, 59, B.Sc, Grad Dip Bus, Grad Dip Marketing (Director, Carbon Estates) – resigned 26 June 2009

Mr Collins will guide mallee tree establishment and research projects drawing from his experience in Western Australia's Mallee Tree industry gained in the 1990s, which established more than 8,000 hectares of Mallees in the wheatbelt.

He has a degree in agricultural science, post graduate qualifications in business and marketing and in the past two years has worked with AACL building farmer relationships.

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### **Company Secretary**

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GERALDINE HOLLAND

Ms Holland was appointed Company Secretary on 19 March 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 and has just completed her Certificate in Governance Practice and Administration from Chartered Secretaries Australia.

PETER BALSARINI

Mr Balsarini was appointed Company Secretary on incorporation of the Company and resigned 19 March 2009.

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**DIRECTORS' REPORT (continued)****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.

<b>Directors</b>	Number of options over ordinary shares	Number of fully paid ordinary shares
Matthew Birney	300,000	256,250
Peter Balsarini	900,000	161,250
Nadaisan Logaraj	300,000	694,664
Stephen Lowe	-	-
Michael Shields	-	311,250
Andrew McBain	-	-

During the financial year a total of 500,000 \$0.60 options exercisable on or before 8 August 2013 were issued to Mr Balsarini as approved by shareholders at the annual general meeting held 25 November 2008. No shares were granted to related parties during or since the end of the financial year.

Details of unissued ordinary shares under options 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

During the financial year 300,000 \$0.60 options exercisable on or before 31 December 2010 were cancelled following the resignation of Mr Shields as a non-executive director on 25 November 2008.

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 Entity 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.

## **DIRECTORS' REPORT (continued)**

### **Operating results for the period**

The loss of the Group after providing for income tax amounted to \$2,367,675 (2008: \$1,129,932).

### **Review of financial conditions**

The Company is well funded with approximately \$2.85M in the bank at the end of June 2009. The Company intends that the majority of its revenue will arise from agreements with third party carbon clients.

### **Significant changes in the state of affairs**

On 13 July 2008, the Company acquired 100% of the issued capital of Carbon Fund Australia Pty Ltd.

On 26 August 2008 the Company announced the appointment of Peter Balsarini as Chief Executive Officer. Mr Balsarini joined the Company in January 2008 as the Chief Operating Officer.

On 25 November 2008 the Company announced the resignation of non-executive director Michael Shields.

On 25 November 2008 the Company issued 500,000 \$0.60 options exercisable on or before 8 August 2013 to Peter Balsarini as approved by shareholders at the annual general meeting held 25 November 2008.

On 11 December 2008 the Company announced it had been awarded approved Abatement Provider status under the Federal Government's Greenhouse Friendly™ Program for its forest sink Carbon Capture Program™.

On 19 March 2009 the Company announced the appointment of Mr Stephen Lowe as Non-Executive Director of the Company. The Company also announced the appointment of Ms Geraldine Holland and resignation of Mr Balsarini as Company Secretary.

On 7 May 2009 the Company announced agreement of commercial terms with a top 50 ASX listed company for the planting of Mallee Eucalypts in the wheat-belt (see significant events after balance date)

On 26 June 2009 the Company announced the resignation of Mr Daniel Stevens and Mr Richard Collins as Executive Directors and the re-appointment of Mr Michael Shields as a non-executive director.

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

### **Significant events after balance date**

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 28 August 2009 the Company announced the appointment of Mr Andrew Lawson McBain as Non-Executive Director of the Company.

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

## **DIRECTORS' REPORT (continued)**

### **Likely developments and expected results**

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

### **Environmental legislation**

The Company is not subject to any significant environmental legislation.

### **Indemnification and insurance of Directors and Officers**

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

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

### **Remuneration report**

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

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

MATTHEW BIRNEY (Non Executive Chairman)

PETER BALSARINI (Chief Executive Officer)

NADAISAN LOGARAJ (Non Executive Director)

MICHAEL SHIELDS (Non Executive Director) – resigned 25 November 2008, re-appointed 26 June 2009

STEPHEN LOWE (Non Executive Director) – appointed 19 March 2009

ANDREW MCBAIN (Non Executive Director) – appointed 28 August 2009

DANIEL STEVENS (Executive Director, Business Development) – resigned 26 June 2009

RICHARD COLLINS (Executive Director, Carbon Estates) – resigned 26 June 2009

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:

DANIEL STEVENS (Business Development Director) – effective 26 June 2009

RICHARD COLLINS (Plantation Director) – effective 26 June 2009

### **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*

The Company does not have a formally constituted remuneration committee as the board considers that the Company's size does not warrant such a committee. The board of directors oversees the functions normally carried out by an audit committee.

#### *Remuneration structure*

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

## **DIRECTORS' REPORT (continued)**

### *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 \$150,000 per year.

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

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

The remuneration of non-executive directors for the year ended 30 June 2009 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.

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

#### *Employment Contracts*

The employment conditions of the Chief Executive Officer, Peter Balsarini are formalised in a contract of employment. Mr Balsarini is employed under a three year contract, which commenced on 15 September 2009 and expires on 15 September 2012 and paid at a rate of \$150,000 per annum exclusive of superannuation plus a performance bonus of \$25,000.

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 three month lieu of notice if the termination period is not worked out. 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.

**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	-
Daniel Stevens	120,000	-	-	8,100	-	9,672	-	137,772	-
Richard Collins	120,000	-	-	8,100	-	35,631	-	163,731	-
Michael Shields	20,833	-	-	1,875	-	-	-	22,708	-
Nadaisan Logaraj	50,000	-	-	4,500	-	8,463	-	62,963	-
Stephen Lowe *	12,500	-	-	1,125	-	-	50,000	63,625	-
Andrew McBain	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>522,605</b>	<b>-</b>	<b>-</b>	<b>36,300</b>	<b>-</b>	<b>84,685</b>	<b>50,000</b>	<b>693,590</b>	<b>-</b>

\* 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

**Options granted 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 period \$	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
Daniel Stevens	-	-	-	-	-	-	-
Richard Collins	-	-	-	-	-	-	-
Michael Shields	-	-	-	-	-	-	-
Nadaisan Logaraj	-	-	-	-	-	-	-
Stephen Lowe	-	-	-	-	-	-	-
Andrew McBain	-	-	-	-	-	-	-
<b>Total</b>	<b>55,959</b>	<b>-</b>	<b>-</b>	<b>55,959</b>	<b>-</b>	<b>22,456</b>	<b>12.49</b>

\$

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.

**2008 Remuneration of directors and named executives**

**Directors' remuneration for the period ended 30 June 2008**

	Primary benefits		Post employment		Equity	Other	Total	%	
	Salary & Fees	Bonuses	Non-Monetary Benefits	Superannuation	Prescribed Benefits	Options	Performance Related		
	\$	\$	\$	\$	\$	\$	\$		
Matthew Birney	27,250	-	-	-	-	6,045	-	33,295	-
Peter Balsarini (i)	60,000	-	-	900	-	4,030	-	64,930	-
Daniel Stevens (i)	43,125	-	-	3,881	-	4,030	-	51,036	-
Richard Collins(i)	22,500	-	-	2,025	-	14,846	-	39,371	-
Michael Shields	25,000	-	-	2,250	-	6,045	-	33,295	-
Nadaisan Logaraj	25,000	-	-	2,250	-	6,045	-	33,295	-
<b>Total</b>	<b>202,875</b>	<b>-</b>	<b>-</b>	<b>11,306</b>	<b>-</b>	<b>41,041</b>	<b>-</b>	<b>255,222</b>	<b>-</b>

(i) Includes remuneration received between January 2<sup>nd</sup> 2008 and May 19<sup>th</sup> 2008 paid by the Company as a reimbursement on the date of listing.

**Options granted as part of remuneration 2008**

	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 period	Value of options included in remuneration for the period	% remuneration consisting of options for the period
	\$	\$	\$	\$	\$	\$	
Matthew Birney	14,508	-	-	14,508	-	6,045	18.16
Peter Balsarini	19,344	-	-	19,344	-	4,030	6.21
Daniel Stevens	19,344	-	-	19,344	-	4,030	7.90
Richard Collins	97,221	-	-	97,221	-	14,846	37.71
Michael Shields	14,508	-	-	14,508	-	6,045	18.16
Nadaisan Logaraj	14,508	-	-	14,508	-	6,045	18.16
<b>Total</b>	<b>179,433</b>	<b>-</b>	<b>-</b>	<b>179,433</b>	<b>-</b>	<b>41,041</b>	

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 were as follows:

	<b>Number of meetings eligible to attend</b>	<b>Number of meetings attended</b>
MATTHEW BIRNEY	6	6
PETER BALSARINI	6	6
DANIEL STEVENS	6	6
RICHARD COLLINS	6	6
RAJ LOGARAJ	6	6
MICHAEL SHIELDS	4	4
STEPHEN LOWE	1	1

**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 20 and forms part of this directors' report for the year ended 30 June 2009.

**Non-Audit Services**

No non-audit services were provided by the external auditors during the year ended 30 June 2009.

Signed in accordance with a resolution of the directors.



Peter Balsarini  
Director

Perth, 30 September 2008

## **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 2009 and were substantially compliant with the Council's best practice 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](http://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](http://www.carbonconscious.com.au)).

#### **1.2 Objective**

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

#### **1.3 Responsibilities**

The Board is responsible for:

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

Directors' appointment letters outline obligations of each Director to the Company and Board. The roles of the individual members of the Board are located on the Company's website ([www.carbonconscious.com.au](http://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. Senior executives are constantly reviewed by the Board (up until June 2009 senior executives were part of the Board structure). The Board Performance Evaluation Policy is located on its website ([www.carbonconscious.com.au](http://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.

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:

<b>Name</b>	<b>Position</b>
MATTHEW BIRNEY	Chairperson, Non-Executive
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:

<b>Name</b>	<b>Term in Office</b>
MATTHEW BIRNEY	1.5 years
PETER BALSARINI	1.5 years
NADAISAN LOGARAJ	1.5 years
MICHAEL SHIELDS	1 year
STEPHEN LOWE	<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](http://www.carbonconscious.com.au)).

### **2.3 Nomination Committee**

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

### **2.4 Appointment of Directors**

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Group's scope of activities, intellectual ability to contribute to Board's duties and physical ability to undertake 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](http://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](http://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](http://www.carbonconscious.com.au)).

### **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](http://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](http://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](http://www.carbonconscious.com.au)).

## PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

### 6.1 Shareholder Communication

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

- communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and
- requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company's Shareholder Communications Policy is strictly adhered to is located on its website ([www.carbonconscious.com.au](http://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.

## 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 Financial 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](http://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 Company is not of a sufficient size or scale to warrant the implementation of a full remuneration or nomination committee. These functions will be provided by the board as a whole. The Company does however 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.

### 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 Board is responsible for determining and reviewing compensation arrangements for the Directors themselves and the chief executive officer and executive team. The Board has not established a Remuneration Committee as the Board considers that the Company's size does not warrant such a committee.

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](http://www.carbonconscious.com.au)). There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-Executive Directors.

### 8.5 Performance Based Remuneration

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

The principles supporting our remuneration policy are that:

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

### 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
<b>Principle 1</b>	<b>Lay Solid Foundations for Management and Oversight</b>		
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
<b>Principle 2</b>	<b>Structure the Board to Add Value</b>		
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

<b>Principle 3</b>	<b>Promote Ethical and Responsible Decision Making</b>		
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
<b>Principle 4</b>	<b>Safeguard Integrity in Financial Reporting</b>		
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
<b>Principle 5</b>	<b>Make Timely and Balanced Disclosure</b>		
Recommendation 5.1	Policy for Compliance with Continuous Disclosure	Yes	5.1, Website
Recommendation 5.2	Reporting on Principle 5	Yes	5.1, Website
<b>Principle 6</b>	<b>Respect the Rights of Shareholders</b>		
Recommendation 6.1	Communications Strategy	Yes	6.1, Website
Recommendation 6.2	Reporting on Principle 6	Yes	6.1, Website
<b>Principle 7</b>	<b>Recognise and Manage Risk</b>		
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
<b>Principle 8</b>	<b>Remunerate Fairly and Responsibly</b>		
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 2009, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of 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 2009**

**W M CLARK  
Partner, HLB Mann Judd**

**INCOME STATEMENT**

FOR THE YEAR ENDED 30 JUNE 2009

		Group	Parent	
	Note	2009	2009	2 January to 30 June 2008
		\$	\$	\$
Revenue	2	268,170	268,170	89,822
Administrative expense		(463,316)	(462,582)	(208,174)
Compliance and regulatory expenses		(54,031)	(54,031)	(11,828)
Consultancy expenses		(301,640)	(301,640)	(104,926)
Depreciation and amortisation expense		(47,199)	(47,199)	(3,448)
Directors' benefits expense		(558,905)	(558,905)	(214,181)
Employee benefits expense		(523,373)	(523,373)	(208,844)
Financing expenses		(2,479)	(2,479)	(1,392)
Marketing expenses		(183,070)	(183,070)	(73,317)
Occupancy expense		(110,678)	(110,678)	(47,217)
Operating expenses		(25,665)	(25,665)	(33,421)
Travel expenses		(263,307)	(263,307)	-
Share-based payments		(102,182)	(102,182)	(313,006)
<b>Loss before income tax expense</b>		<b>(2,367,675)</b>	<b>(2,366,941)</b>	<b>(1,129,932)</b>
Income tax expense/(benefit)		-	-	-
<b>Loss attributable to members</b>		<b>(2,367,675)</b>	<b>(2,366,941)</b>	<b>(1,129,932)</b>
Basic loss per share (cents per share)	5	(6.33)	(6.33)	(5.88)

The accompanying notes form part of these financial statements

**BALANCE SHEET**

FOR THE YEAR ENDED 30 JUNE 2009

		Group	Parent	
	Note	2009	2009	2008
		\$	\$	\$
<b>Current Assets</b>				
Cash and cash equivalents	6	2,854,109	2,854,107	6,649,103
Trade and other receivables	7	148,881	148,881	133,998
Inventories	8	48,209	48,209	-
Other assets	9	250,331	250,331	-
<b>Total Current Assets</b>		<u>3,301,530</u>	<u>3,301,528</u>	<u>6,783,101</u>
<b>Non-Current Assets</b>				
Carbon development expenditure		562,469	562,469	30,970
Other financial assets	10	-	854,668	-
Property, plant and equipment	12	1,105,855	251,923	33,294
<b>Total Non-Current Assets</b>		<u>1,668,324</u>	<u>1,106,591</u>	<u>64,264</u>
<b>Total Assets</b>		<u>4,969,854</u>	<u>4,970,588</u>	<u>6,847,365</u>
<b>Current Liabilities</b>				
Trade and other payables	14	736,260	736,260	348,127
<b>Total Current Liabilities</b>		<u>736,260</u>	<u>736,260</u>	<u>348,277</u>
<b>Total Liabilities</b>		<u>736,260</u>	<u>736,260</u>	<u>348,277</u>
<b>Net Assets</b>		<u>4,233,594</u>	<u>4,234,328</u>	<u>6,499,088</u>
<b>Equity</b>				
Issued capital	15	7,316,014	7,316,014	7,316,014
Reserves	15	415,187	415,187	313,006
Accumulated losses		(3,497,607)	(3,496,873)	(1,129,932)
<b>Total Equity</b>		<u>4,233,594</u>	<u>4,234,328</u>	<u>6,499,088</u>

The accompanying notes form part of these financial statements

**CASH FLOW STATEMENT**  
FOR THE YEAR ENDED 30 JUNE 2009

		Group	Parent	
		<i>Inflows/ (Outflows)</i>	<i>Inflows/ (Outflows)</i>	<i>Inflows/ (Outflows)</i>
	Note	2009	2009	Period 2 January to 30 June 2008
		\$	\$	\$
<b>Cash flows from operating activities</b>				
Payments to suppliers and employees		(3,413,084)	(3,412,350)	(697,014)
Interest received		276,746	276,746	66,845
Interest paid		(2,835)	(2,835)	-
Other revenue		6,061	6,061	-
Net cash provided by/(used in) operating activities	6	<u>(3,133,112)</u>	<u>(3,132,378)</u>	<u>(630,169)</u>
<b>Cash flows from investing activities</b>				
Investment in Subsidiary		-	(2)	-
Loan to Subsidiary		-	(486,656)	-
Purchase of property, plant & equipment		(661,882)	(175,960)	(36,742)
Net cash provided by/(used in) investing activities		<u>(661,882)</u>	<u>(662,618)</u>	<u>(36,742)</u>
<b>Cash flows from financing activities</b>				
Proceeds from issue of shares		-	-	7,851,625
Costs of issue of shares		-	-	(535,612)
Net cash provided by/(used in) financing activities		<u>-</u>	<u>-</u>	<u>7,316,014</u>
Net increase/(decrease) in cash and cash equivalents		(3,794,994)	(3,794,996)	6,649,103
Cash and cash equivalents at beginning of period		6,649,103	6,649,103	-
<b>Cash and cash equivalents at end of period</b>	6	<u>2,854,109</u>	<u>2,854,107</u>	<u>6,649,103</u>

The accompanying notes form part of these financial statements

**STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED 30 JUNE 2009

	Note	Ordinary Shares	Accumulated Loss	Share-Based Payment Reserve	Total
		\$	\$	\$	\$
<b>Group</b>					
Balance at 30 June 2008		7,316,014	(1,129,932)	313,006	6,499,088
Shares issued during the year	15	-	-	-	-
Share issue costs	15	-	-	-	-
Share-based payment expense	15	-	-	102,181	102,181
Loss attributable to members		-	(2,367,675)	-	(2,367,675)
Balance at 30 June 2009		7,316,014	(3,497,607)	415,187	4,235,594
<b>Parent</b>					
Balance at 2 January 2008		-	-	-	-
Shares issued during the period	15	7,851,626	-	-	7,851,626
Share issue costs	15	(535,612)	-	-	(535,612)
Share-based payment expense	15	-	-	313,006	313,006
Loss attributable to members		-	(1,129,932)	-	(1,129,932)
Balance at 30 June 2008		7,316,014	(1,129,932)	313,006	6,499,088
Shares issued during the year	15	-	-	-	-
Share issue costs	15	-	-	-	-
Share-based payment expense	15	-	-	102,181	102,181
Loss attributable to members		-	(2,366,941)	-	(2,366,941)
Balance at 30 June 2009		7,316,014	(3,496,873)	415,187	4,234,328

The accompanying notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**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.

**(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 2009, 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 2009. 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.

**(d) Statement of Compliance**

The financial report was authorised for issue on 30 September 2009.

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).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(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.

*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.

**(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.

**(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 balance sheet 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 balance sheet.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2009

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

##### (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. The cost of inventory is based on the first-in first-out principle, determined on a weighted average cost basis, and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition.

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 Income Statement in the same period as the related revenues are recognised.

##### (l) 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(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.

**(m) Impairment of financial assets**

The Group assesses at each balance sheet 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 income statement. 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.

**(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 sheet date.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 sheet 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 sheet 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 sheet 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.

**(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 balance sheet.

Cash flows are included in the Cash Flow Statement 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(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 5 to 15 years

Leasehold improvements – over 2 years

Motor vehicles – over 5 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 income statement 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.

*(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 balance sheet, 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 sheet date.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(p) Property, plant and equipment (continued)**

*(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.

*(i) 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.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

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

**(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.

**(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 income statement net of any reimbursement.

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

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

**(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 reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)***(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

**(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).

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 income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

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

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 5).

*(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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 sheet 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.

**(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) 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  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

	Group	Parent	
	2009	2009	2008
	\$	\$	\$
<b>NOTE 2: REVENUES AND EXPENSES</b>			
<b>(a) Revenue</b>			
Bank interest received	259,497	259,497	89,822
Planting income	7,998	7,998	-
Other income	675	675	-
	<u>268,170</u>	<u>268,170</u>	<u>89,822</u>
<b>(b) Expenses</b>			
Operating lease rental expense	64,916	64,916	17,718
Share-based payment expense	102,182	102,182	313,006
	<u>102,182</u>	<u>102,182</u>	<u>313,006</u>
<b>NOTE 3: Income tax recognised in profit and loss</b>			
The prima facie tax benefit on the loss before income tax is reconciled to the income tax expense as follows:			
Loss from continuing operations before income tax expense	(2,367,675)	(2,366,941)	(1,129,932)
Notional Income tax at the Australian corporate tax rate of 30%	(710,303)	(710,082)	(338,980)
Plus			
Tax effect of tax concessions associated with capital raising expenditure	(32,137)	(32,137)	(10,551)
Less			
Tax effect of permanent differences which are not deductible in calculating taxable income	33,185	33,185	94,692
Deferred tax asset in relation to timing differences which are non deductible in calculating taxable income	12,871	12,871	32,242
Deferred tax asset in relation to tax losses not recognised	696,393	696,163	222,597
Income tax benefit	<u>-</u>	<u>-</u>	<u>-</u>
Deferred tax asset not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(n) occurs.	951,232	951,002	254,839

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 4: SEGMENT REPORTING

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

### NOTE 5: EARNINGS PER SHARE

	Group	Parent	
	2009	2009	2008
	Cents per share	Cents per share	Cents per share
	<u>          </u>	<u>          </u>	<u>          </u>
Basic loss per share	(6.33)	(6.33)	(5.88)

#### *Basic earnings per share*

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

	\$	\$	\$
	<u>          </u>	<u>          </u>	<u>          </u>
Loss	(2,367,675)	(2,366,941)	(1,129,932)
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>37,375,000</u>	<u>37,375,000</u>	<u>19,186,804</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 their conversion will not result in an increase in the basic loss per share.

There have been no share or option movements after 30 June 2009 which would materially impact on the calculations above.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**
**NOTE 6: CASH AND CASH EQUIVALENTS**

	Group	Parent	
	2009	2009	2008
	\$	\$	\$
Cash at bank and on hand	79,109	79,107	361,346
Short-term deposits	2,775,000	2,775,000	6,287,757
	<u>2,854,109</u>	<u>2,854,107</u>	<u>6,649,103</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 Company, 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 balance sheet as follows:

Cash and cash equivalents	<u>2,854,109</u>	<u>2,854,107</u>	<u>6,649,103</u>
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**(ii) Reconciliation of loss for the year to net cash flows from operating activities**

Loss for the year	(2,367,675)	(2,366,941)	(1,129,932)
Employee leave benefits	30,524	30,524	33,576
Depreciation expense	47,199	47,199	3,448
Equity settled transactions	102,181	102,181	313,006
(Increase)/decrease in stock on hand	(48,209)	(48,209)	(25,970)
(Increase)/decrease in receivables	(14,883)	(14,883)	(96,201)
Increase/(decrease) in trade and other payable	(100,419)	(100,419)	276,904
(Increase) in other assets	(781,830)	(781,830)	(5,000)
Net cash used in operating activities	<u>(3,133,112)</u>	<u>(3,132,378)</u>	<u>(630,169)</u>

**(iii) Non-cash financing and investing activities**

Share-based payments	102,181	102,181	313,006
Unpaid settlement of land	368,010	368,010	-

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009**

**NOTE 7: CURRENT TRADE AND OTHER RECEIVABLES**

	Group	Parent	
	2009 \$	2009 \$	2008 \$
Interest accrued	5,728	5,728	22,977
GST recoverable	78,589	78,589	70,982
Other receivables	64,564	64,564	40,039
	<u>148,881</u>	<u>148,881</u>	<u>133,998</u>

**NOTE 8: INVENTORIES**

Carbon emission reductions	<u>48,209</u>	<u>48,209</u>	<u>-</u>
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**NOTE 9: OTHER ASSETS**

Prepayments	250,131	250,131	-
Other	200	200	-
	<u>250,331</u>	<u>250,331</u>	<u>-</u>

**NOTE 10: OTHER FINANCIAL ASSETS**

Loans carried at amortised cost:			
Loan to subsidiary	-	854,666	-
Investments carried at cost:			
Investment in subsidiary	-	2	-
	<u>-</u>	<u>854,668</u>	<u>-</u>

**NOTE 11: CONTROLLED ENTITIES**

**Controlled Entities Consolidated**

Carbon Fund Australia Pty Ltd

Name	Country of Incorporation	Ownership Interest	
		2009	2008
Carbon Fund Australia Pty Ltd	Australia	100%	-

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 12 : PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$	Plant & Equipment \$	Motor Vehicles \$	Land \$	Total \$
<b>Year ended 30 June 2009</b>					
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
<b>At 1 July 2008</b>					
Cost	4,522	32,220	-	-	36,742
Accumulated depreciation	-	(3,448)	-	-	(3,448)
Net carrying amount	4,522	28,772	-	-	33,294
<b>At 30 June 2009</b>					
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
<b>Parent</b>					
<b>Year ended 30 June 2009</b>					
As at 1 July 2008, net of accumulated depreciation	4,522	28,772	-	-	33,294
Additions	26,980	116,097	122,751	-	265,828
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	-	251,923
<b>At 1 July 2008</b>					
Cost	4,522	32,220	-	-	36,742
Accumulated depreciation	-	(3,448)	-	-	(3,448)
Net carrying amount	4,522	28,772	-	-	33,294
<b>At 30 June 2009</b>					
Cost	31,502	148,317	122,751	-	302,570
Accumulated depreciation	(17,876)	(21,208)	(11,563)	-	(50,647)
Net carrying amount	13,626	127,109	111,188	-	251,923

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 12 : PROPERTY, PLANT AND EQUIPMENT (continued)

Parent	Leasehold improvements \$	Plant & Equipment \$	Motor Vehicles \$	Land \$	Total \$
<b>Year ended 30 June 2008</b>					
As at 2 January 2008	-	-	-	-	-
Additions	4,522	32,220	-	-	36,742
Depreciation charge for the period	-	(3,448)	-	-	(3,448)
At 30 June 2008 net of accumulated depreciation	4,522	28,772	-	-	33,294

### 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:

	2009 No.	2009 Weighted average exercise price	2008 No.	2009 Weighted average exercise price
Outstanding at the beginning of the year	9,375,000	\$0.52	-	-
Granted during the year	500,000	\$0.60	9,375,000	\$0.52
Cancelled during the year	(300,000)	\$0.60	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	9,575,000	\$0.52	9,375,000	\$0.52
Exercisable at the end of the year	9,575,000	\$0.52		

The outstanding balance as at 30 June 2009 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; and
- 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.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2009 is 1.7 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 FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 13 : SHARE BASED PAYMENTS (continued)

The following table lists the inputs to the model used:

	2009	2008
Volatility (%)	99.83	88.06
Risk-free interest rate (%)	5.65	6.65
Expected life of option (years)	4.84	2.94
Exercise price (cents)	60	20 – 60
Weighted average share price at grant date (cents)	25	20
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..

	Group	Parent	
NOTE 14: TRADE AND OTHER PAYABLES (CURRENT)	2009 \$	2009 \$	2008 \$
Trade payables	136,932	136,932	186,805
Sundry payables and accrued expenses	497,432	497,432	90,099
Employee benefits	101,896	101,896	71,373
	<u>736,260</u>	<u>736,260</u>	<u>348,277</u>

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 16.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 15: ISSUED CAPITAL AND RESERVES

	2009 No.	2008 No.		
Ordinary shares issued and fully paid	<u>37,375,000</u>	<u>37,375,000</u>		
	2009 No.	2009 \$	2008 No.	2008 \$
<i>Movement in ordinary shares on issue</i>				
At beginning of the financial period	37,375,000	7,316,014	-	-
Issued on 2 January 2008 on incorporation	-	-	1	1
Issued on 3 January 2008 to promoters	-	-	16,249,999	1,625
Issued on 31 January 2008 to seed capitalists	-	-	3,000,000	600,000
Issued on 12 May 2008 pursuant to the Prospectus	-	-	18,125,000	7,250,000
Share issue costs	-	-	-	(535,612)
At 30 June 2008	<u>37,375,000</u>	<u>7,316,014</u>	<u>37,375,000</u>	<u>7,316,014</u>
Reserves		Share-based payment reserve 2009	Share-based payment reserve 2008	
		\$	\$	
At beginning of financial year		313,006	-	
Share based payments		116,690	313,006	
Cancellation of share based payments		(14,509)	-	
At end of financial year		<u>415,187</u>	<u>313,006</u>	

### Options

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 15: ISSUED CAPITAL AND RESERVES (continued)

#### Nature and purpose of reserves

##### Share based payment reserve

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

### NOTE 16: FINANCIAL INSTRUMENTS

#### (a) Capital risk management

The Group's activities may expose it to a variety of risks: market risk, (including currency risk, interest rate risk and price risk) credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group's overall strategy remains unchanged from 2008.

	Group 2009	Parent 2009	2008
	\$	\$	\$
<b>(b) Categories of financial instruments</b>			
<b>Financial assets</b>			
Trade and other receivables	148,881	148,881	133,998
Cash and cash equivalents	2,854,109	2,854,107	6,649,103
Other financial assets	-	854,668	-
<b>Financial liabilities</b>			
Trade and other payables	634,364	634,364	276,904

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

#### (c) Market Risk

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

The 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 focuses and monitoring and understanding movements within the market on a daily basis.

#### (d) Credit risk management

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

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparty is a bank with a high credit rating assigned by international credit rating agencies.

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 16: FINANCIAL INSTRUMENTS (continued)

#### (e) Liquidity risk management

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

#### 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 **Company** 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
<b>Group</b>						
<b>2009</b>						
Non-interest bearing	-	592,478	-	-	-	-
Fixed rate instruments	4.85	3,788	11,362	26,736	-	-
		596,266	11,362	26,736	-	-
<b>Parent</b>						
<b>2009</b>						
Non-interest bearing	-	592,478	-	-	-	-
Fixed rate instruments	4.85	3,788	11,362	26,736	-	-
		596,266	11,362	26,736	-	-
<b>2008</b>						
Non-interest bearing	-	276,904	-	-	-	-
		276,904	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 16: FINANCIAL INSTRUMENTS (continued)

The following table details the Group's expected maturity for its financial assets. These have been drawn up based on undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month	1 – 3 Months	3 months – 1 year	1 – 5 years	5+ years
<b>Group</b>						
<b>2009</b>						
Non-interest bearing	-	143,153	-	-	-	-
Interest receivable	-	5,728	-	-	-	-
Cash and cash equivalents		2,854,109	-	-	-	-
		<u>3,002,990</u>	-	-	-	-
<b>Parent</b>						
<b>2009</b>						
Non-interest bearing	-	143,153	-	-	-	486,658
Interest receivable	-	5,728	-	-	-	-
Cash and cash equivalents	3.11	2,854,107	-	-	-	-
		<u>3,002,988</u>	-	-	-	<u>486,658</u>
<b>2008</b>						
Non-interest bearing	-	111,021	-	-	-	-
Interest receivable	-	22,977	-	-	-	-
Cash and cash equivalents	7.25	6,649,103	-	-	-	-
		<u>6,783,101</u>	-	-	-	-

#### (f) 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

#### (g) Interest rate sensitivity analysis

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

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

- Net profit before tax would increase by \$14,271 (2008: \$33,245) and decrease by \$14,271 (2008: \$33,245). This is attributable to the Group's exposure to interest rates on its variable rate instruments.
- Total equity would increase by \$14,271 (2008: \$33,245) and decrease by \$14,271 (2008: \$33,245) attributable to the Company's exposure to interest rates on its variable rate instruments.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 17: COMMITMENTS

#### Operating lease commitments – Company as lessee

The Company is currently leasing premises in Subiaco, Perth, Western Australia. The term of the lease is to 1 February 2010.

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

	2009 \$	2008 \$
Within one year	40,488	67,854
After one year but not more than five years	-	40,488
	<u>40,488</u>	<u>108,342</u>

#### Capital Commitments

On 27 February 2010, Carbon Fund Australia Pty Ltd is due to pay \$368,010, being the final instalment due pursuant to a Contract for sale of land. Total payments and amounts due as of 30 June 2009 of \$853,932 have been recognised as a non-current asset held by Carbon Fund Australia Pty Ltd.

### NOTE 18: RELATED PARTY DISCLOSURE

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

<i>Related party</i>	<i>Sales to related parties \$</i>	<i>Purchases From Related Parties \$</i>	<i>Amounts Owed by Related parties \$</i>	<i>Amounts Owed to Related parties \$</i>
<b>2009</b>				
Broadacre Asset Management Limited	-	620,866	-	18,480
<b>2008</b>				
Broadacre Asset Management Limited	-	229,305	37,797	80,936

#### *Entity with significant influence over the Group*

Broadacre Asset Management Limited owns 38% of the ordinary shares in Carbon Conscious Limited.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009**

### **NOTE 18: RELATED PARTY DISCLOSURE (con't)**

#### *Terms and conditions of transactions with related parties*

On the 22 of February 2008 the Company entered into a services agreement with Broadacre Asset Management Limited to provide administration, marketing and promotional services to Carbon Conscious Limited. This was amended on 11 December 2008.

Purchases from Broadacre Asset Management Limited during the year comprise remuneration associated with the services noted above, recoveries for costs incurred by Broadacre on behalf of Carbon Conscious and purchases of motor vehicle assets on arms length. In December 2008 Carbon Conscious as part of the amended the services 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 2009 an amount of \$250,131 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.

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

#### *Directors – Related Party Interests*

Mr Michael Shields and Mr Andrew McBain (appointed 28 August 2009), Non-Executive Directors of the Company, are also Directors of Broadacre Asset Management Ltd. At the date of this report the following represents the interests of Broadacre Asset Management Ltd in the Company of which these Directors have a related party interest in.

BAM Shareholding – 14,320,250 Ordinary Shares (2008: 14,118,750 ordinary shares)

BAM Options – 5,400,000 options (2008: 5,400,000 options)

For the year ended 30 June 2009, the Company has not made any allowance for doubtful debts relating to as there are no amounts owed by related parties at year end. An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Company recognises an allowance for the impairment loss.

### **NOTE 19: EVENTS AFTER THE BALANCE SHEET DATE**

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 the 28 August 2009 the Company announced the appointment of Mr Andrew Lawson McBain as a Non Executive Director of the Company.

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 20: AUDITOR'S REMUNERATION

The auditor of Carbon Conscious Limited is HLB Mann Judd.

	2009 \$	2008 \$
<i>Amounts received or due and receivable by HLB Mann Judd for:</i>		
An audit or review of the financial report of the entity and any other entity in the Company	26,100	10,000
Other services in relation to the entity and any other entity in the Company		
- Independent Accountant's Report	-	10,000

### NOTE 21: DIRECTORS AND EXECUTIVES DISCLOSURES

#### (a) Details of Key Management Personnel

##### (i) Directors

Matthew Birney	Non-Executive Chairman
Peter Balsarini	Chief Executive Officer
Nadaisan Logaraj	Non-Executive Director
Michael Shields	Non-Executive Director
Stephen Lowe	Non-Executive Director
Andrew McBain	Non Executive Director (appointed 28 August 2009)

##### (ii) Executives

Daniel Stevens  
Richard Collins

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### (b) Option holdings of Key Management Personnel

30 June 2009	Balance at beginning of year	Granted as remuneration	Options exercised	Net change Other (i)	Balance at end of year	Vested as at end of year		
						Total	Exercisable	Not Exercisable
<b>Directors</b>								
Matthew Birney	300,000	-	-	-	300,000	300,000	-	300,000
Peter Balsarini	400,000	500,000	-	-	900,000	900,000	-	900,000
Nadaisan Logaraj	300,000	-	-	-	300,000	300,000	-	300,000
Stephen	-	-	-	-	-	-	-	-
Michael Shields	300,000	-	-	(300,000)	-	-	-	-
Andrew McBain	-	-	-	-	-	-	-	-
<b>Executives</b>								
Daniel Stevens (ii)	400,000	-	-	-	400,000	400,000	-	400,000
Richard Collins	1,337,500	-	-	-	1,337,500	1,337,500	-	1,337,500
<b>Total</b>	<b>3,037,500</b>	<b>500,000</b>	<b>-</b>	<b>(300,000)</b>	<b>3,237,500</b>	<b>3,237,500</b>	<b>-</b>	<b>3,237,500</b>

- (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 Stevens was a director of the company until 26 June 2009.

30 June 2008	Balance at beginning of period	Granted as remuneration	Options exercised	Net change Other	Balance at end of period	Vested as at end of period		
						Total	Exercisable	Not Exercisable
<b>Directors</b>								
Matthew Birney	-	300,000	-	-	300,000	300,000	-	300,000
Peter Balsarini	-	400,000	-	-	400,000	400,000	-	400,000
Daniel Stevens	-	400,000	-	-	400,000	400,000	-	400,000
Richard Collins	-	1,337,500	-	-	1,337,500	1,337,500	-	1,337,500
Nadaisan Logaraj	-	300,000	-	-	300,000	300,000	-	300,000
Michael Shields	-	300,000	-	-	300,000	300,000	-	300,000
<b>Total</b>	<b>-</b>	<b>3,037,500</b>	<b>-</b>	<b>-</b>	<b>3,037,500</b>	<b>3,037,500</b>	<b>-</b>	<b>3,037,500</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

### NOTE 21: 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 (i)	Balance at end of year
<b>30 June 2009</b>	Ord	Ord	Ord	Ord	Ord
<b>Directors</b>					
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	-	-	-	-	-
<b>Executives</b>					
Daniel Stevens (ii)	156,250	-	-	596,833	753,083
Richard Collins	468,750	-	-	-	468,750
	1,490,000	-	-	558,114	2,048,114

(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.

	Balance at beginning of period	Granted as remuneration	On Exercise of Options	Net Change Other (ii)	Balance at end of period
<b>30 June 2008</b>					
<b>Directors</b>					
Matthew Birney	-	-	-	256,250	256,250
Peter Balsarini	-	-	-	161,250	161,250
Daniel Stevens	-	-	-	156,250	156,250
Richard Collins	-	-	-	468,750	468,750
Michael Shields	-	-	-	291,250	291,250
Nadaisan Logaraj	-	-	-	156,250	156,250
	-	-	-	1,490,000	1,490,000

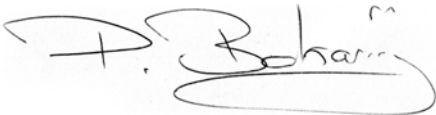
(iii) Shares were acquired by Directors or their related entities as promoters and seed capitalists of the company.

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

**Directors' declaration**

1. In the opinion of the directors:
  - a. the financial statements and notes of the company and of the Company are in accordance with the Corporations Act 2001 including:
    - i. giving a true and fair view of the company's financial position as at 30 June 2009 and of its performance for the year then ended; and
    - ii. complying with 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.
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 2009.

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



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PETER BALSARINI

Director

Dated this 30<sup>th</sup> day of September 2009



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 balance sheet as at 30 June 2009, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the year ended on that date, and the directors' declaration for both the company and the consolidated entity as set out on pages 21 to 51. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the year.

#### *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 compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 controls relevant to the entity'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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

*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 company's and consolidated entity's financial position as at 30 June 2009 and of their 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 financial report also complies with International Financial Reporting Standards as disclosed in Note 1(d).

**Report on the Remuneration Report**

We have audited the Remuneration Report included on pages 8 to 11 of the directors' report for the year ended 30 June 2009. 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 2009 complies with section 300A of the Corporations Act 2001.



**HLB MANN JUDD**  
**Chartered Accountants**



**W M CLARK**  
**Partner**

**Perth, Western Australia**  
**30 September 2009**

## ASX Additional Information

### Shareholding

The distribution of members and their holdings of equity securities in the company as at 16 September 2009 was as follows:

Number Held as at 16 September 2009	Class of Equity Securities Fully Paid Ordinary Shares
1-1,000	4
1,001 - 5,000	282
5,001 – 10,000	66
10,001 - 100,000	162
100,001 and over	42
<b>TOTALS</b>	<b>556</b>

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 16 September 2009:

Holder	Number
Broadacre Asset Management Limited	14,320,250

### Restricted Securities

The Company has issued the following restricted securities:

Class of Equity Security	Number	Date Ceasing To Be Restricted Securities
Ordinary fully paid shares	16,349,999	16 May 2010
Options exercisable at \$0.60 on or before 31 December 2010	7,200,000	16 May 2010
Options exercisable at \$0.20 on or before 31 December 2010	937,500	16 May 2010

### 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.

**Twenty Largest Shareholders**

The names of the twenty largest ordinary fully paid shareholders as at 16 September 2009 are as follows:

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
Broadacre Asset Management Limited	14,320,250	38.315
Macro Fund Services Pty Ltd	1,852,940	4.958
Trojan Equity Limited	1,295,000	3.465
Gurravembi Investments Pty Ltd <Super Fund A/C>	1,250,000	3.344
Red Emperor Resources NL	1,000,000	2.676
Avanteos Investments Limited <DNR IMA A/C>	920,000	2.462
Bridgesun Pty Limited	675,000	1.806
The Amelia Group Partnership <Flaskas Bickle Investment & Wadley Bickle Investment>	625,000	1.672
Ozean Investments Pty Ltd <The Logaraj Nadaisan S/F A/C>	545,139	1.459
CVC Sustainable Investments NO2 Ltd	500,000	1.338
A P Reyem Pty Limited	475,000	1.271
Richard Alfred Collins & Vivien Therese Collins <The RA Collins Super Fund>	468,750	1.254
Timothy Hamilton & Leonie Christine Helder	468,750	1.254
Mr Mathew Donald Walker	433,652	1.160
Clifton Place Pty Ltd <Stevens Family A/C>	333,333	0.892
Lomacott Pty Ltd <the Keogh Super Fund A/C>	300,000	0.803
Mrs Kathryn Mary Beaumont	272,500	0.729
Gold City Corp Pty Ltd <The Mattellee A/C>	256,250	0.686
Amanda Joy Shields	256,250	0.686
Nitram Plus Investments Pty Ltd	250,000	0.669
<b>Total</b>	<b>26,497,814</b>	<b>70.897</b>