Carbon Neutral Ltd
(ABN 99 124 696 966)

Annual Financial Statements

For the Year Ended 30 September 2012

Issued: 22 April 2013

CONTENTS

GLOSSARY

ASIC	the Australian Securities and Investments Commission
ATO	Australian Taxation Office
GST	Goods and Services Tax
MOTT	Men of the Trees
VCU	Voluntary Carbon Units
VER	Verified Emissions Reductions

DIRECTORS' REPORT

Your directors present this report on the company for the year ending 30 September 2012.

Review of Operations

This is Carbon Neutral Limited's fifth Annual Report.

Political uncertainty around Australia's Carbon Pricing Mechanism ('the carbon tax') is having a short-term negative impact on the voluntary and compliance carbon markets. Some businesses that have offset have concerns at "paying twice", i.e. buying offsets and paying extra for goods due to the flow through effect of as a result of the carbon tax.

As a consequence we have lost a number of larger long standing clients. However, it is pleasing to report that we have attracted 42 new commercial clients in this reporting period, including City Motors, Hatch, Milne Agri, Invocare, Paceway Mitsubishi, Scope Systems, Thrifty WA, Travel Tree, United Community and Wesfarmers Ltd.

In the compliance market, few emitters are signing up to buy Carbon Farming Initiative (CFI) generated Australian carbon credit units (ACCUs) due to risks around the carbon tax being repealed by a Coalition Government at the next Federal election. The uncertainty creates short-term investment problems for the entire industry as compliance buyers wait for certainty with regard to government policy, particularly the post-fixed price period (2015).

Sales of fully accredited Verified Carbon Units (VCUs) and Voluntary Emissions Reductions (VERs) have increased to clients wanting to claim immediate carbon offsets. Some clients 'bundle' revegetation offsets and VCUs or VERs as a means of reducing the average cost of offset units but also supporting the environmental benefits of tree planting.

Carbon Neutral's carbon consulting and energy efficiency work is increasing for small and large firms wanting to reduce energy consumption and better manage their carbon footprint.

We are now in the process of registering carbon rights and carbon covenants on planted sites. Up until this reporting period, 4 sites had been registered. During this reporting year a further 13 sites were registered.

Operating Results

The total comprehensive loss of the company amounted to $209,660 (2011: Profit $5,813).

Principal Activities

Carbon Neutral principal activities are:

- Management of revegetation projects as a viable abatement option to achieve co-benefits of carbon sequestration, biodiversity conservation and natural resource management
- Retailing of voluntary and accredited offset products across a range of certification standards
- Carbon measurement, reduction, reporting and advisory services
- Education - Raising community awareness and providing web-based resources to enable businesses and households to reduce energy consumption and offset emissions

Significant changes in the state of affairs

The three rural blocks have been listed for sale since February 2011. In the absence of firm offers, asking prices have been reduced. The properties have been valued and the values endorse the current asking prices. Consequently it has been necessary to write-down the book value of the assets by a further $212,841.

Tree plantings in 2012 were scaled back to two sites of totalling 44 hectares together with the purchase of established trees from a third party (61 ha). The reduced planting was due in part to difficulties sourcing land and reduced demand. Allocations to clients have been made from existing inventory of carbon and trees from previous season's plantings.

No other significant changes occurred during the year.

After Balance Date Events

A number of large clients renewals, due in 2011-12, but not classified as debtors, were received in the 2012-13 reporting period totalling $105,150. These clients paid their outstanding invoices in October and November of 2012.

The Directors of Carbon Neutral wish to advise its members that a possible re-structure of Carbon Neutral is being considered.

No other matter has arisen since the end of the year that will or may significantly affect:

(i) the company's operations in future financial years or

(ii) the results of those operations in future financial years, or
the company's state of affairs in future financial years

Likely Developments

i) Re-structure:

The carbon market is currently undergoing significant change with the introduction of the Government's Carbon Pricing legislation ('carbon tax') and the Carbon Farming Initiative legislation. Despite current political and economic uncertainty this is expected to provide market demand and stability in the longer-term.

The challenges facing Carbon Neutral in meeting the challenge are:

- The need to secure capital to source land and plant trees on an economic scale.
- Uncertainty and confusion as to MOTT's relationship with Carbon Neutral in terms of control, fiduciary responsibility and financial return.

A re-structure of Carbon Neutral is being jointly explored by the MOTT and Carbon Neutral Boards to address these issues. The preferred solution is for Carbon Neutral Ltd to be scaled-back or wound-up as a not-for-profit with a new 'for profit' company being formed which will buy the Carbon Neutral Ltd assets (as determined by an independent valuation), including the business name. Subject to approval by Carbon Neutral members, the proceeds from the asset sale will be transferred to MOTT.

The Directors consider the status quo for Carbon Neutral, in the current political and economic climate, is risky given the company's balance sheet, market uncertainty, high up-front costs and risks in establishing reforestation carbon sinks.

An Expression of Interest has subsequently been received and is being considered by the Carbon Neutral and MOTT Boards.

ii) Land Sale

A conditional offer to purchase the company's Cranbrook property has been accepted by the Board. The offer is subject to the buyer obtaining finance from a nominated lender.

Environmental Performance

Carbon Neutral is on the Register of Environmental Organisations and holds Deductible Gift Recipient status with the ATO.

Distributions to members during the year

No dividends or distributions were recommended, declared or paid to members during the year. The company is a non-profit company and its Constitution does not allow payments including dividends, bonuses or distributions of profit, directly or indirectly, to members, officers, servants, agents or employees other than as reasonable remuneration for services actually rendered.

Directors

The names of each person who has been a director during the year to the date of this report are:

Name	Date Appointed
Ian Rawlings (Chairman)	Apr 08
Chris Ferreira	Apr 08
Brian Wickins	Apr 08
Trevor De Landgrafft	May 10
Jeff Bremer	May 11
Rhonda Hardy	Oct 11

Directors have been in office since the beginning of the financial year unless otherwise stated.

Meetings of Directors

During the financial year, four meetings of directors were held. Attendances by each director during the year were as follows:

	Eligible to attend	Number attended
Ian Rawlings (Chairman)	4	3
Chris Ferreira	4	1
Brian Wickins	4	3
Trevor De Landgrafft	4	3
Jeff Bremer	4	4
Rhonda Hardy	4	4

Company Secretary

Mr. Richard West held the position of honorary company secretary throughout the year.

Information on Directors

Ian Rawlings(Chairman)

Chairman since July 2011. Ian has been a Men of the Trees (MOTT) member for 9 years and was on the MOTT board for 7 years. He came into MOTT via City Farm where he and his wife Linda worked on the Save City Farm campaign team, which secured for MOTT a 40 year peppercorn lease over that prime East Perth property. He has a lifelong passion for things environmental and especially sustainable building. In his day job Ian is the CEO for Central Desert Native Title Services Ltd which is a group of people committed to seeing the Aboriginal people of central WA gaining (western) property rights over their ancestral country.

Chris Ferriera

Chris has been a past Vice President and Board member of Men of the Trees and is a founding member of the Revegetation Team Management Committee. Chris has a degree in forestry with specialist training in landcare planning and design. Since 1999 he has run his own Landcare and Sustainability business, Landcare Solutions, which has designed and delivered WA's largest community environmental education program including the highly successful Heavenly Hectares, Property Planning and Great Gardens program. Chris specialises in environmental journalism, education and advocacy in sustainability.

Brian Wickins

Born in rural England, Brian had a strong bond with the countryside from an early age. Following a 10 year career in rubber and plastics engineering, design and manufacture, Brian emigrated to Australia in 1983. His interest in technology led him into publishing. In 1992 he formed Resolutions, with his partner Adriana, to provide specialist publishing and communication services to the Australian resource sectors. Their company has been carbon neutral since 2007. In 2005 they purchased 110 acres in Donnybrook to breed goats and sheep. Joining the boards of Carbon Neutral and MOTT in 2007, he brings commercial, management and communication skills to the organisations.

Trevor De Landgrafft

Trevor is a career farmer with a long standing interest in the development and sustainability of rural and regional communities for the benefit of future generations. In partnership with his wife Jeanette, he owns and operates a 7600ha grain, wool and meat enterprise south east of Newdegate. Trevor is a member on several boards, councils and committees and has been involved with the WA Farmers Federation for several years including serving as President and Senior Vice President. He has completed the AICD Company Directors Course.

Jeff Bremer (BEng (Hons) PhD, FIEAust)

Jeff is a Principal Engineer with SKM and a practice leader in Slurry Transport, and Piping and Pumping systems, with special expertise in strategic analysis of GHG emissions and energy policy. He has also lead remote area energy studies for locations in the Indian Ocean. Jeff is a Fellow of the Institute of Engineers Australia, and is a member of the Mechanical and Education subcommittees of Engineers Australia (WA). He also is on the Industry Advisory Board for the University of Western Australia.

Rhonda Hardy (BBus, CPA)

Director of Corporate and Community Services for the Shire of Kalamunda and former Director of Regional Services for the Eastern Metropolitan Council, Rhonda has a solid background in strategy and management for government departments. Rhonda has worked across a broad spectrum of successful environmental development projects and initiatives, including Perth Solar City project, the Cities for Climate Protection Program, the international ICLEI Local Action for Biodiversity Project, renewable energy procurement, water conservation plans and Travelsmart green travel plans.

Indemnifying Officers or Auditor

No indemnities have been given during or since the end of the financial year, for any person who is or has been an officer or auditor of the company. The company holds an Association liability insurance policy with QBE Insurance (Australia) Limited which includes Director's and Officer's as well as Professional Indemnity insurance.

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's Independence Declaration

The company's auditor is BDO Audit (WA) Pty Ltd.

The independence declaration for the Year ended 30 September 2012 has been received and can be found on page 7 of the financial statements.

Signed in accordance with a resolution of the board of directors.

Ian Rawlings – Chairman

Perth, Western Australia

Dated: 22 April 2013

AUDITOR'S DECLARATION OF INDEPENDENCE

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

22 April 2013

Carbon Neutral Limited
The Board of Directors
9/7 Hector Street
OSBORNE PARK WA 6017

Dear Sirs,

DECLARATION OF INDEPENDENCE BY CHRIS BURTON TO THE DIRECTORS OF CARBON NEUTRAL LIMITED

As lead auditor of Carbon Neutral Limited for the year ended 30 September 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

C Burton

Chris Burton
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

DIRECTORS' DECLARATION

For The Year Ended 30 September 2012

The directors of the Company declare that:

1) The financial statements and notes, as set out in the following pages, are in accordance with the *Corporations Act 2001,* including:

   a) comply with applicable Accounting Standards and the *Corporations Regulations 2001*; and

   b) give a true and fair view of the financial position as at 30 September 2012 and of the performance for the year ended on that date of the Company.

2) In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the board of directors.

Ian Rawlings – Chairman
Perth, Western Australia
Dated: 22 April 2013

INDEPENDENT AUDITOR'S REPORT

BDO

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Fax: +8 6382 4601
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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CARBON NEUTRAL LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Carbon Neutral Limited, which comprises the statement of financial position as at 30 September 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standards AASB 101: Presentation of Financial Statements, that the financial statements comply with the International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Independence

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

Basis for Qualified Opinion

Donations including bequests are a significant source of revenue for the Company. The Company has determined that it is impracticable to establish control over the collection of donations prior to entry into its financial records. Accordingly, as the evidence available to us regarding revenue from this source was limited, our audit procedures with respect to donations had to be restricted to the amounts recorded in the financial statements. We therefore are unable to express an opinion over the completeness of donations.

The Company's liability relating to landowner incentive payments is carried at $153,850 on the statement of financial position as at 30 September 2012. We were unable to obtain sufficient appropriate audit evidence about the completeness of the Company's liability as at 30 September 2012 because management were unable to provide a complete landowner contracts list. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial report of Carbon Neutral Limited is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 30 September 2012 and of its performance for the year ended on that date; and
(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the financial report, which indicates that the Company is reliant on the receipt of donations and contributions which are uncertain. This condition along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business at amounts stated in the statement of financial position.

BDO Audit (WA) Pty Ltd

BDO

C Burton

Chris Burton
Director

Perth, Western Australia
Dated this 22nd day of April 2013

STATEMENT OF FINANCIAL POSITION

As At 30 September 2012

	Note	30-Sep-12 $	Restated 30-Sep-11 $
Current Assets			
Cash and cash equivalents	6	141,090	190,038
Trade and other receivables	8	184,009	314,052
Inventory	9	144,650	14,869
Other current assets	10	6,429	4,246
Land held for sale	11	765,000	977,841
Total Current Assets		1,241,178	1,501,046
Non Current Assets			
Property, plant and equipment	12	11,861	6,920
Total Non Current Assets		11,861	6,920
Total Assets		**1,253,039**	**1,507,966**
Current Liabilities			
Trade and other payables	13	192,721	313,370
Provisions	14	153,850	79,670
Total Current Liabilities		346,571	393,040
Total Liabilities		**346,571**	**393,040**
Net Assets		**906,468**	**1,114,926**
Equity			
Reserves		962,580	962,580
Retained earnings		(56,112)	152,346
Total Equity		**906,468**	**1,114,926**

The accompanying notes form part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 30 September 2012

	Note	30-Sep-12 $	Restated 30-Sep-11 $
Revenue from continuing operations	4	1,050,318	1,509,315
Interest Income	4	1,339	18,004
Expenses			
Planting Cost	5	(208,584)	(524,821)
Non Tree COS (VERs, VCUs, Consulting)		(54,543)	(102,773)
Rent, Rates and Services		(58,627)	(58,161)
Office Expenses		(44,180)	(32,749)
Operating Expenses		(56,053)	(93,699)
Employment Expenses		(569,171)	(608,200)
Professional Services		(57,318)	(102,305)
Impairment Losses in Value of Land Held for Sale		(212,841)	-
Net Profit/(Loss) before income tax		**(209,660)**	**4,611**
Income tax expense		-	-
Net Profit/(Loss) after income tax		**(209,660)**	**4,611**
Other comprehensive income		**-**	**-**
Total Comprehensive Income/(Loss)		**(209,660)**	**4,611**

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For The Year Ended 30 September 2012

	Note	Retained Earnings	General Reserves	Total
Balance at 30 September 2010		505,775	558,056	1,063,831
Adjustment on correction of error	23	47,686	-	47,686
Restated Balance at 30 September 2010		**553,461**	**558,056**	**1,111,517**
Profit for the year as reported in 2011 financial statements		5,813	-	5,813
Adjustment on correction of error	23	(1,202)	-	(1,202)
Restated profit for the year		4,611	-	4,611
Other Comprehensive Income		-	-	-
Total Comprehensive Income for the year		**4,611**	**-**	**4,611**
Movement in reserves, equity allocated to contingent liabilities		-	-	-
Planting Reserves		(404,524)	404,524	-
Balance at 30 September 2011		**153,548**	**962,580**	**1,116,128**
Balance at 30 September 2011		153,548	962,580	1,116,128
Loss for the year		(209,660)	-	(209,660)
Other Comprehensive Income		-	-	-
Total Comprehensive Income for the year		(209,660)	-	(209,660)
Balance at 30 September 2012		**(56,112)**	**962,580**	**906,468**

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

For The Year Ended 30 September 2012

	Note	30-Sep-12 $	30-Sep-11 $
Cash Flows from Operating Activities			
Receipts from clients and donors		1,278,309	1,350,589
Interest received		1,339	21,951
Payments to employees		(580,494)	(647,093)
Payments to suppliers		(735,877)	(1,125,576)
Net Cash Outflow from Operating Activities	7	**(36,723)**	**(400,129)**
Cash Flows from Investing Activities			
Payments for property, plant and equipment		(12,225)	-
Net Cash Outflow from Investing Activities		**(12,225)**	**-**
Net Decrease in Cash and Cash Equivalents		**(48,948)**	**(400,129)**
Cash and cash equivalents at the beginning of the financial year	6	190,038	590,167
Cash and cash equivalents at the end of the financial year	6	**141,090**	**190,038**
Net Decrease in Cash and Cash Equivalents		**(48,948)**	**(400,129)**

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 September 2012

1. THE REPORTING ENTITY

Carbon Neutral Ltd is a public company limited by guarantee. It was incorporated under the *Corporations Act 2001* on 30 March 2007 and domiciled in Australia.

The financial statements cover the company as an individual entity.

The Registered and Business address of the Company is:

Unit 9, 7 Hector St West
Osborne Park, WA 6017

2. BASIS OF PREPARATION OF THE FINANCIAL REPORT

Date of Issue
These financial statements were authorised for issue by the Directors on 22 April 2012. The directors have the authority to amend the financial statements after that date.

Basis of Accounting
The financial statements is a general purpose financial statements that has been prepared in accordance with Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the requirements of the *Corporations Act 2001*, the Regulations and the company's constitution.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial statements containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

The statements are prepared on an accruals basis from the records of the company. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

The report is presented in Australian dollars ($AUD) and are rounded to the nearest dollar.

Going Concern
The accounts have been prepared on a going concern basis. The Company is reliant on continued donations from organisations and individuals for support. There is uncertainty surrounding whether donations received will be able to cover costs incurred.

The ability of the Company to continue as a going concern is dependent upon the Company receiving enough donations to meet the Company's expenditure commitments.

Voluntary offsets are a highly discretional spend and uncertainties around the carbon price has resulted in a number of other long-standing clients questioning whether they will be 'paying twice' with voluntary offset purchases and expected increased input costs with the 'carbon tax' flow through. However, we continue to attract many new business clients. This is being driven by 'green' supply chain pressures and a desire to be seen to be environmentally responsible, so the voluntary donations will continue to be important.

The important structural change in the market has been the passing of the Carbon Farming Initiative (CFI) legislation in 2011 in conjunction with the Carbon Price Mechanism legislation which will create a new 'compliance' market for forest carbon sink credits for Carbon Neutral from 1 July 2012.

Carbon Neutral became a registered offset provider under the CFI on 5 December 2012.

Economic Dependence

The ability of the company to continue as a going concern is dependent upon continued support from donors. At the date of this report the directors have no reason to believe that donors will not continue to fund the operations of the company.

Adoption of new Australian Accounting Standard requirements

Reference	Title	Nature of Change	Application date of standard	Impact on Carbon Neutral's financial statements	Application date for Carbon Neutral
AASB 9 (issued December 2009 and amended December 2010)	Financial Instruments	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1 January 2015	Adoption of AASB 9 is only mandatory for the year ending 30September 2016. The Company has not yet made an assessment of the impact of these amendments.	1 October 2015
AASB 10 (issued August 2011)	Consolidated Financial Statements	Introduces a single 'control model' for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present: • Power over investee (whether or not power used in practice) • Exposure, or rights, to variable returns from investee • Ability to use power over investee to affect the [Company]'s returns from investee. • Introduces the concept of 'defacto' control for entities with less than 50% ownership interest in an Company, but which have a large shareholding compared to other shareholders. This could result in more instances of control and more entities being consolidated.	Annual reporting periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 September 2014, there will be no impact on transactions and balances recognised in the financial statements because the Company does not have any special purpose entities. The Company does not have 'defacto' control of any entities with less than 50% ownership interest in an Company.	1 October 2013
AASB 11 (issued August 2011)	Joint Arrangements	Joint arrangements will be classified as either 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) or 'joint ventures' (where parties with joint control have rights to the net assets of the arrangement).	Annual reporting periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 September 2014, there will be no impact on transactions and balances recognised in the financial	1 October 2013

				statements because the Company has not entered into any joint arrangements.	
AASB 12 (issued August 2011)	Disclosure of Interests in Other Entities	Combines existing disclosures from AASB 127 *Consolidated and Separate Financial Statements*, AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*. Introduces new disclosure requirements for interests in associates and joint arrangements, as well as new requirements for unconsolidated structured entities.	Annual reporting periods commencing on or after 1 January 2013	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.	1 October 2013
AASB 13 (issued September 2011)	Fair Value Measurement	AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time for the year ended 30 September 2014, additional disclosures will be required about fair values.	1 October 2013
AASB 119 (reissued September 2011)	Employee Benefits	Employee benefits expected to be settled (as opposed to due to settled under current standard) wholly within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used wholly within 12 months of end of reporting period will in future be discounted when calculating leave liability.	Annual periods commencing on or after 1 January 2013	When this standard is first adopted for 30 September 2014 year end, annual leave liabilities will be recalculated on 1 October 2012 as long-term benefits because they are not expected to be settled wholly within 12 months after the end of the reporting period. This will result in a reduction of the annual leave liabilities recognised on 1 September 2012, and a corresponding increase in retained earnings at that date	1 October 2013
AASB 2010-8 (issued December 2010)	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (AASB	For investment property measured using the fair value model, deferred tax assets and liabilities will be calculated on the basis of a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.	Periods commencing on or after 1 January 2012	The Company does not have any investment property measured using the fair value model. There will therefore be no impact on the financial statements when these	1 October 2012

	112)			amendments are first adopted.	
AASB 2011-4 (issued July 2011)	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	Amendments to remove individual key management personnel (KMP) disclosure requirements from AASB 124 to eliminate duplicated information required under the *Corporation Act 2001*	Annual periods commencing on or after 1 July 2013	When this standard is first adopted for the year ended 30 September 2014 the Company will show reduced disclosures under Key Management Personnel note to the financial statements	1 October 2013
Interpretation 20 (issued November 2011)	Stripping Costs in the Production Phase of a Surface Mine	Clarifies that costs of removing mine waste materials (overburden) to gain access to mineral ore deposits during the production phase of a mine must be capitalised as inventories under AASB 102 *Inventories* if the benefits from stripping activity is realised in the form of inventory produced. Otherwise, if stripping activity provides improved access to the ore, stripping costs must be capitalised as a non-current, stripping activity asset if certain recognition criteria are met.	Annual periods commencing on or after 1 January 2013	The Company does not operate a surface mine. There will therefore be no impact on the financial statements when this interpretation is first adopted.	1 October 2013
AASB 2012-5 (issued June 2012)	Annual Improvements to Australian Accounting Standards 2009-2011 Cycle	Non-urgent but necessary changes to IFRSs (IAS1, IAS 16 & IAS 32) e.g: AASB 116 clarifies that items such as spare parts, stand-by or service equipment are required to be classified as property, plant and equipment and not inventory	Periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 September 2014, there will be no material impact.	1 October 2013
IFRS (issued December 2011)	Mandatory Effective Date of IFRS 9 and Transition Disclosures	Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required.	Annual reporting periods commencing on or after 1 January 2015	As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition.	1 October 2015
AASB 2012-9 (issued December 2012)	Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039	Deletes Australian Interpretation 1039 *Substantive Enactment of Major Tax Bills In Australia* from the list of mandatory Australian Interpretations to be applied by entities preparing financial statements under the *Corporations Act 2001* or other general purpose financial statements.	Annual reporting periods beginning on or after 1 January 2013	There will be no impact on first-time adoption of this amendment as the Company does not account for proposed changes in taxation legislation until the relevant Bill has passed through both Houses of Parliament, which is consistent with the views expressed by	1 October 2013

				the Australian Accounting Standards Board in their agenda decision of December 2012.	

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

3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

Financial Instruments

Recognition and Initial Measurement
Financial instruments, incorporating financial assets and financial liabilities, are recognised when the company becomes a party to the contractual provisions of the instruments. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

De-recognition
Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

Classification and Subsequent Measurement

Financial assets at fair value through profit and loss
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments
These investments have fixed maturities, and it is the company's intention to hold these investments to maturity. Any held-to-maturity investments held by the company are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets
Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities
Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments
The company does not deal with or hold derivative instruments.

Fair value
Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment
At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

Inventories
Inventories stated at the lower of cost and net realisable value. Cost is determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Investments (financial assets)

Available-for-sale financial assets
All investments are classified as available-for-sale financial assets. Available-for-sale financial assets are reflected at fair value unless their fair value cannot be reliably measured. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Fair value
Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Recognition
Financial assets are initially measured at cost of trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Property, plant and equipment
Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment
Plant and equipment are measured on the cost basis.

Depreciation
The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a diminishing-value basis over the asset's useful life to the company commencing from the time the asset is held ready for use. Leasehold improvements are

depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are based on the ATO's estimated useful life for the class of assets.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets

Software
Software developed specifically for the company is recorded at cost. Software has a finite life and is carried at cost less any accumulated amortisation and impairment losses. It has an estimated useful life of between one and two years. It is assessed annually for impairment. All other software is expensed as it is purchased.

Employee benefits
Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at present value of the estimated future cash outflows to be made for those benefits. These cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Provisions
Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Borrowings
Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

Revenue
Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Donation Revenue
Donation revenue is recognised in the Statement of Comprehensive Income when it is received through the gift fund bank account. When there are conditions attached to the donation revenue relating to the use of those donations for specific purposes it is recognised as a liability until such time as those conditions are met or the services provided.

Sale of Services
Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the reporting date and where the outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is presently recoverable.

Sale of Goods
Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest
Interest revenue derives from interest on funds held on deposit and are recognised when they are received. Other interest received is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST).

Taxation

Public Benevolent Institution
The Australian Taxation office endorsed the company as a Public Benevolent Institution and it is eligible for the following concessions:
(i) GST concession;
(ii) FBT exemption;
(iii) Income taxation exemption.

No change in its tax status as a result of activities undertaken during the year is likely.

Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST. Cash flows are presented in the cash flow statement on a net basis.

Trade and Other Payables
Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

Trade Debtors and Other Receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment.

Critical Accounting Estimates and Judgments
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the entity's accounting policies. The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company. The Directors consider the following to be critical estimates and judgements in applying the Company's accounting policies.

Under the landowner contracts, the Company may be liable for payment to landowners upon the successful completion of the planting process. It is assumed that in each case the planting obligation will be met and the full amount paid to the respective landowners.

	30-Sep-12 $	30-Sep-11 $

4. Revenue

From operating activities:

	30-Sep-12 $	30-Sep-11 $
Donations received for trees	548,312	838,500
Donations received for VERs and VCUs	216,071	110,857
Ecards	-	2,758
Carbon Consulting	44,415	131,948
Contract Planting	188,016	420,746
Other Income	53,504	4,506
Total revenue	1,050,318	1,509,315
Interest Received	1,339	18,004
Total interest revenue	1,339	18,004

5. Major planting expenses

	30-Sep-12 $	Restated 30-Sep-11 $
Planting Costs	17,537	531,862
Infill Costs	26,015	-
Monitoring costs	23,527	44,068
TFL Planting Costs	-	-
Other Planting Costs	80,904	72,465
Landholder Expense Payments	54,635	(124,889)
Caveats and Covenants	5,966	1,315
Total planting expenses	208,584	524,821

	30-Sep-12 $	30-Sep-11 $

6. Cash at Bank

Cash on Hand	23	25
Cash at Bank	110,037	180,783
Cash at Bank - Term deposit	191	-
Cash at Bank - Carbon Neutral Gift Fund	22,574	9,230
Cash at bank - United Guarantee	8,250	-
Cash held with Carbon Trade Exchange	15	-
	141,090	190,038

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

Net Income before income tax	(209,660)	5,813
Non cash flows included in Profit:		
Impairment losses on land held for sale	212,841	-
Depreciation	7,284	18,236
Changes in operating assets and liabilities:		
Decrease/(Increase) in sundry debtors	82,578	(155,632)
Decrease/(Increase) in inventory	(129,781)	(10,812)
Increase/(Decrease) in current trade & other payables	(46,469)	(257,734)
Prior year Adjustments	46,484	
Net cash inflow (outflow) from operating activities	(36,723)	(400,129)

8. Trade and Other Receivables

Current		**Restated**
Trade Debtors	49,330	261,468
GST Receivable	9,419	7,302
Prepayment	125,260	45,282
	184,009	314,052

The maximum exposure is 100% of debtors. Due to the short term nature of the receivables their carrying value approximates their fair value.

	30-Sep-12 $	30-Sep-11 $

9. Inventory

Current

	30-Sep-12 $	30-Sep-11 $
Stems AusCarbon	136,658	-
VERs and VCUs	7,992	14,869
	144,650	14,869

10. Other Current Assets

Current

	30-Sep-12 $	30-Sep-11 $
Prepayments	6,429	4,246
	6,429	4,246

11. Land held for sale

	30-Sep-12 $	30-Sep-11 $
Land at cost	1,076,796	1,076,796
Less provision for diminution in value	(311,796)	(98,955)
	765,000	977,841

(Land Valuation carried out by Licensed valuer.)

Movements in carrying amounts

2011

Balance at 1 Oct 2010	977,841
Additions	-
Carrying amount at 30 September 2011	977,841

2012

Balance at 1 Oct 2011	977,841
Additions	-
Impairment	(212,841)
Carrying amount at 30 September 2011	765,000

The three properties at Boxwood Hill, Katanning and Cranbrook are on the property market as lifestyle blocks.

	30-Sep-12 $	30-Sep-11 $

12. Property, Plant and Equipment

	30-Sep-12	30-Sep-11
Furniture & Fixtures:		
Furniture & Fittings at cost	13,019	4,100
Less Accumulated depreciation	(3,912)	(2,460)
	9,107	1,640
Computer Software:		
Computer software at cost	42,224	42,224
Less Accumulated depreciation	(42,224)	(38,001)
	-	4,223
Office equipment:		
Office Equipment at cost	23,954	20,648
Less Accumulated depreciation	(21,200)	(19,591)
	2,754	1,057
Total Property, Plant and Equipment	11,861	6,920

Movements in carrying amounts

2011	**Furn & Fittings**	**Co Software**	**Office Equip**	**Total**
Balance at 1 Oct 2010	2,870	16,889	5,397	25,156
Additions	-	-	-	-
Depreciation	(1,230)	(12,666)	(4,340)	(18,236)
Carrying amount at 30 September 2011	1,640	4,223	1,057	6,920

2012	**Furn & Fittings**	**Co Software**	**Office Equip**	**Total**
Balance at 1 Oct 2011	1,640	4,223	1,057	6,920
Additions	8,919	-	3,306	12,225
Depreciation	(1,452)	(4,223)	(1,609)	(7,284)
Carrying amount at 30 September 2012	9,107	-	2,754	11,861

	30-Sep-12 $	30-Sep-11 $

13. Trade and Other Payables

Trade Creditors	140,481	257,301
Audit fee	11,000	5,215
Credit Card	1,709	-
Accrued Annual leave	28,287	31,467
Superannuation	3,071	5,815
PAYG Withholding	8,173	13,572
	192,721	313,370

The accruals for annual leave are presented as a current obligation, since the Company does not have an unconditional right to defer settlement. However, based on past experience, the company does not expect all employees to take the full amount of accrued leave within the next 12 months. The expected cash out flow timing is anticipated to be within one year. Carbon Neutral has no staff policy whereby staff are required to take their accrued leave each 12 months.

14. Provisions

Landowner Incentives		
To be paid to landowners for caretaking the trees sequestering the carbon	153,850	79,670

15. Remuneration of auditors

The company's auditor is BDO. During the year an amount of $7,948 was paid to the auditor for audit services provided in the 2011 financial year.

In addition, $11,000 was accrued for services provided in the 2012 financial year.

	30-Sep-12 $	30-Sep-11 $

16. Key management personnel disclosures

The key management personnel comprise the Directors identified in the Director's report and the following management staff:

Position		
Chief Executive Officer	Ray Wilson	Ray Wilson
Planting Manager		Koo Lloyd-Kane
Business Development Manager		Kirsten Rose
Remuneration of Key Management Personnel	150,000	230,537

The above numbers include Superannuation.

No remuneration or compensation was made to the Directors during the year.

17. Related party transactions

Men of the Trees	221,928	419,027

Directors and other related parties did not receive any payments by way of salaries or through contractual arrangements.

At 30 September 2012, Brian Wickins was a director of Carbon Neutral and also a director of Men of the Trees.

18. Commitments

Operating Lease Commitments
Non-cancellable operating leases contracted for but not capitalised in the financial statements relate to the office in Osborne Park, which Carbon Neutral moved to in June 2012. Rental lease arrangements include market review clauses. The Current lease expires on 17 June 2015.

Planting Commitments
There were no planting commitments outstanding at year end (2011: $344,182).

Payments due include Rent and Outgoings.

	Expiring	**Within 1 Year**	**1 to 2 years**	**2 to 5 years**
Hector Street Osborne Park	17/06/2015	46,435	46,435	34,826

19. Contingent Liabilities

Service obligation amounts in respect to landowner incentive payments are accrued annually up to payment of those incentives.
There is a contingent liability for unaccrued amounts as set out below.

	2013	2014	2015	2016	2017
Landowner incentive payments	57,380	32,416	5,845	5,566	2,000

20. Financial Instruments

Financial Instrument	Floating		Non Interest bearing		Total		Effective Interest rate	
	2012	2011	2012	2011	2012	2011	2012	2011
	$	$	$	$	$	$	%	%
Cash Resources	141,067	190,013	23	25	141,090	190,038		0.35%
Trade debtors	-	-	49,330	261,468	49,330	261,468	-	-
Total	**141,067**	**190,013**	**49,353**	**261,493**	**190,420**	**451,506**		

Financial Instrument	Floating		Non Interest bearing		Total		Effective Interest rate	
	2012	2011	2012	2011	2012	2011	2012	2011
	$	$	$	$	$	$	%	%
Trade & other payables	-	-	140,481	257,301	140,481	257,301	-	-
Total	**-**	**-**	**140,181**	**257,301**	**140,481**	**257,301**		

21. Member Guarantee

The company is incorporated under the *Corporations Act 2001* and is a company limited by guarantee. If the company is wound up the constitution states that each member is required to contribute a maximum of $1 each towards to the property of the company for payment of the debts and liabilities of the company.

At 30 September 2012 the number of members was 51.

22. Events occurring after the balance sheet date

As outlined in the Director's Report:

i) *Significant Clients:*
A number of large clients renewals, due in 2011-12, but not classified as debtors, were received in the 2012-13 reporting period totalling $105,150.

The Directors of Carbon Neutral wish to advise its members that a possible re-structure of Carbon Neutral is being considered.

ii) *Re-structure:*
The carbon market is currently undergoing significant change with the introduction of the Government's Carbon Pricing legislation ('carbon tax') and the Carbon Farming Initiative legislation. Despite current political and economic uncertainty this is expected to provide market demand and stability in the longer-term.
The challenges facing Carbon Neutral in meeting the challenge are:

- The need to secure capital to source land and plant trees on an economic scale.
- Uncertainty and confusion as to MOTT's relationship with Carbon Neutral in terms of control, fiduciary responsibility and financial return.

A re-structure of Carbon Neutral is being jointly explored by the MOTT and Carbon Neutral Boards to address these issues. The preferred solution is for Carbon Neutral Ltd to be scaled-back or wound-up as a not-for-profit with a new 'for profit' company being formed which will buy the Carbon Neutral Ltd assets (as determined by an independent valuation), including the business name. Subject to approval by Carbon Neutral members, the proceeds from the asset sale will be transferred to MOTT.
The Directors consider the status quo for Carbon Neutral, in the current political and economic climate, is risky given the company's balance sheet, market uncertainty, high up-front costs and risks in establishing reforestation carbon sinks.
An Expression of Interest has subsequently been received and is being considered by the Carbon Neutral and MOTT Boards.

iii) *Land Sale*
A conditional offer to purchase the company's Cranbrook property has been accepted by the Board. The offer is subject to the buyer obtaining finance from a nominated lender.

23. Correction of error in accounting for landowner expense payments

The Company has restated its prior year financial statements in relation to the accounting for landowner expense payments. The adjustment arises due to a change in accounting treatment of landowner expense payments. The payments are now treated as lease expenses and are amortised over the period of the landowner contract. Amounts of lease payments previously expensed have been recognised as a prepayment to the extent they relate to future years.

The opening balance at 1 October 2010, being the beginning of the earliest period presented in this financial report, has been corrected by $47,686.

The corrections have been recorded by restating each of the affected financial statement line items for the prior period as follows:

Statement of Financial Position (extract)	**As reported 30 September 2011**	**Increase/ (Decrease)**	**Restated 30 September 2011**
Trade and Other Receivables	$268,770	$45,282	$314,052
Net assets	$1,069,644	$45,282	$1,114,926
Retained Earnings	$107,064	$45,282	$152,346
Equity	$1,069,644	$45,282	$1,114,926

Statement of Comprehensive Income (extract)	**As reported 30 September 2011**	**Increase/ (Decrease)**	**Restated 30 September 2011**
Planting Cost	$523,619	$1,202	$524,821
Profit for the year before tax	$5,813	($1,202)	$4,611