



Carbon Neutral Ltd
(ABN 99 124 696 966)

Annual Financial Statements
For the Year Ended 30 September 2011

Issued: xx January 2012

CONTENTS

DIRECTORS' REPORT	2
AUDITOR'S INDEPENDENCE DECLARATION	7
DIRECTORS' DECLARATION	8
INDEPENDENT AUDITOR'S REPORT	9
STATEMENT OF FINANCIAL POSITION	10
STATEMENT OF COMPREHENSIVE INCOME	11
STATEMENT OF CHANGES IN EQUITY	12
STATEMENT OF CASH FLOWS	13
NOTES TO THE FINANCIAL STATEMENTS	14

GLOSSARY

ASIC	the Australian Securities and Investments Commission
ATO	Australian Taxation Office
GST	Goods and Services Tax
MOTT	Men of the Trees

DIRECTORS' REPORT

The Directors present this Report on the company for the year ending 30 September 2011.

Background

Carbon Neutral is a not for profit carbon consultancy and offset provider. We assist clients to measure, reduce and offset greenhouse gas emissions. As a registered environmental charity we have a strong focus on developing and managing biodiverse conservation plantings and carbon sinks which deliver significant environmental co-benefits.

The Carbon Neutral programme was started by Men of the Trees (MOTT) in 2001 to increase its capacity to revegetate Wheat belt land. MOTT is a not-for-profit organisation and permanent member holding 51% control by way of voting rights at general meetings.

Review of Operations

This is Carbon Neutral's fourth Annual Report and covers the period from 1st October 2010 to 30th September 2011.

In our tenth year since establishment, 2011 has been a positive year for addressing climate change and ecological benefits of reforestation.

Tree Plantings: The 2011 planting season has been excellent with 480 hectares planted on seven sites in Western Australia and one in South Australia all receiving good early rains at planting carrying through to late spring.

Carbon Consulting: Consulting work activity is increasing for small and large organisations wanting to adapt to a low-carbon economy and improve their environmental credentials by measuring, reducing their footprint.

Supporters: As well as thousands of personal supporters, over 560 organisations are supporting Carbon Neutral's work. Some of the more prominent organisations that we provided consulting and offsetting services to include Water Corporation, ABN Group, Acer Computers, City of Stirling, City of Joondalup, City of Rockingham and Fugro TS Marine.

Education: Carbon Neutral has presented at a number of seminars for businesses to better understand carbon, green marketing and energy efficiency in the workplace. We have also presented a range of talks with information on reducing, measuring and offsetting carbon emissions to various groups including the WA Chamber of Commerce, United Community, Water Corporation, Perth Rotary, WA Energy Summit, and the Business Growth Centre.

Website: Carbon Neutral's web presence is significant and growing, being linked on around 200 websites and receiving over 6000 'hits' per month with each visitor spending an average of 3.5 minutes on the site. The website offers a range of educational material linked to climate change issues and carbon management. We regularly post educational and promotional videos on YouTube and disseminate information through social media.

Legislation: The passing of the Carbon Farming Initiative (CFI) legislation in 2011 provides a framework for landholders and project developers like Carbon Neutral to plant native trees and generate 'carbon credits'. Under methodologies and rules set out in the CFI legislation, carbon credits and Australian Carbon Credit Units (ACCU) can be sold into domestic and international carbon markets.

The Carbon Price Mechanism legislation passed in November 2011 will create a market for CFI generated carbon credits from 1 July 2012. Companies which are liable to pay the 'carbon tax' can elect to allocate up to 5% of their permits to CFI generated credits in the fixed price period (2012-2015) and then up to 100% from 1 July 2015.

Establishing a value on Biodiversity: While some emitters will seek cheaper CFI credits from Oil Mallee or monoculture plantations, we are confident that our biodiverse and mixed native species plantings

will be as attractive in the accredited compliance market as they have been in the voluntary offset market with stakeholders placing a value on the environmental co-benefits.

Sourcing Land for Planting: One of our educational challenges is to raise community awareness on the economic, environmental and social benefits of biodiverse tree planting in the rural landscape. Finding non-productive farmland suitable for planting where landowners are prepared to accept a 100 year legal covenant has been challenging. Carbon Neutral is aiming to plant on some larger sites in 2012 to achieve economies of scale. We also aim to continue to develop restoration projects that form part of a corridor, such as the Gondwana Link.

Staff: Carbon Neutral operates in diverse and uncertain market around carbon pricing and international agreements. Our ability to continue to help clients and supporters 'make a difference' through education, consulting, and offsetting is dependent on our dedicated staff. Our small team manages the challenges of both developing and maintaining a growing portfolio of biodiverse carbon sinks and provide the exceptional service standards required to retain the support of so many long-standing clients and engage with an increasing number of new supporters.

The Directors and CEO thank the Carbon Neutral team for their professionalism, hard work and passion.

Operating Results

The total comprehensive income of the company amounted to \$xxxxx after depreciation (2010: \$409,302).

Principal Activities

Carbon Neutral's 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 and advisory services
- Education - Raising community awareness and providing web-based resources to enable households and businesses to reduce and offset emissions

Significant changes in the state of affairs

The General Manager position was made redundant in March 2011.

No other significant changes occurred during the year.

After Balance Date Events

No 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
- (iii) the company's state of affairs in future financial years.

Likely Developments

Offsetting is a discretionary spend. A number of offsetting clients have indicated they may reduce or cease offsetting in 2012 due to uncertainties surrounding the impact of the carbon tax and a belief by some they will be paying twice as a result of the 'flow through effect'.

Under the Carbon Price Mechanism liable emitters will be paying the 'carbon tax' from 1 July 2012.

A number of the large emitters have indicated a positive view toward allocating 5% of their liability (for the first 3 years) to CFI generated biodiversity carbon sinks. A communication and sales strategy will be rolled out in early 2012 targeting large emitters.

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. Carbon Neutral is a non-profit company and its Constitution does not allow payments including dividends, bonuses or distributions of profit, directly or indirectly, to members, directors, 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	Date Resigned
Matt Porter	Oct-07	Jul-11
Chris Ferreira	Apr-08	
Ian Rawlings (Chairman)	Apr-08	
Brian Wickens	Apr-08	
Richard West (Secretary)	Oct-09	Aug-11
Trevor De Landgraft	May-10	
Jeffrey Bremer	May-11	

Directors have been in office since the beginning of the financial year unless otherwise stated. Matt Porter, who was chairman at the start of the year, resigned in July 2011. Ian Rawlings was appointed Chairman in November 2011. Richard West was appointed company secretary in February 2011. He resigned from the board in August 2011 but remained as Company Secretary and Gift Fund trustee.

Meetings of Directors

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

Director	Eligible to attend	Number attended
Matt Porter	7	5
Chris Ferreira	8	3
Ian Rawlings	8	7
Brian Wickens	8	5
Richard West	7	7
Trevor De Landgraft	8	6
Jeff Bremer	4	3

Company Secretary

Mr. Ian James Rawlings held the position of company secretary until February 2011 when Richard West took over the role.

Information on Directors

Matt Porter BSc(Env),LLB. (resigned July 2011).

Matt is an Associate at Minter Ellison Lawyers where he practises primarily in litigation, having had previous experience in environmental law. Matt also holds a Bachelor of Science (Environmental Science) from Murdoch University where he was a former president of the Murdoch University Environmental Science Association. Matt has been a co-author or contributor to international and nationally published journal articles on emissions trading, an international waste treaty and the joint management of national parks between indigenous Australians and conservation agencies. He is also a councillor for Australian Conservation Foundation and a representative of former US Vice President

Al-Gore in Australia, having delivered the '*An Inconvenient Truth*' climate change presentation more than 70 times nationwide to a wide array of audiences. In his spare time, Matt manages his family's hobby farm in the hills of Serpentine-Jarrahdale, which provides 'on the ground' experience of environmental and other issues faced by farmers.

Trevor De Landgraft

Trevor is a career farmer who in partnership with wife Jeanette owns and operates a 7600ha grain, wool and meat enterprise south east of Newdegate. Trevor has a long standing interest in the development and sustainability of rural and regional communities for the benefit of future generations. He is Past President (4 years) and current member of Board of Management of the WA Farmers Federation. Trevor is a current member of Agrifood Skills Australia Rural and Related Standing Committee; and a member of the Board of Management Primary, Food & Beverage, Furnishing & Textile Industries Training Council (WA) Inc. He has completed the AICD Company Directors Course.

Brian Wickins (B. Ed)

Brian is the managing director of Resolutions Resources and Energy Services and is a board member of the Men of the Trees, Petroleum Exploration Society of Australia WA Branch and a member of the Society of Petroleum Engineers WA Section. He also holds directorship on Resolutions Resources & Energy Services Pty, Resolutions Publishing & Media Pty Ltd, Resolutions Farm Operations Pty Ltd, D8A Pty Ltd and Resources World Pty Ltd.

Chris Ferriera

Chris was a Board member of Men of the Trees from 1992 to 2009 and was 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.

Ian Rawlings (Chair)

Ian is the CEO and Company Secretary for Central Desert Native Title Services Ltd and is a director and secretary for Men of the Trees (Inc). Ian has been a Men of the Trees member for 8 years and 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.

Richard (Ric) West JP CPA PNA (MAcc BA) (Secretary)

Ric has spent over 20 years working in a variety of finance and accounting roles with or for non-profit organisations. He is currently employed by Central Desert Native Title Services Ltd as their Business Services Manager, Chief Financial Officer (CFO) and Company Secretary. Previous experience includes 4 years in a government grant funding agency, 11 years working in senior accounting roles in several accounting firms, including his own practice, and 5 years serving as CFO for an large Indigenous employment organisation. Ric is a certificated member of Chartered Secretaries Australia and is a past-president of the WA branch of the National Institute of Accountants.

Jeffrey Bremer (BEng (Hons) PHD, FIE Aust)

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

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 (ASIC Reg. xxxx)

BDO's independence declaration for the Year ended 30 September 2011 has been received and can be found on page 6 of the financial statements.

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

Ian Rawlings – Chairman
Perth, Western Australia
Dated: xx January 2012

The Directors
Carbon Neutral Ltd
Unit 4, 9 Cleaver Street
West Perth WA 6005

Dear Sirs,

AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, during the Year Ended 30 September 2011 there have been:

1. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of the requirements of the Accounting Professional and Ethical Standards Board in relation to the audit.

Yours faithfully,

Chris Burton - Partner
Registered Company Auditor, Number xxx
BDO Address
Dated: xx January 2012

DIRECTORS' DECLARATION

For The Year Ended 30 September 2011

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*:
 - 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 2011 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: xx January 2012

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

I have audited the accompanying general purpose financial statements of Carbon Neutral Ltd (the "company") which comprises the statement of financial position as at 30 September 2011, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, and the directors' declaration.

The Responsibility of Directors for the Financial Statements

The directors of the company are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are 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.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on our audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for our audit opinion.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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 statements.

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001* and the Accounting Professional and Ethical Standards Board.

Auditor's Opinion

In my opinion the financial statements of the company are in accordance with the *Corporations Act 2001*, including

1. giving a true and fair view of the company's financial position as at 30 September 2011 and of its performance for the Year ended on that date; and
2. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and complying with the *Corporations Regulations 2001*.

BDO

Registered Company Auditor, number xxxx

Address

Dated: xx January 2012

STATEMENT OF FINANCIAL POSITION

As At 30 September 2011

2011 details to be added – these are the 2010 figures

	Note	30-Sep-10	30-Sep-09	30-Sep-09 Adjusted
		\$	\$	\$
Current Assets				
Cash and cash equivalents	6	590,167	1,390,941	1,390,941
Trade and other receivables	8	134,005	236,510	236,510
Inventory	9	4,057	48,629	-
Other current assets	10	7,506	1,293	1,293
Land held for sale	11	977,841	340,268	340,268
Total Current Assets		1,713,576	2,017,641	1,969,012
Non Current Assets				
Property, plant and equipment	12	25,156	44,939	44,939
Total Non Current Assets		25,156	44,939	44,939
Total Assets		1,738,732	2,062,580	2,013,951
Current Liabilities				
Trade and other payables	13	128,143	38,306	38,306
Current tax liabilities	14	22,937	28,993	28,993
Payroll liabilities	15	77,437	71,013	71,013
Provisions and Accruals	16	446,384	1,269,733	402,643
Total Current Liabilities		674,901	1,408,045	540,955
Non Current Liabilities				
Other payables		-	-	-
Total Non Current Liabilities		-	-	-
Total Liabilities		674,901	1,408,045	540,955
Net Assets		1,063,831	654,535	1,472,996
Equity				
Reserves		558,056	-	-
Retained earnings		505,775	654,535	1,472,996
Total Equity		1,063,831	654,535	1,472,996

STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 30 September 2011

2011 details to be added

	Note	30-Sep-10 \$	30-Sep-09 \$
Revenue from continuing operations	4	2,109,160	2,489,908
Interest Income		52,331	47,258
Expenses			
Planting Cost		1,532,761	1,433,253
Non Tree Offsets (VERs)		121,723	103,261
Rent, Rates and Services		49,611	51,548
Office Expenses		37,704	32,137
Operating Expenses		81,700	132,607
Employment Expenses		699,310	580,831
Professional Services		47,847	101,471
Impairment Losses in Value of Land Held for Sale		-	98,955
Net Income before income tax		(409,165)	3,103
Income tax expense	3	-	-
Net Income after income tax		(409,165)	3,103
Other comprehensive income			
Reclassification adjustments		818,461	-
Total Comprehensive Income		409,296	3,103

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For The Year Ended 30 September 2011

2011 figures to be added

	Retained Earnings	General Reserves	Total Equity
2009 Year:			
Balance at 30 September 2008	651,432	-	651,432
Total comprehensive income for the period:			
Net income after tax	3,103	-	3,103
Other comprehensive income	-	-	-
Total Comprehensive income	3,103	-	3,103
Balance at 30 September 2009	654,535	-	654,535
2010 Year:			
Total comprehensive income for the period:			
Net income after tax	(409,165)	-	(409,165)
Other comprehensive income:			
Reclassify:			
Accrued Planting liability	148,472	-	148,472
Accrued Infilling liability	346,422	-	346,422
Accrued Covenants, Caveats & Surveys	120,073	-	120,073
Trees Inventory	(48,629)	-	(48,629)
Landowner incentives liability	252,123	-	252,123
Total Other comprehensive income	818,461	-	818,461
Total Comprehensive income	409,296	-	409,296
Movement in reserves, equity allocated to contingent liabilities:			
Planting Reserves:			
2007	(50,308)	50,308	-
2008	(107,132)	107,132	-
2009	(165,277)	165,277	-
2010	(235,338)	235,338	-
	(558,056)	558,056	-
Balance at 30 September 2010	505,775	558,056	1,063,831

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

For The Year Ended 30 September 2011

2011 cashflow to be added

	Note	30-Sep-10 \$	30-Sep-09 \$
Cash Flows from Operating Activities			
Receipts from clients and donors		2,334,809	2,330,456
Interest received		48,384	47,258
Payments to employees		(701,377)	(547,693)
Payments to suppliers		(1,845,017)	(1,134,288)
Net Cash (Outflow) / Inflow from Operating Activities	7	(163,201)	695,733
Cash Flows from Investing Activities			
Payments for land held for sale		(637,573)	(439,223)
Payments for property, plant and equipment		-	(55,602)
Net Cash Outflow from Investing Activities		(637,573)	(494,825)
Net (Decrease) / Increase in Cash and Cash Equivalents		(800,774)	200,908
Cash and cash equivalents at the beginning of the financial year	6	1,390,941	1,190,033
Cash and cash equivalents at the end of the financial year	6	590,167	1,390,941
Net (Decrease) / Increase in Cash and Cash Equivalents		(800,774)	200,908

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 September 2011

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 4, 9 Cleaver Street
West Perth, WA, 6005

2. BASIS OF PREPARATION OF THE FINANCIAL REPORT

Date of Issue

These financial statements were authorised for issue by the Directors on xx January 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.

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.

Compliance with International Financial Reporting Standards

Australian Accounting Standards require a statement of compliance with International Financial Reporting Standards (IFRSs) to be made where the financial statements complies with these standards. Some Australian equivalents to IFRSs and other Australian Accounting Standards contain requirements specific to not-for-profit entities that are inconsistent with IFRS requirements. The company is a not-for-profit entity and has applied these requirements, so while these financial statements comply with Australian Accounting Standards including Australian Equivalents to International Financial Reporting Standards (AEIFRSs) it cannot make this statement.

Adoption of new Australian Accounting Standard requirements

The following Australian Accounting Standards issued or amended and are applicable to the Company but not yet effective and have not been adopted in preparation of the financial statements at reporting date. Reduced Disclosure regime??

Standard	Title	Issue Date	Effective Date	Beginning/Ending	Mandatory for Y/E
AASB 9	Financial Instruments	Dec-09	1/01/13	Beginning	31/12/14
AASB 124	Related Party Disclosures	Dec-09	1/01/11	Beginning	31/12/11
Amending 2009-10	Amendments to Australian Accounting Standards - Classification of Rights Issues	Oct-09	1/02/10	Beginning	31/01/11
Amending 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133,137,139,1023 & 1031 and Interpretations 2, 4, 16, 1039 &1052]	Dec-09	1/01/11	Beginning	31/12/11
Amending 2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]	Dec-09	1/07/10	Beginning	30/06/11
Amending 2009-14	Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement [AASB Interpretation 14]	Dec-09	1/01/11	Beginning	31/12/11
Amending 2011-1	Amendments to Australian Accounting Standards - Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters	Feb-10	1/07/10	Beginning	30/06/11
Int. 19	Extinguishing Financial Liabilities with Equity Instruments	Dec-09	1/07/10	Beginning	30/06/11

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

The company does not hold inventories of goods for 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 income statement 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.

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 group. No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

2011 figures to be added

	2010 \$	2009 \$
4. REVENUE FROM CONTINUING OPERATIONS		
Donations received for trees	1,115,984	1,454,110
Donations received for VERs	29,537	-
Ecards	4,735	11,510
Carbon Consulting	104,249	56,925
Service Partner Commission	-	430
Contract Planting	848,429	961,897
Other Income	6,226	5,036
Total revenue	<u>2,109,160</u>	<u>2,489,908</u>
Interest Received	<u>52,331</u>	<u>47,258</u>
Total interest revenue	<u>52,331</u>	<u>47,258</u>

2011 figures to be added:

5. NET OPERATING RESULT

Net Operating Result before Income Tax is determined after the following significant Planting Expenses:

Planting Costs	1,038,512	1,062,235
Infill Costs	26,045	23,048
TFL Planting Costs	159,697	213,363
Other Planting Costs	14,898	226
Landholder Expense Payments	189,105	78,433
Caveats and Covenants	<u>104,504</u>	<u>55,948</u>
Total planting expenses	<u>1,532,761</u>	<u>1,433,253</u>

2011 figures to be added:

6. CASH AND CASH EQUIVALENTS

Cash on Hand	200	200
Cash at Bank	238,809	684,931
Cash at Bank - Term deposit	300,000	-
Cash at Bank - Telenet and landholders	-	198,460
Cash at Bank - Carbon Neutral Gift Fund	<u>51,158</u>	<u>507,350</u>
	<u>590,167</u>	<u>1,390,941</u>

Terms. Cash at bank is held in at-call interest bearing deposits.

2011 amounts to be added

	2010 \$	2009 \$
7. CASH FLOW INFORMATION		
Reconciliation of Cash Flows from Operating activities		
Net Income before income tax	(409,165)	3,103
Non cash flows included in Profit:		
Impairment losses on land held for sale	-	98,955
Depreciation	19,782	18,862
Changes in operating assets and liabilities:		
Decrease/(Increase) in sundry debtors	96,292	(211,250)
Decrease/(Increase) in inventory	(4,057)	165,188
Increase/(Decrease) in current trade & other payables	133,947	620,875
Increase/(Decrease) in non-current other payables	-	-
Net cash inflow (outflow) from operating activities	<u>(163,201)</u>	<u>695,733</u>

2011 details to be added

8. TRADE AND OTHER RECEIVABLES		
Trade Debtors	29,682	167,444
GST asset	42,626	69,066
Interest receivable	3,947	-
Accrued Debtors	57,750	-
	<u>134,005</u>	<u>236,510</u>

Terms. Trade and other debtors are non-interest bearing and are generally settled on terms of 30 days. Trade debtors are reported net of GST. All trade and other receivables are less than 30 days past due.

2011 details to be added: 112 + 7260 + 8200

9. INVENTORY		
Trees available for allocation	-	-
2008 Trees Buffer	-	48,629
VERs	4,057	-
	<u>4,057</u>	<u>48,629</u>

2011 details to be added

10. OTHER CURRENT ASSETS		
Prepayments	7,506	1,293
	<u>7,506</u>	<u>1,293</u>

2011 details to be added

11. LAND HELD FOR SALE		
Land at cost	1,076,796	439,223
Less provision for diminution in value	(98,955)	(98,955)
	<u>977,841</u>	<u>340,268</u>

Carbon Neutral own 3 properties located at Boxwood Hill, Katanning and Cranbrook. All 3 properties are currently for sale on the market as 'lifestyle' blocks. While the impairment from 2 years ago is still reflected in the accounts, Management are confident that the properties will sell for more than purchase price.

2011 details to be added

a) **Movements in carrying amounts**

2009

Balance at 1 Oct 2008	-
Additions	439,223
Impairment	(98,955)
Carrying amount at 30 September 2009	<u>340,268</u>

2010

Balance at 1 Oct 2009	340,268
Additions	637,573
Impairment	-
Carrying amount at 30 September 2010	<u><u>977,841</u></u>

2010	2009
\$	\$

2011 details to be added

12. PROPERTY PLANT & EQUIPMENT

Furniture & Fixtures:

Furniture & Fittings at cost	4,100	4,100
Less Accumulated depreciation	(1,230)	-
	<u>2,870</u>	<u>4,100</u>

Computer Software:

Computer software at cost	42,224	42,224
Less Accumulated depreciation	(25,335)	(12,667)
	<u>16,889</u>	<u>29,557</u>

Office equipment:

Office Equipment at cost	20,648	17,476
Less Accumulated depreciation	(15,251)	(6,194)
	<u>5,397</u>	<u>11,282</u>

Total Property, Plant and Equipment	<u><u>25,156</u></u>	<u><u>44,939</u></u>
--	----------------------	----------------------

2011 details to be added

a) **Movements in carrying amounts**

2009	Furn & Fittings	Co Software	Office Equip	Total
Balance at 1 Oct 2008	-	-	8,197	8,197
Additions	4,100	42,224	9,278	55,602
Depreciation	-	(12,667)	(6,194)	(18,861)
Carrying amount at 30 September 2009	<u>4,100</u>	<u>29,557</u>	<u>11,281</u>	<u>44,938</u>
2010				
Balance at 1 Oct 2009	4,100	29,557	11,281	44,938
Additions	-	-	-	-
Depreciation	(1,230)	(12,668)	(5,884)	(19,782)
Carrying amount at 30 September 2010	<u>2,870</u>	<u>16,889</u>	<u>5,397</u>	<u>25,156</u>

2011 details to be added

	2010	2009
	\$	\$
13. TRADE AND OTHER PAYABLES		
Trade Creditors	77,157	38,306
Unearned Income	50,986	-
	<u>128,143</u>	<u>38,306</u>

Unearned Income. This amount comprises:

- 1) \$44,800 for the first instalment of the Acer contract which requires Carbon Neutral to plant trees during 2011.
- 2) \$6,186 for donations that have been received by Carbon Neutral but not directly into the Carbon Neutral Gift fund bank account. The constitution states that all donation income must be received into the Gift Fund account. On a periodic basis this income is reconciled and a physical transfer is made from the working account to the Gift fund account

2011 details to be added

14. CURRENT TAX LIABILITIES

GST Payable	10,627	11,027
PAYG Withholding	12,310	17,966
	<u>22,937</u>	<u>28,993</u>

2011 details to be added

15. PAYROLL LIABILITIES

Accrued Salaries	22,965	17,829
Accrued Annual leave	41,585	42,616
Superannuation	12,887	10,568
	<u>77,437</u>	<u>71,013</u>

Accrued salaries. This amount represents 11 working days (30 Sep 2010, 11 working days).

Accrued annual leave. This is 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.

2011 details to be added

16. PROVISIONS AND ACCRUALS

	2010	2009	
	\$	\$	
Audit fee	1,000	-	
Accrued expense	228,796	953,933	
Landowner Incentives	216,588	315,800	
	<u>446,384</u>	<u>1,269,733</u>	
	2010	2009	2009
	\$	\$	Adjusted
			**
<i>Accrued expenses</i>			
Planting - 2010	212,396	473,151	324,677
Infilling - 2010	16,400	346,420	-
VERs - allocated but not yet purchased	-	14,289	14,289
Covenants, Caveats & Surveys - 2007 to 2010	-	120,073	-
	<u>228,796</u>	<u>953,933</u>	<u>338,966</u>
<i>Landowner incentives</i>			
to be paid to landowners for caretaking the trees sequestering the carbon	216,588	315,800	63,677

17. AUDITOR REMUNERATION

The company's auditor is BDO. During the year an amount of \$1,785 was paid to the auditor for audit services provided in the 2010 financial year. In addition, \$5,215 was accrued for their services provided in the 2012 financial year.

18. KEY MANAGEMENT PERSONNEL

The Key Management personnel comprise the Directors identified in the Director's Report and the following Management staff:

Position	2011	2010
Chief Executive Officer	Ray Wilson	Ray Wilson
General Manager	Vacant	Angela Tillier
Planting Manager	Koo Lloyd-Kane	
Business Development Manager	Kirsten Rose	Chris Doherty

a) *Remuneration of Key Management Personnel*

	Directors		Management Staff	
	2011	2010	2011	2010
	\$	\$	\$	\$
Short Term Benefits				
Salaries & allowances	-	-	510,576	446,230
Directors fees	-	950	-	-
Travel & allowances	-	-	-	-
Post Employment Benefits				
Superannuation	-	-	45,952	40,161
Total	-	950	556,528	486,390

The above numbers include Superannuation. The directors volunteer their time and are not paid for their services.

19. **RELATED PARTY TRANSACTIONS**

Carbon Neutral WAS established by Men of the Trees, whose interests are protected by a majority vote at general meetings (51%). During the year they were the major provider of planting services and were paid \$944,555 (2010: \$944,555). This comprises 90% (2010: 90%) of planting costs.

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

At 30 September 2011, the following directors of Carbon Neutral were also directors of Men of the Trees:

Brian Wickens

20. **PLANTING AND LEASING COMMITMENTS**

Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements relate to office in West Perth. Rental lease arrangements include market review clauses.

2011 details to be added

	Expiring	Within 1 Year	1 to 2 years	2 to 5 years
Cleaver St West Perth	26/06/2012	56,045	42,034	-

21. **CONTINGENT ASSETS AND LIABILITIES**

The directors believe that accruals are not required for the following items, as it is less than 50% probable that a future sacrifice of economic benefit will be required. There is uncertainty as to the survival rates of recent planting sites and information on recent plantings (winter of 2011) are not available until much later in the year. The possible amount payable has been estimated as follows:

	2007	2008	2009	2010	2011	Total
C&C&S	13,833.33	13,833.33	13,833.33	45,000.00	32,500.00	119,000.00
Monitoring	1,800.00	1,800.00	1,800.00	10,460.00	14,400.00	30,260.00
Landowner incentive	20,803.00	49,931.00	37,245.00	116,251.00	31,034.00	255,264.00
Total Contingent Liabilities	36,436.33	65,564.33	52,878.33	171,711.00	77,934.00	404,524.00

	Within 1 Yr	1 to 2 Yrs	2 to 5 Yrs
C&C&S	23,986.20	23,986.20	71,027.59
Monitoring	24,460.00	5,800.00	-
Landowner incentive	20,803.00	-	234,461.00
Total contingent liabilities	<u>69,249.20</u>	<u>29,786.20</u>	<u>305,488.59</u>

22. FINANCIAL INSTRUMENTS

a) **Financial Risk Management**

The company's financial instruments consist mainly of deposits with banks, accounts receivable and payable. The company does not have any derivative instruments at 30 September 2011.

i. *Treasury Risk Management*

All funds are held in at-call deposits or in short term investments with a major bank.

ii. *Financial Risks*

The main risks the Company is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

Foreign currency risk

The Company is not exposed to fluctuations in foreign currencies.

Liquidity risk

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unused borrowing facilities are maintained.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognized financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The company does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the company.

Price risk

The company is not exposed to any material commodity price risk.

b) **Interest Rate Risk**

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

i. *Financial Assets*

2011 details to be added

Carbon Neutral Ltd
Annual Financial Statements
For the Year Ending 30 September 2011

Financial Instrument	Floating		Non Int bearing		Total		Eff Int rate	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$	%	%
<i>Cash resources</i>								
Cash on Hand	-	-	200	200	200	200	-	-
Cash at Bank	238,809	684,931	-	-	238,809	684,931	4.55	5.50
Term Deposit	300,000	-	-	-	300,000	-	5.25	-
Telenet and landholders	-	198,460	-	-	-	198,460	-	3.65
Gift Fund	51,158	507,350	-	-	51,158	507,350	4.25	2.75
	<u>589,967</u>	<u>1,390,741</u>	<u>200</u>	<u>200</u>	<u>590,167</u>	<u>1,390,941</u>		
Trade debtors	-	-	29,682	167,444	29,682	167,444	-	-
Other current assets	-	-	7,506	1,293	7,506	1,293	-	-
Total	<u>589,967</u>	<u>1,390,741</u>	<u>37,388</u>	<u>168,937</u>	<u>627,355</u>	<u>1,559,678</u>		

2011 details to be added

ii. *Financial Liabilities*

Financial Instrument	Floating		Non Int bearing		Total		Eff Int rate	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$	%	%
Trade & other payables	-	-	128,143	1,408,045	128,143	1,408,045	-	-
Payroll	-	-	77,437	71,013	77,437	71,013	-	-
Total	<u>-</u>	<u>-</u>	<u>205,580</u>	<u>1,479,058</u>	<u>205,580</u>	<u>1,479,058</u>		

23. MEMBERS' 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 the property of the company for payment of the debts and liabilities of the company. At 30 September 2011 the number of members was fifty four (54).

24. EVENTS AFTER THE BALANCE DATE

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.