Carbon Neutral Ltd
(ABN 99 124 696 966)

Annual Financial Statements

For the Year Ended 30 September 2010

Issued: 21 January 2011

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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 2010.

Background

Carbon Neutral is a not for profit company working with hundreds of organisations and thousands of individuals to measure, reduce and offset greenhouse gas emissions and support revegetation projects.

Carbon Neutral's Mission Statement is to reduce greenhouse gas emissions through education and revegetation. To date, Carbon Neutral has planted nearly three million trees in Australia.

The Carbon Neutral programme was started by Men of the Trees (MOTT) in 2001 to increase its capacity to revegetate Wheatbelt land. MOTT is a not-for-profit member organisation with the mission of bringing people together to grow and plant trees and to achieve healthy, productive and sustainable landscapes.

In 2007, Carbon Neutral was established as a separate entity, being registered as a public company limited by guarantee, to allow the organisation to operate nationally. MOTT's interests in CN are protected by a majority vote at general meetings (51%).

Review of Operations

This is Carbon Neutral Limited's third Annual Report and covers the period from 1st October 2009 to 30th September 2010.

Small scale environmental plantings have been our main focus to date. Together with MOTT's revegetation team we faced the dual challenges of planting on difficult partially degraded sites and resulting diseconomies of scale with surveying, monitoring and legal documentation to register the carbon rights and covenants on each site.

In 2011 the company will be pursuing larger-scale plantings (minimum 25 hectares) and offer a 'carbon profit-share' arrangement with landowners as an added incentive to them to meet care and maintenance obligations.

The Federal Government's accreditation scheme for carbon offsets, 'Greenhouse Friendly', ceased on 1 July 2010 with a new National Carbon Offset Standard (NCOS) introduced from that date. The government has announced its intention to launch a voluntary carbon scheme, the Carbon Farming Initiative (CFI) with legislation proposed for 2011. The CFI will facilitate farm forestry projects for the generation of government-backed tradable carbon credits on domestic and international markets.

The market for carbon offsets from forward-sold non-accredited tree planting projects currently offered by Carbon Neutral is diminishing. Informed clients want offsets that are eligible under NCOS. Currently there are none available from Australian projects until such time the CFI scheme is implemented. In the meantime, the company has joined the Carbon Trade Exchange (CTX) to acquire units on behalf of clients in a variety of projects accredited under the Voluntary Carbon Standard (VCS). This is an interim step for our existing and new offset clients wanting credible carbon offset projects until the CFI is in place. Tree planting will remain the company's prime focus and under the CFI will enable Carbon Neutral to sell accredited forward sold revegetation offsets, also take on the role of offset aggregator, agent and verifier for those farmers wanting to create their own forest sinks.

Carbon Neutral's carbon consulting work is increasing for small and large organisations wanting to adapt to a low-carbon economy and improve their environmental credentials. The 'carbon footprint' consultancy is an important step in the business process of measure, reduce and offset.

The details of these services and the operating results are shown below and are further expanded upon in the Chairman's and CEO's report.

Operating Results

The total comprehensive income of the company amounted to $409,296 (2009: $3,103).

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

Co-founder and CEO of Carbon Neutral, Leo Kerr resigned early in 2009 and left in November 2009. Ray Wilson was appointed CEO and commenced full-time employment on 4 January 2010.

The four year contract with Carbon Neutral's largest client, Western Power, was completed with the 2010 planting, with the company to focus on emissions reduction measures instead. The support and contribution of Western Power has been an integral part of Carbon Neutral's growth and learning.

Carbon Neutral's alliance with Trees for Life (TFL) in South Australia was terminated by mutual arrangement on 30 September 2010. TFL has undertaken to continue to monitor all sites and report to Carbon Neutral on survival and growth rates and meet all other obligations under the Forest Property Agreements.

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

There are no significant changes expected in the nature of the operations of the company.

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 (Chairman)	Oct-07	
Chris Ferreira	Apr-08	
Ian Rawlings (Secretary)	Apr-08	
Ric Gleadell	Apr-08	Nov-09
Brian Wickens	Apr-08	
Richard West	Oct-09	
Trevor De Landgrafft	May-10	
Christian Marriott	Aug-07	Jan-10

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

Meetings of Directors

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

	Eligible to attend	**Number attended**
Matt Porter	8	7
Chris Ferreira	8	7
Ian Rawlings	8	7
Ric Gleadell	2	0
Brian Wickens	8	3
Richard West	7	6
Trevor De Landgrafft	3	2
Christian Marriott	3	2

Company Secretary

Mr. Ian James Rawlings held the position of company secretary throughout the year.

Information on Directors

Matt Porter BSc(Env),LLB. (Chairperson). 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 Landgrafft. 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 from1992 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 (Company Secretary). 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).

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

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 Mr. Malcolm Kirby (ASIC Reg. 13896)

Mr. Kirby's independence declaration for the Year ended 30 September 2010 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.

Richard West – Acting Chairman
Perth, Western Australia
Dated: 21 January 2011

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 2010 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,

Malcolm Kirby
Registered Company Auditor, Number 13896
7/437 Cambridge Street Floreat WA 6014
Dated: 21 January 2011

DIRECTORS' DECLARATION

For The Year Ended 30 September 2010

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 2010 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.

R West

Richard West – Acting Chairman
Perth, Western Australia
Dated: 21 January 2011

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 2010, 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 2010 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*.

Malcolm Kirby
Registered Company Auditor, number 13896
7/437 Cambridge Street Floreat WA 6014
Dated: 21 January 2011

STATEMENT OF FINANCIAL POSITION

As At 30 September 2010

	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**

An adjusted Balance Sheet for the year ended 30 September 2009 is presented above. The Management of Carbon Neutral revisited the treatment of planting accruals, planting inventory and landowner incentives in the 2009 financial statements. It was agreed that in most cases, there was no present obligation at year end. Due to the inherent uncertainty and lag of information regarding recent plantings, Management decided these should not be accrued. As a result, the opening balances of these accounts were adjusted through Other Comprehensive Income.

STATEMENT OF COMPREHENSIVE INCOME
For The Year Ended 30 September 2010

	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 2010

	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 Compehensive 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 Compehensive 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 2010

	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 2010

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 21 January 2011. 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.

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	1/07/1 0	Beginning	30/06/11
Amending 2009-14	Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement [AASB Interpretation 14]	Dec-09	1101111	Beginning	31/12/11
Amending 2010-1	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 cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

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.

	2010 $	2009 $

4. REVENUE FROM CONTINUING OPERATIONS

	2010 $	2009 $
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	2,109,160	2,489,908

	2010 $	2009 $
Interest Received	52,331	47,258
Total interest revenue	52,331	47,258

5. NET OPERATING RESULT

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

	2010 $	2009 $
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	104,504	55,948
Total planting expenses	1,532,761	1,433,253

6. CASH AND CASH EQUIVALENTS

	2010 $	2009 $
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	51,158	507,350
	590,167	1,390,941

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

7. CASH FLOW INFORMATION

Reconciliation of Cash Flows from Operating activities

	2010 $	2009 $
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	(163,201)	695,733

8. TRADE AND OTHER RECEIVABLES

	2010 $	2009 $
Trade Debtors	29,682	167,444
GST asset	42,626	69,066
Interest receivable	3,947	-
Accrued Debtors	57,750	-
	134,005	236,510

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.

9. INVENTORY

	2010 $	2009 $
Trees available for allocation	-	-
2008 Trees Buffer	-	48,629
VERs	4,057	-
	4,057	48,629

10. OTHER CURRENT ASSETS

	2010 $	2009 $
Prepayments	7,506	1,293
	7,506	1,293

11. LAND HELD FOR SALE

	2010 $	2009 $
Land at cost	1,076,796	439,223
Less provision for diminution in value	(98,955)	(98,955)
	977,841	340,268

Last financial year Carbon Neutral purchased and impaired the land at Boxwood Hill based on there being less land available for agricultural purposes. This year, two more properties were purchased at Katanning and Cranbrook. Management feel that a similar impairment is not required because the land should not be classified as agricultural. Management feel it is reasonable to expect recovery of the purchase price upon sale of the land based on the attraction of trees to the 'green lifestyler' market.

a) *Movements in carrying amounts*

2009	
Balance at 1 Oct 2008	-
Additions	439,223
Impairment	(98,955)
Carrying amount at 30 September 2009	340,268
2010	
Balance at 1 Oct 2009	340,268
Additions	637,573
Impairment	-
Carrying amount at 30 September 2010	977,841

	2010 $	2009 $
12. PROPERTY PLANT & EQUIPMENT		
Furniture & Fixtures:		
Furniture & Fittings at cost	4,100	4,100
Less Accumulated depreciation	(1,230)	-
	2,870	4,100
Computer Software:		
Computer software at cost	42,224	42,224
Less Accumulated depreciation	(25,335)	(12,667)
	16,889	29,557
Office equipment:		
Office Equipment at cost	20,648	17,476
Less Accumulated depreciation	(15,251)	(6,194)
	5,397	11,282
Total Property, Plant and Equipment	25,156	44,939

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	4,100	29,557	11,281	44,938
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	2,870	16,889	5,397	25,156

13. TRADE AND OTHER PAYABLES

	2010 $	**2009 $**
Trade Creditors	77,157	38,306
Unearned Income	50,986	-
	128,143	38,306

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

14. CURRENT TAX LIABILITIES

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

15. PAYROLL LIABILITIES

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

Accrued salaries. This amount represents 11 working days (30 Sep 2009, 8 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.

16. PROVISIONS AND ACCRUALS

	2010 $	2009 $
Audit fee	1,000	-
Accrued expense	228,796	953,933
Landowner Incentives	216,588	315,800
	446,384	1,269,733

	2010 $	2009 $	2009 Adjusted **
Accrued expenses			
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	-
	228,796	953,933	338,966
Landowner incentives			
to be paid to landowners for caretaking the trees sequestering the carbon	216,588	315,800	63,677

** Carbon Neutral revisited the treatment of the planting related accruals and incentives raised in the 2009 financial statements. It was agreed that in most cases, there was no present obligation at year end. Due to the inherent uncertainty and lag of information regarding recent plantings, Management decided these should not be accrued. An adjusted position at 30 Sep 2009 is displayed above and in the Balance sheet to show the effect of the adjustments. These items are now shown in Contingent Liabilities.

17. AUDITOR REMUNERATION

The company's auditor is Mr Malcolm Kirby. During the year an amount of $951 was paid to the auditor for audit services provided in the 2009 financial year. In addition, $1,000 was accrued for his services provided in the 2010 financial year.

18. KEY MANAGEMENT PERSONNEL

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

	2010	2009
Chief Executive Officer	Ray Wilson	Leo Kerr
General Manager	Angela Tillier	Angela Tillier

a) Remuneration of Key Management Personnel

	2010	2009
Ray Wilson	108,319	-
Angela Tillier	91,285	86,487
Leo Kerr (Resigned Nov 2009)	67,711	94,585
	267,315	181,072

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 (2009: $650,797). This comprises 90% (2009: 60%) of planting costs.

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

At 30 September 2010, the following directors of Carbon Neutral were also directors of Men of the Trees:

Ian Rawlings (Secretary of both companies)
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.

	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 2010) are not available until much later in the year. The possible amount payable has been estimated as follows:

	2007	2008	2009	2010	Total
Covenants, Caveats and Surveys	33,818	71,292	57,887	89,200	252,197
Monitoring	16,490	35,840	36,570	32,370	121,270
Landowner incentives	-	-	70,821	113,768	184,589
	50,308	107,132	165,277	235,338	558,056

	Within 1 Year	1 to 2 years	2 to 5 years
Covenants, Caveats and Surveys	72,985	72,985	106,226
Monitoring	32,780	31,060	57,430
Landowner incentives	40,459	40,459	103,671
	146,224	144,504	267,328

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 2010.

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

Financial Instrument	Floating		Non Int bearing		Total		Eff Int rate	
	2010	2009	2010	2009	2010	2009	2010	2009
	$	$	$	$	$	$	%	%
Cash resources								
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
	589,967	1,390,741	200	200	590,167	1,390,941		
Trade debtors	-	-	29,682	167,444	29,682	167,444	-	-
Other current assets	-	-	7,506	1,293	7,506	1,293	-	-
Total	**589,967**	**1,390,741**	**37,388**	**168,937**	**627,355**	**1,559,678**		

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	**-**	**-**	**205,580**	**1,479,058**	**205,580**	**1,479,058**		

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 2010 the number of members was fifty two (52).

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.