ENVIRONMENTAL CARBON OFFSET

Environmental Carbon Offset Limited

ACN 077 014 594

Annual Report

30 June 2012

Contents

Corporate Directory

Directors
Sydney Chesson (Chairman)
Thomas Henn (Director)
Simon Chesson (Director)

Company Secretary
Simon Chesson

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Member of the Consolidated Group
Environmental Carbon Offset Limited
ACN 077 014 594

Environmental Forest Farms Management Limited
ACN 087 201 670

EFF Timber Pty Ltd
ACN 082 882 960

Powton Land Holdings Limited
ACN 087 201 652

A&N Enterprises Pty Ltd
ACN 113 434 512

Forestry Finance Limited
ACN 108 513 239

Auditors
Carlton & Partners
3 Alvan Street
Mount Lawley WA 6050

The ECO Limited

Environmental Carbon Offset Limited ("ECO") formally Environmental Forest Farms Limited ("EFF") is the parent company of;

- **Powton Land Holdings Limited, ("PLH")**,

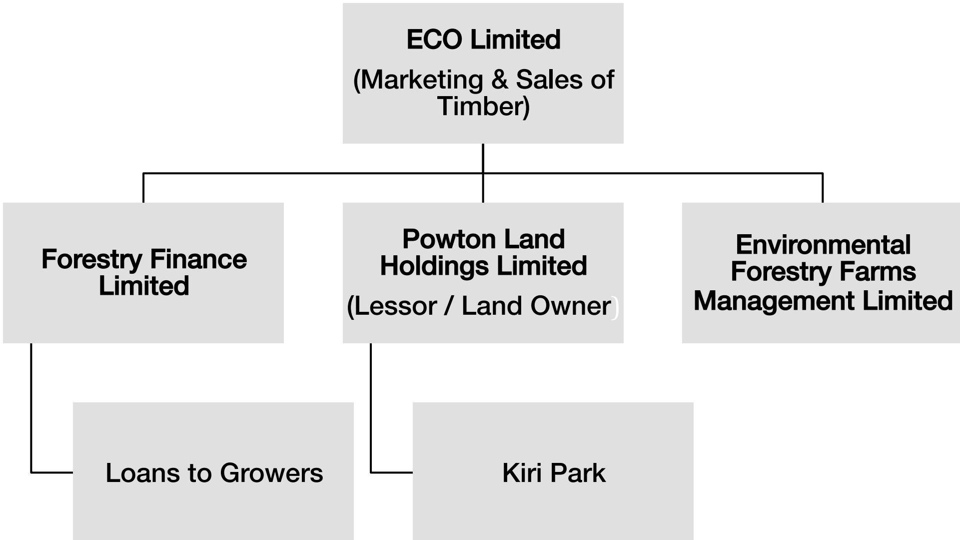
  PLH is the lessor / land owner of the land for the new carbon offset project.

- **Enviromental Forest Farms Management ("EFFM")**

  EFFM will play a reduced role in the management of the land use.

- **Forestry Finance Limited ("FFL")**.

  FFL will have the ability to provide finance to investors and businesses in the forestry industry.



Kiri Park

Introduction
"Kiri Park," located at Lot M1254 Hunter Road, Regan's Ford, in Western Australia, consists of approximately 536 hectares of land on the north bank of the Moore River and is located off the Brand Highway. Over 200 hectares of the Property is suitable for Paulownia plantations, with approximately 198,180 Paulownia trees already being planted, maintained, and managed on the Property.

Location
Kiri Park was selected by foresters as the location for a Paulownia Plantation on the criteria considered necessary to establish, maintain and operate successful Paulownia plantations. The key factors for growing Paulownia timber were determined to include constant sunshine, ample water, sandy well drained soils, nutrients, and protection from severe winds.

The Kiri Park Projects
The Kiri Park Projects have been established specifically for the growth, development, harvest, promotion and sale of Paulownia timber.

The Kiri Park Projects combine to total approximately 1,903 Woodlots, which have been planted and are managed for approximately 205 Growers. The projects combine for a total of 198,180 Paulownia trees, all of which are managed by Environmental Forest Farms Management Limited ("EFFM").

A total of approximately 95% of the plantable land is under plantation.

The Company has suspended the marketing of investment in the Kiri Park Projects and does not expect this to change in the foreseeable future.

The Company seeks to pursue opportunities for the development of Carbon Credits to address the recently introduced Carbon Tax. Due to the relative infancy of the industry it is difficult to know the exact manner in which ECO will be able to benefit from this emerging industry. That the industry is relatively new provides opportunity for ECO to be involved from ground level and gain early mover advantage by participating.

With the suspension of Managed Investment Schemes by the ECO Group future activity on Kiri Park, including the plantation has the potential to be altered, with the aim of realising the value of the plantation. In order to preserve the plantation in good standing order it is necessary to continue with required care and maintenance of the existing plantation on Kiri Park. Continuation of care and maintenance works will assist in maintaining the intrinsic value of the plantation and allow options for the future direction of the ECO Group.

The Debenture redemption date is 30 June 2012. The Company is in the process of discussions with the Debenture Trustee for a repayment program out of the orderly sale of assets, and the collection of outstanding debts from Growers that have failed to pay.

ECO is an unlisted public company. The current Board of Directors will not be listing the Company's Shares on the Australian Stock Exchange or any other exchange.

The Company, its Directors, or any other party are not liable to repurchase Shares from investors. The investment is regarded as long term and illiquid as a secondary market for Shares in ECO may not exist. Shareholders can transfer their Shares to other investors at their discretion.

Director's Report

Your directors submit the financial report of the company for the financial year ended 30 June 2012.

Directors
The names of the directors who held office during or since the end of the period are:

Sydney J. Chesson
Thomas F. Henn
Simon JS Chesson

Global Financial Crisis
The Global Financial Crisis ('GFC') continues to affect the ECO Group ("the Group") in generally the same way as it has affected business worldwide and specifically in respect of timber prices, exchange rates and demand for products. The Group has been involved in pursuit, in the courts, of many of our Growers who have delayed or refused to pay their outstanding fees and rents. We continue to pursue, in the courts, those who owe the group money.

Paulownia Pricing - Exchange Rates - International Competition
There has been no discernable improvement in the last 12 months in the outlook for the projects from the situation that became apparent in late 2009. The factors affecting assessment of the potential returns from the plantations include:

- appreciation of the AU$ has brought about a deterioration in the potential return on the ECO Group plantations unless there are some considerable changes in the rates to bring the rates back closer to the levels at which the projections were calculated in 2001 to 2003;
- no discernable improvement in the prices at which timber products are being offered from China, USA and Canada;
- a weak demand for timber in Europe and USA;
- hugely reduced prices on offer for Canadian Western Red Cedar (the product for which Kiri/Paulownia is a substitute);
- a general weakening of demand for timber worldwide except for China;

Factors previously considered as positive indications of improvements in demand for timber including restrictions on the harvesting of natural forests and old growth forests have not converted into higher prices for timber. Anticipation of increased demand for timber has not eventuated.

Future profits of the business of the ECO Group will be influenced by the fluctuations in exchange rates, uptake in timber consumption and supply/price pressures as China and the western economies recover from the GFC.

Timber Sales
Sales of Paulownia timber grown by the ECO Group through EFF Timber Pty Ltd trading as Highpoint Timbers dropped off during this period. Demand for Paulownia products has dropped off. Proposed expansion of processing at Highpoint has been cancelled. Highpoint has also been "mothballed" and current activities are directed at attempting to salvage whatever value is possible. With demand weak for Paulownia timber and products and as part of strategic change in direction for the company, the Highpoint factory premises was sold in June 2012 as part of the company restructure.

General Economic Conditions
General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's marketing and sales activities.

As a result of the current Federal Government's intention to continue the progression of addressing carbon emissions there exists potential to utilise the existing plantations to be involved in the production of Carbon Credits. While the industry is still in its infancy both in Australia and globally the resolve of governments and industry is becoming more apparent as interest and participation grows. These carbon abatement plans being formulated by the Government's

Department of Climate Change and Energy Efficiency are far reaching in their impact on the way in which business and individuals exist and function. The global impacts of the Kyoto Protocol will continue to increase in prominence as a result of greater environmental awareness and social conscience.

New Company Strategy

As a result of volatile market conditions and reduced demand for timber the company intends to pursue opportunities as a result of the recent introduction of the Carbon Tax. With ECO already in possession of significant land and plantation assets, the ability to realise these assets presents an early entry opportunity for the ECO Group. The Board intends to thoroughly investigate and determine the best use of the current assets within this emerging market for the benefit of all shareholders. As part of this restructure the company's name, ECO Group, was introduced in November 2011 to reflect this directional change.

Review and results of operations

The net loss for the group for the financial period to 30 June 2012 amounted to $146,187 (30 June 2011: Loss $642,429). The net loss for the company amounted to $42,327 (30 June 2011: Gain $133,195).

Plantation Management

Management of the plantations managed by the ECO Group has been reduced to a "mothballing" of the operations during the financial period to 30 June 2012. Plantation activities have been reduced to the absolute minimum in order to contain costs in view of the condition of the markets for plantation products.

Marketing of Managed Investment Schemes

There were no new Managed Investment Schemes on offer in the financial period ending 30 June 2012. We do not expect to be offering any further Managed Investment Schemes.

Significant After Balance Date Events

The Company is investigating opportunities to utilise its plantation assets in the newly formed carbon industry aligned to the new company strategy. Due the infancy of the industry it is premature to determine the form that will make best use of existing assets. Shareholders will be updated on the progress of this business venture as and when it evolves.

The company intends to reduce debt and related servicing costs via the orderly disposal of non-core assets associated with prior operations.

Since the end of the financial period ended 30 June 2012 there have been no other material events to report.

Directors Information

Sydney Chesson
M.B.A, C.RE.M, C.S.M, F.A.I.C.D
Chairman

Mr Chesson has been awarded a Master of Business Administration degree from the University of Notre Dame Australia, where he was admitted to the Vice Chancellor's list for academic excellence. He is a licensed real estate agent and business broker, and a licensed finance broker. He has extensive experience in importing and exporting, production and manufacturing. He has over 25 years experience in real estate and over 35 years experience in business and commercial activities.

As a Fellow of the Australian Institute of Company Directors, Mr Chesson has considerable experience as a Director of listed and unlisted public companies, unlisted property trusts, managed investment schemes, and several private companies.

Mr Chesson is the Chairman of Environmental Forest Farms Management Limited, EFF Timber Pty Ltd, Forestry Finance Limited and A&N Enterprises Pty Ltd.

Simon Chesson

M.B.A (UWA), CPA, CFP, B.Comm, C.S.M, F Fin
Director

Mr Simon Chesson has been awarded the degrees of Master of Business of Administration, and a Bachelor of Commerce. He is a qualified Certified Practicing Accountant, a qualified Certified Financial Planner, and a fellow of the Financial Services Institute of Australasia.

Mr Simon Chesson has over 15 years experience in business, accounting, and the property industry. He has extensive experience as a Director and company secretary of numerous public and private companies.

Mr Simon Chesson is also a Director of, Forestry Finance Limited, Powton Land Holdings Limited and other subsidiaries of E.C.O. Limited.

Thomas Henn
GAICD, FTIA, TEP, MTax, LLB (UWA), LLB (Munich)
Director

Before emigrating from Germany to Australia in the mid 90s, Mr Henn practiced as a lawyer in Munich. After finishing a law degree in Australia, Mr Henn has worked for a Big 4 Accounting Firm and various law firms in Perth in tax and commercial law. He is now Head of Tax and Superannuation at HHG Legal Group. He was Managing Director of one of the first listed Australian Law Firms.

Mr Henn has a Master of Taxation from the University of Western Australia and a Bachelor of Laws Degree. He is a Graduate Member of the Australian Institute of Company Directors and a Fellow of the Taxation Institute of Australia. He has lectured for years in taxation at various Universities in Western Australia.

Mr Thomas Henn is also a Director of Forestry finance Limited, Powton Land Holdings Limited and other subsidiaries of E.C.0. Limited.

Directors' Meetings
During the year, three (3) meetings of Directors were held, with the attendances reported as follows:

Director	No. of Meetings Eligible to Attend	No. of Meetings Attended
S. Chesson	3	3
T. Henn	3	3
Simon Chesson	3	3

Directors and Senior Executives Remuneration
Disclosure relating to Directors and Executive Officers' remuneration has been included in Note 17 of the Financial Report.

Indemnification and Insurance of Officers and Auditors
The Company has not, during or since the financial year, in respect of any person who is or has been an office or auditor of the Company or of a related body corporate:

- Indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or
- Paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings

Directors' Interests
The Directors' of the Company hold the following interest in fully paid ordinary shares and partly paid ordinary shares in the Company as at the date of this Report:

Fully Paid Ordinary Shares

Director	Direct Holding	Indirect Holding	Total
S. Chesson	NIL	55,094	55.094
T. Henn	NIL	544	544
Simon Chesson	NIL	55,453	55,543
TOTAL	**NIL**	**111,091**	**111,091**

Directors' interests in contracts and related party transactions are detailed in note 17 & 18 of the Financial Report.

Options
No options to acquire shares in the Company have been granted during this financial year and there were no options outstanding at the end of the financial year.

Employees
There were no employees of the Company during the year or at year end.

Rounding of Amounts
The amounts in the Financial Report and the Directors' Report have been rounded to the nearest dollar.

Auditor's Independence Declaration
The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 10 for the end of financial period 30 June 2012.

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

Simon Chesson
Director
Perth, 28th September 2012

CARLTON & PARTNERS

CERTIFIED PRACTISING ACCOUNTANTS
ABN 28 251 922 867
3 ALVAN STREET MOUNT LAWLEY WA 6050

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF ENVIRONMENTAL CARBON OFFSET LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012 there have been:

i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Carlton & Partners

G.V Wovodich
Registered Company Auditor

Dated this 28 day of September, 2012 at Perth Western Australia

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Statement of Comprehensive Income

For the year ended 30 June 2012

	Notes	Consolidated Group 30 June 2012 $	Consolidated Group 30 June 2011 $	The Company 30 June 2012 $	The Company 30 June 2011 $
Revenue from ordinary activities					
Revenue Income	2 (a)	2,005,321	1,082,507	291,786	663,644
Expenses					
Administration Expenses	2 (b)	(2,013,173)	(1,560,002)	(304,183)	(420,795)
Finance Costs	2 (c)	(176,826)	(280,133)	(48,070)	(52,570)
Total Expenses Incurred		**(2,190,000)**	**(1,840,134)**	**(352,253)**	**(473,365)**
Profit/(Loss) before Income Tax		**(184,679)**	**(757,628)**	**(60,467)**	**190,279**
Income Tax (Expense)/Benefit		38,491	115,198	18,140	(57,084)
Profit/(Loss) for the period		(146,187)	(642,429)	(42,327)	133,195
Profit/(Loss) Attributable to Members		**(146,187)**	**(642,429)**	**(42,327)**	**133,195**

Statement of Financial Position

As at 30 June 2012

	Consolidated Group		The Company	
	30 June 2012 $	30 June 2011 $	30 June 2012 $	30 June 2011 $
Current Assets				
Cash and cash equivalents	11,478	141,437	10,178	24,165
Trade and other receivables	2,018,201	2,133,365	17,331	60,620
Inventories	250,000	507,149	-	-
Other financial assets	103	103	-	-
Total Current Assets	**2,279,782**	**2,782,054**	**27,509**	**84,785**
Non-currents Assets				
Receivables	363,292	1,002,185	-	-
Investments	-	-	6,263,116	6,291,501
Property, plant and equipment	6,106,568	8,006,668	29,845	34,149
Biological assets	772,661	772,661	-	-
Intangible assets	7,936	7,936	-	-
Deferred tax assets	(47,160)	169,782	18,140	-
Intercompany Loans	-	-	1,203,718	1,167,065
Total Non-current Assets	**7,203,297**	**9,959,231**	**7,514,820**	**7,492,715**
Total Assets	**9,483,079**	**12,741,285**	**7,542,329**	**7,577,500**
Current Liabilities				
Trade and other payables	2,320,582	2,427,585	2,144,136	2,065,371
Borrowings	-	-	-	-
Unearned Income	-	772,103	-	-
Current Tax Liabilities	111,362	3,432,469	2,202,743	2,151,258
Total Current Liabilities	**2,431,944**	**3,432,469**	**2,202,743**	**2,151,258**
Non-current Liabilities				
Borrowings	1,104,603	2,500,990	47,386	91,716
Deferred Tax Liabilities	1,481,053	1,493,455	-	-
Intercompany Loans	-	-	-	-
Total Non-current Liabilities	**2,585,656**	**3,994,445**	**47,386**	**91,716**
Total Liabilities	**5,017,600**	**7,426,914**	**2,250,129**	**2,242,974**
Net Assets	**4,465,478**	**5,314,370**	**5,292,199**	**5,334,526**
Equity				
Contributed Equity	5,647,603	5,647,603	5,647,603	5,647,603
Retained Earnings	(4,241,314)	(4,095,127)	(355,404)	(313,077)
Asset Revaluation Reserve	3,059,186	3,761,893	-	-
Total Equity	**4,465,478**	**5,314,370**	**5,292,199**	**5,334,526**

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

As at 30 June 2012

	Issued Capital			
	Fully Paid Ordinary $	Retained Profits $	Asset Revaluation $	Total $
At 1 July 2011	5,647,603	(4,095,127)	3,761,893	5,314,370
Shares issued during the year	-	-	-	-
Profit attributable to members of parent equity	-	(146,187)	-	(146,187)
Adjustment to retained earnings	-	-	-	-
Reduction in asset revaluation reserve	-	-	(702,707)	(702,707)
At 30 June 2012	**5,647,603**	**(4,241,314)**	**3,059,186**	**4,465,478**

Statement of Cashflow

For the year ended 30 June 2012

	Consolidated Group		The Company	
	30 June 2012 $	30 June 2011 $	30 June 2012 $	30 June 2011 $
Cash flows from operating activities				
Cash receipts from customers	2,020,974	1,806,310	335,070	614,937
Cash payments to suppliers and employees	(2,277,892)	(2,713,791)	(269,184)	(104,870)
Income tax (paid)/received	58,657	(39,596)	(27,280.80)	(57,084)
Interest received	49,973	117,266	6	2
Finance costs	**(169,015)**	**(248,145)**	**-**	**(52,570)**
Net cash provided by/ (used in) operating activities	(317,305)	(1,077,956)	38,611	400,415
Cash flows from investing activities				
Payment for property plant and equipment	1,022,808	31,716	-	-
Purchase of Investments	28,383	-	28,385	1,000,000
Purchase of Stock	257,149	146,562		
Net cash flows used in investing activities	**1,308,340**	**178,278**	**28,385**	**1,000,000**
Cash flows from financing activities				
Repayment of intercompany loans	(1,282,291)	-	(36,654)	(1,356,492)
Proceeds (repayment) of borrowings	161,294	637,874	(44,329)	(20,263)
Net cash flows used in financing activities	(1,120,997)	637,874	(80,983)	(1,376,755)
Net increase/(decrease) in cash held	(129,961)	(261,803)	(13,987)	23,660
Cash at the beginning of financial year	141,437	403,240	24,165	504
Cash at the end of financial year	11,476	141,437	10,178	24,165

Notes to the Financial Statement

For the period 1 July 2011 to 30 June 2012-11-06

1. Basis of preparation

These general purpose financial statements for financial period ended 30 June 2012 have been prepared in accordance with requirements of the Corporation Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The accounting policies and methods of computation have been followed in this financial report as were applied in the most recent annual financial statements except for the adoption of the following new and revised Accounting Standards.

Accounting Standards
Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, event and conditions. 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 this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report covers Environmental Carbon Offset Limited ("ECO") as an economic entity. ECO is an unlisted public company, incorporated and domiciled in Australia. Its registered office is located at Level 1 AustAsia House, 412-414 Newcastle Street, West Perth WA 6005.

(a) Reporting Basis and Conventions
The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied

(b) Income Tax
The income tax expense (revenue) for the year comprise current income tax expenses (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (asset) are therefore measured at the amounts to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of as asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amounts of the related asset or liability.

Deferred tax asset relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exit in relation to investment in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legal enforceable right of set-off and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) Investment
Investments brought to account are at cost or at valuation. The carrying amount of investments is reviewed annually to ensure it is not in excess of the recoverable amounts of the investments.

(d) Interest and Dividends
Interest is brought to account in the profit and loss statement when earned. Dividends are brought to account in the profit and loss statement when received.

(e) Property, Plant and Equipment
Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property
Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on a periodic, but at lease triennial, valuations by external independent valuations, less subsequent depreciation for buildings.

Any accumulated depreciation at the date the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

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

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably during financial period in which they are incurred.

Depreciation
The depreciation amount of all fixed assets including building and capitalized lease assets, but excluding freehold land, is depreciated on a straight line bases over their useful lives to the economic entity 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 of the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciation assets are

Class of Fixed Assets	Depreciation Rate
Building	2%
Leasehold Improvements	4-5%
Plant and Equipment	5-33%
Plant and Equipment Leased to External Entities	10-20%
Leased Plant and Equipment	15%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revealed assets are sold, amounts included in the revaluation reserve relating to the assets are transferred to retained earnings.

(f) Leases
Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property of the present value of the minimum lease payment, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight line bases over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risk and benefits remain with the lessor, are changed as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognized as a liability and amortised on a straight line basis over the life of the lease term.

(g) Cash and Cash Equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investment with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

(h) Financial Instruments
Financial instruments are measured initially at cost on trade date, which includes transaction cost, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the short term, or if so designated by management and within the requirement of AASB 1 39: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealized gains and losses arising from changes in fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Leans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Held to maturity investment

These investment are non-derivative financial assets that are either no suitable to be classified into other categories of financial assets that have fixed maturities and fixed or determinable payments, and it is the company's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designed as such by management. They comprise investment in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Financial Liabilities

Non-derivative financial liabilities are subsequently measured at amortised cost

(i) Impairment
At each reporting date, the consolidated entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

At each reporting date, the group reviews the carrying value of its tangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value, Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amounts of an individual asset, the group estimate that the recoverable amount of the cash generating unit to which the asset belongs.

(j) Investment in Associates
Investment in associate companies are recognised in the financial statement by applying the equity method of accounting. The equity method of accounting recognised the group's share of post-acquisition reserves of its associates

(k) Research and development
Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies that the project will deliver future economic benefits and these benefits can be measured reliably.

Development cost have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(l) Revenue Recognition
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.

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

Interest revenue 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 service tax (GST)

(m) Borrowing Costs
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 as income in the period in which they are incurred

(n) Payables
The management agreement states that the manager is not to be remunerated until the fees are received by the Scheme. As s result, corresponding payables is not recognised in note 8 to the financial statements.

(o) Goods and Service Tax
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 Tax Office. In these circumstances the GST is recognized as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(p) Comparative Figures
When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year

(q) Receivables
Trade accounts receivables, amounts due from related parties and other receivables represent the principle amount due at balance date plus accrued interest and less, where applicable, any unearned income and provision for doubtful accounts.

(r) 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.

(s) Employee Benefits
Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employees 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 the present value of the estimated future cash outflows to be made for those benefits. Those cash flows bonds with terms to maturity that match the expected timing of cash flows.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;
- the adoption of the single statement approach to the presentation of the Statement of Comprehensive Income;
- other financial statements are renamed in accordance with the Standard; and
- presentation of a third Statement of Financial Position as at the beginning of a comparative financial year where relevant amounts have been affected by a retrospective change in accounting policy or material reclassification of items.

Notes to the Financial Statement

For the period 1 July 2011to 30 June 2012

	Consolidated Group		The Company	
	30 June 2012 $	30 June 2011 $	30 June 2012 $	30 June 2011 $
2 (a) Revenue Income				
Plantation Management Fee	540,084	981,200	120,000	120,000
Management Fees - Other		264	60,000	60,000
Marketing Costs	-	-	-	-
Marketing Costs Charged to EFFM	-	-	49,282	-
FFL Applications Fees	-	-	-	365,048
Seedling, Tree & Timber Sales		46,142	-	-
Woodlot Project Fees	26,981	51	-	-
Profit on Sale of Assets	595,756	-	-	-
Interest Income	49,973	117,351	-	-
Other income	726,531	28,734	6	2
Diesel Fuel Rebate	3,497	28,734	-	-
R & D tax Concession	62,499	105,788	-	-
Decrease in Value of Plantation	-	(223,293)	62,499	105,788
Total operating revenue	2,005,321	1,082,507	291,786	663,644
(b) Finance Costs				
Interest on convertible notes	-	-	-	-
Borrowing Costs	-	-	-	-
Interest Expenses	176,826	280,133	48,070	52,570
Total borrowing cost	**176,826**	**280,133**	**48,070**	**52,570**
Depreciation of non current assets				
Property plant and equipment	-	133,437	-	5,239
Amortisation of Leased Assets	-	62,861	-	5,239
Total depreciation and amortisation		**196,298**	**-**	**52,570**

3 Income Tax Expense

The prima facie income tax payable on operating profit/(loss) is reconciled to the income tax provided as follows:

Prima facie income tax payable on operating profit/(loss) at 30%	(38,491)	(115,199)	(18,140)	57,084
Timing differences not recognised	-	-	-	-
Current year losses not booked	-	-	-	-
Income tax expense/(benefit) attributable to operating profit	(38,491)	(115,199)	(18,140)	57,084

Balance of franking account	1,018,521	1,018,521	35,996	35,996
Converted to current method	436,509	436,509	15,427	15,427
Tax losses not recognised as a future income tax benefit	**(601,000)**	**(601,000)**	**86,789**	**86,789**

E.C.O Limited and its Controlled Entities
ACN 077 014 594

Notes to the Financial Statement

For the period 1 July 2011 to 30 June 2012

Controlled Equity

Name of Company	Principal Activities		Interest of Economic Entity		Bookvalue of Parent Entity Investment	
			2012	2011	2012	2011
Beenyup Forest Farm Pty Ltd	Plantation Owner	Ordinary Shares	100%	100%	212,116	212,116
Environmental Forest Farms Management Limited	Plantation Manager	Plantation manager	100%	100%	1,000,000	1,000,000
Powton Land Holdings Ltd	Leasing Land Financing	Ordinary Shares	100%	100%	3,000,000	3,000,000
Forestry Finance Ltd	Finance	Ordinary Shares and Redeemable ordinary shares	100%	100%	2,051,000	2,051,000
A & N Enterprise Pty Ltd	Property Owner	Ordinary Shares	100%	100%	2	2
EFF Timber	Milling and processing of timber	Ordinary Shares	100%	100%	2	2
Heritage Paulownia Project	Plantation Owner	Woodlots	100%	100%	28,385	28,385
Kiripark Timber Trust	Paulownia Plantation	Units	98%	98%	-	-

Notes to the Financial Statement

For the period 1 July 2011 to 30 June 2012

	Consolidated Group		The Company	
	2012 $	**2011 $**	**2012 $**	**2011 $**
4 Current Assets – Cash and cash equivalent				
Cash and cash equivalents	11,478	981,200	120,000	120,000
The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statement as follow:				
Cash on hand	400	2,132	400	400
Cash at bank	11,078	139,305	9,778	23,765
Cash and cash equivalents	11,478	141,437	10,178	24,165
Overdraft	-	-	-	-
Balance	**11,478**	**141,437**	**10,178**	**24,165**
5 Current Receivable				
Trade Debtors	406,827	464,466	-	-
Growers Loans	700,338	127,835	-	-
Less: Provision for Doubtful Debts	(558,978)	(337,721)	-	-
Growers Maintenance and Lease Fees	449,963	967,516	-	-
Prepaid Expenses	7,022	96,621	-	-
Prepayment and Refundable Deposit	-	1,360	-	-
R & D Tax Concession Receivable	62,499	105,788	62,499	105,788
Provision for Income Tax	950,531	707,501	(45,168)	(45,168)
	2,018,201	**2,133,365**	**17,331**	**60,620**
5 Non-current				
Growers Loans (*)	308,769	947,661	-	-
Prepayment and Refundable Deposit	54,523	4,523	-	-
	363,292	1,002,185	-	-
6 Stock				
Stock	250,000	507,149	-	-
7 Other Financial Assets				
Withholding Tax	103	103	-	-
	103	**103**	**-**	**-**

	Consolidated Group		The Company	
	2012	2011	2012	2011
	$	$	$	$
8 Investments				
Non-Current				
Shares in controlled entities-At Cost	-	-	6,263,116	6,291,501
Property, Plant & Equipment				
Plant and equipment - at cost	457,273	457,273	79,910	79,910
Less: Accumulated deprecation	(405,831)	(388,451)	(78,661)	(78,195)
	51,442	68,822	1,249	1,715
Motor vehicles - at cost	36,841	36,841	10,750	10,750
Less: Accumulated depreciation	(26,724)	(21,667)	(10,621)	(10,551)
	10,117	15.174	129	193
Office Equipment - at cost	70,100	70,100	58,098	58,098
Less: Accumulated depreciation	(63,535)	(62,025)	(56,089)	(55,383)
	6,565	8,075	2,009	2,715
Leasehold Improvement - at cost	194,474	194,474	44,608	44,608
Less: Accumulated depreciation	(138,437)	(135,709)	(36,346)	(35,111)
	56,037	58,765	8,262	9,497
Laboratory Equipment - at cost	24,070	24,070	24,070	24,070
Less: Accumulated depreciation	(23,088)	(22,760)	(23,088)	(22,760)
	982	1,310	982	1,310
Land and Building - at cost	7,385,282	7,385,282	21,186	21,186
Disposal	(1,732,902)	-	-	-
Less: Accumulated depreciation	(101,401)	(89,742)	(6,107)	(5,314)
	5,550,979	7,295,540	15,079	15,872
Irrigation System - at cost	1,753,419	1,753,419	-	-
Less: Accumulated depreciation	(1,632,807)	(1,581,080)	-	-
	120,612	172,339	-	-
Leased Assets	1,048,642	1,048,642	-	-
Less: Accumulated depreciation	(902,431)	(831,483)	-	-

	146,211	217,160	-	-

	Consolidated Group		The Company	
	2012 $	2011 $	2012 $	2011 $
Dam at Cost	205,968	205,968	-	-
Less: Accumulated depreciation	(44,481)	(39,331)	-	-
	161,487	166,637	-	-
Milling Equipment at Cost	11,453	11,453	11,453	11,453
Less: Accumulated depreciation	(9,318)	(8,606)	(9,318)	(8,606)
	2,135	2,847	2,135	2,847
Total Property, Plant & Equipment	**6,106,568**	**8,006,668**	**29,845**	**34,149**

Movement in Property, Plant & Equipment				
Plant and Equipment				
At Cost				
Opening balance	457,272	454,554	79,910	79,910
Additions	-	2,718	-	-
Disposals	-	-	-	-
Closing Balance	**457,272**	**457,273**	**79,910**	**79,910**
Accumulated Depreciation				
Opening balance	388,452	366,183	78,195	77,611
Depreciation	17,380	22,268	466	584
Disposals	-	-	-	-
Closing Balance	**405,832**	**388,451**	**78,661**	**78,195**
Motor Vehicles				
At Cost				
Opening balance	36,841	36,841	10,750	10,750
Additions	-	-	-	-
Disposals	-	-	-	-
Closing Balance	**36,841**	**36,841**	**10,750**	**10,750**
Accumulated Depreciation				
Opening balance	21,667	14,082	10,557	10,461
Depreciation	5,057	7,585	64	96
Disposals	-	-	-	-
Closing Balance	**26,724**	**21,667**	**10,621**	**10,557**

	Consolidated Group		The Company	
	2012 $	2011 $	2012 $	2011 $
Office Equipment				
At Cost				
Opening balance	70,100	70,100	58,098	58,098
Additions	-	-	-	-
Disposals	-	-	-	-
Closing Balance	**70,100**	**70,100**	**58,098**	**58,098**
Accumulated Depreciation				
Opening balance	62,025	60,161	55,383	54,465
Depreciation	1,510	1,864	706	918
Disposals	-	-	-	-
Closing Balance	**63,535**	**62,025**	**56,089**	**55,383**
Leasehold Improvement				
At Cost				
Opening balance	194,475	194,475	44,608	44,608
Additions	-	-	-	-
Disposals	-	-	-	-
Closing Balance	**194,475**	**194,475**	**44,608**	**44,608**
Accumulated Depreciation				
Opening balance	135,709	60,161	55,383	54,465
Depreciation	2,728	1,864	706	918
Disposals	-	-	-	-
Closing Balance	**138,437**	**135,709**	**36,346**	**35,111**
Land & Buildings				
At Cost				
Opening balance	7,385,282	7,419,716	1,186	21,186
Additions	(1,732,902)	(34,434)	-	-
Disposals	-	-	-	-
Revaluation	-	-	-	-
Closing Balance	**5,652,380**	**7,385,282**	**1,186**	**21,186**
Accumulated Depreciation				
Opening balance	89,742	78,083	5,314	4,479
Depreciation	11,659	11,659	793	835

Adjustment Due to Disposal	-	-	-	-
Closing Balance	**101,401**	**89,742**	**6,107**	**5,314**

	Consolidated Group		**The Company**	
	2012 $	**2011 $**	**2012 $**	**2011 $**
Laboratory Equipment at Cost				
Opening balance	24,071	24,071	24,071	24,071
Additions	-	-	-	-
Closing Balance	**24,071**	**24,071**	**24,071**	**24,071**
Accumulated Depreciation				
Opening balance	22,760	22,322	22,760	22,322
Depreciation	328	438	328	438
Closing Balance	**23,088**	**22,760**	**23,088**	**22,760**
Irrigation System at Cost				
Opening balance	1,753,419	1,730,129	-	-
Additions	-	23,290	-	-
Disposals	-	-	-	-
Revaluation	-	-	-	-
Closing Balance	**1,753,419**	**1,753,419**	**-**	**-**
Accumulated Depreciation				
Opening balance	1,581,080	1,507,161	-	-
Depreciation	51,727	73,919	-	-
Disposal	-	-	-	-
Closing Balance	**1,632,807**	**1,581,080**	**-**	**-**
Leased Assets at Cost				
Opening balance	1,048,642	1,048,642	63,005	63,005
Additions	-	-	-	-
Disposals	-	-	-	-
Adjustment Due to GST	-	-	-	-
Closing Balance	**1,048,642**	**1,048,642**	**63,005**	**63,005**
Accumulated Depreciation				
Opening balance	831,483	762,296	63,005	63,005
Depreciation	70,948	69,187	-	-
Disposal	-	-	-	-
Closing Balance	**902,431**	**831,483**	**63,005**	**63,005**

	Consolidated Group		The Company	
	2012 $	2011 $	2012 $	2011 $
Dam at Cost				
Opening balance	205,968	205,968	-	-
Additions	-	-	-	-
Closing Balance	**205,968**	**205,968**	**-**	**-**
Accumulated Depreciation				
Opening balance	39,331	34,181	-	-
Depreciation	5,150	5,150	-	-
Closing Balance	**44,481**	**39,331**	**-**	**-**
Milling Equipment at Cost				
Opening balance	11,453	11,453	11,453	11,453
Additions	-	-	-	-
Closing Balance	**11,453**	**11,453**	**11,453**	**11,453**
Accumulated Depreciation				
Opening balance	8,606	7,657	8,606	7,657
Depreciation	712	949	712	949
Closing Balance	**9,318**	**8,606**	**9,318**	**8,606**

9 Biological Assets

Paulownia Trees on leasehold				
Land	772,661	772,661	-	-
Propagation Technology	-	-	-	-
	772,661	**772,661**	**-**	**-**

10 Intangibles

Trademark	7,936	7,936		
	7,936	**7,936**	**-**	**-**

11 Tax Assets

Future Income Tax Benefits	(47,160)	169,782	18,140	-

	Consolidated Group		The Company	
	2012	2011	2012	2011
	$	$	$	$
12 Current Payables				
Overdraft	-	-	-	-
Credit Card	838	3	-	-
Trade creditors	1,783,046	1,576,002	1,684,136	1,403,371
Accruals	26,300	119,161	-	7,000
Debenture Interest Payable	17,954	18,088	-	-
Payroll Liabilities	-	11,502	-	-
Lease Liabilities	26,243	41,628	-	-
Director Related Party Loans	466,200	661,200	460,000	655,000
	2,320,582	**2,427,585**	**2,144,136**	**2,065,371**

13 Intercompany Loan				
Amount owing to subsidiaries				
PLH	-	-	(306,198)	238,152
EFFM	-	-	693,126	867,693
FF	-	-	140,892	43,041
A & N	-	-	88,582	(92,418)
EFF Timber	-	-	(1,820,121)	(2,223,533)
	-	**-**	**1,203,718**	**1,167,065**

14 Interest Bearing Liabilities				
Short term borrowing				
Debenture Stock Secured	400,000	1,243,200	-	-
	400,000	**1,243,200**	**-**	**-**
Non-currents				
9% Debenture stock - Secured	400,000	1,243,200	-	-
Bank Loan - Property	-	532,918	-	-
Lease Liability	-	18,396	-	-
Director Related Party Loans	218,080	614,760	-	-
Others	86,524	91,716	47,386	91,716

15 Unearned Income

Income received in Advance				
Unearned income EFFM	-	772,103	-	-
Interest	-	-	-	-
	-	**772,103**	**-**	**-**

	Consolidated Group		The Company	
	2012 $	2011 $	2012 $	2011 $
16 Current Tax Liabilities				
GST Payable	111,362	232,781	58,607	85,888
	111,362	**232,781**	**58,607**	**85,888**
Non-current				
Provision for Deferred Income Tax	1,481,053	1,493,455	-	-
	1,481,053	**1,493,455**	**-**	**-**
17 Contributed Equity				
Paid up capital				
EFF				
315,783 (2007: 314,683)	4,647,603	4,647,603	4,647,603	4,647,603
Ordinary Shares, fully paid				
Converted Share Capital	1,000,000	1,000,000	1,000,000	1,000,000
(Forestry Finance)				
Redeemable Convertible Preference Shares				
NIL (2007: 1,100) Preference shares	-	-	-	-
	5,647,603	5,647,603	5,647,603	5,647,603
Movements during the year				
(a) EFF				
Ordinary Shares				
Balance at the beginning of the year				
314,683 (2007: 314,683) shares	4,647,603	4,647,603	4,647,603	4,647,603
Shares issued				
NIL (2007: NIL)	-	-	-	-
Transaction costs arising from issue for cash	-	-	-	-
	4,647,603	4,647,603	4,647,603	4,647,603
(b) Redeemable Convertible Preference Shares	-	-	-	-
1,100 (2007: 1,100) Preference shares	-	-	-	-
Redeemed Preference Shares	-	-	-	-
(c) Converted Share Capital (Forestry Finance)				
1,000,000 (2007: 989,000)	1,000,000	1,000,000	1,000,000	1,000,000
Balance at the end of the year	**1,000,000**	**1,000,000**	**1,000,000**	**1,000,000**

	Consolidated Group		The Company	
	2012	2011	2012	2011
	$	$	$	$
18 Retained Profits/(Accumulated Losses)				
Retained Profit				
At the beginning of the year	(4,095,127)	(3,452,699)	(313,077)	(446,272)
Prior Year Adjustment to retained earnings	-	-	-	-
Dividend declared	-	-	-	-
AIFRS Adjustments	-	-	-	-
Members	(146,187)	(642,429)	(42,327)	133,195
Accumulated Losses at End of Financial Year	(4,241,314)	(4,095,127)	(355,404)	(313,077)
19 Asset Revaluation Reserve				
Opening	3,761,893	3,761,893	-	-
Asset Revaluation	(702,707)	-	-	-
Asset Revaluation brought	-	-	-	-
To Profit and Loss account	**3,059,186**	**3,761,893**	**-**	**-**

20 Related Party Transaction

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transaction with related parties

(i) Director Related Entities				
Accounting services charged by AustAsia Accounting Services a firm related to Syd Chesson	2,588	7,200	2,588	7,200
Legal Fees charged by AustAsia Legal a firm related to Syd Chesson	3,054	16,411	3,054	16,411
Commissions and referrals to AustAsia Financial Planning Pty Ltd a firm related to Syd Chesson	-	-	-	-
Administrative services charged by AustAsia Group a firm related to Syd Chesson	120,000	240,000	120,000	240,000
Company secretary fees charged by AustAsia Group a firm related to Syd Chesson	24,000	24,000	24,000	24,000
Total Trade Creditors Owing to Director related Parties at end of year	1,439,960	1,096,882	1,439,960	1,096,882

(ii) Loans made by parties related to the Director Syd Chesson				
Director Related Parties	723,054	1,037,180	-	-

(iii) Director's Interests
Directors interests in shares have been disclosed in the Director's Report.

(iv) Identification of Related Parties
Ultimate Parent Entity
The Parent entity is ultimately controlled by ECO Limited, (formerly EFF Limited) which, is incorporated in Australia.

(I) Ultimate Parent Entity				
Amount payable/(receivables) to EFFM, a wholly owned subsidiary	-	-	(693,126)	(867,693)
Amount payable/(receivable) to PLH, a wholly owned subsidiary	-	-	306,198	(238,152)
EFF charged EFFM management Fees	-	-	120,000	180,000
EFF charged PLH management fees	-	-	60,000	60,000
PLH charged EFF lease fees under a lease agreement entered into on 23 June 2000	-	-	-	-
EFF charged EFFM tree seedlings management	-	-	-	-
EFF charged FFL administration fees	-	-	-	81,000
(ii) Associated Company (PLH)				
(iii) Associated Company (FFL)				
Amount receivable from FFL	-	-	(140,892)	(43,041)
(iv) Associated Company (A & N Enterprises)				
Amount receivable from A & N Enterprises	-	-	(88,582)	92,418
(v) Associated Company (EFF Timber)				
Amount receivable from EFF Timber	-	-	1,820,121	2,223,533

	Weighed Average Effective Interest Rate		**Floating Interest Rate**		**Fixed Interest Rate**		**Non-interesting Bearing**		**Total**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Financial Assets										
Cash and stock	2.00%	2.00%	11,478	141,437	-	-	-	-	11,478	141,437
Receivable	0.00%	0.00%	-	-	900,092	1,705,291	780,974	1,230,010	1,681,066	2,935,301

Total Financial Assets			**11,478**	**141,437**	**900,092**	**1,705,291**	**780,974**	**1,230,010**	**1,692,543**	**3,076,738**
Financial Liabilities										
Account payable	000%	0.00%	-	-	715,830	1,285,012	1,043,944	2,104,804	1,725,773	3,389,817
Debentures	9.00%	8.00%	-	-	800,000	1,243,200	-	-	834,000	1,243,200
Bank Loans	7.30%	7.30%	-	-	-	532,918	-	-	-	532,918
Short Term Borrowings	9.00%	9.00%	-	-	-	-	-	-	-	-
Taxation	-	-	-	-	-	-	-	-	-	-
Lease Liabilities	8.50%	8.50%	-	-	26,243	60,024	-	-	26,243	60,024
Total Financial Liabilities			**-**	**-**	**1,542,073**	**3,121,154**	**1,043,944**	**2,104,804**	**2,586,017**	**5,225,958**
Net Financial Assets			**11,478**	**141,437**	**(641,981)**	**(1,415,863)**	**(262,970)**	**(874,794)**	**(893,474)**	**(2,149,220)**

Reconciliation of Net Financial Assets to Net Assets

	2012 $	**2011 $**
Net financial Assets as above	(893,474)	(2,149,220)
Plus Non Financial Assets	-	-
Fixed Assets	6,114,504	8,014,604
Paulownia Trees	772,661	772,661
Investment	-	-
Intangibles	-	-
Tax Assets	(47,160)	169,782
Tax Liabilities	(1,481,053)	(1,493,455)
Net Assets Per Balance Sheet	4,465,478	5,314,370

Segment Reporting

	Financing & Investment		**Tree Planation**		**Unallocated**		**Total**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Revenue								
External Revenue	49,973	117,351	622,700	910,180	1,332,649	54,976	2,005,321	1,082,507
Total Sales Revenue	49,973	117,351	622,700	910,180	1,332,649	54,976	2,005,321	1,082,507
Total Segment Revenue	49,973	117,351	622,700	910,180	1,332,649	54,976	2,005,321	1,082,507

Total revenue from ordinary activities	**49,973**	**117,351**	**622,700**	**910,180**	**1,332,649**	**54,976**	**2,005,321**	**1,082,507**
Result								
Segment Result	(196,727)	(162,781)	(41,921)	30,588	53,971	(625,434)	(184,679)	2,104,804
Income tax (expense) / benefit	-	-	-	-	-	-	38,491	115,198
Post - Tax Profit	(196,727)	(162,781)	(41,921)	30,588	53,971	(625,434)	(146,187)	(642,427)
Assets								
Segment Assets	500,950	788,596	7,286,307	9,703,959	1,695,823	2,248,729	9,483,079	12,741,284
Liabilities								
Segment Liabilities	1,515,830	2,125,167	26,243	832,127	3,475,527	4,469,620	5,017,601	7,426,913
Net Segment Assets	**(1,014,880)**	**(1,336,571)**	**7,260,063**	**8,871,832**	**(1,779,705)**	**(2,220,891)**	**4,465,478**	**5,314,371**

Notes to the Statement of Cashflow

For the year ended 30 June 2012

	Consolidated Group		The Company	
	2012 $	2011 $	2012 $	2011 $
21 Reconciliation of Cash				
Cash at the end of financial period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows: -				
Cash at bank	11,478	141,437	10,178	24,165
Reconciliation of Net Cash provided by Operating Activities to Profit/(Loss) from Ordinary Activities after Income Tax	-	-	-	-
Operating profit/(loss) from ordinary activities after income tax	(146,187)	(642,429)	(42,327)	33,195
Non Cash Flows in Operating Profit/(Loss)				
Depreciation	146,200	196,298	4,304	5,239
(Increase)/ Decrease in the value of Paulownia Trees	-	223,293	-	-
Management Fee Accruals	-	-	-	-
R & D Tax Concession	-	-	-	-
Project Structuring Costs	-	-	-	-
Provision for doubtful debts	-	-	-	-
Changes in Assets and Liabilities				
(Increase)/decrease in receivables	357,860	72,776	43,289	(48,705)
Increase/(decrease) in Liabilities	(688,761)	(1,009,835)	78,765	271,752
Increase/(decrease) in other liabilities	(29,555)	-	-	-
Increase/(decrease) in employee entitlements	-	-	-	-
Plantation Fees Received in Advance	-	-	-	-
Increase (decrease) in tax liabilities	43,138	81,940	(45,421)	38,935
Movement in intercompany balance	-	-	-	-
Net Cash Provided by Operating Activities	**(317,304)**	**(1,077,956)**	**38,611**	**400,415**

Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 7 to 14:

    a. comply with Accounting Standard AASB 134: Interim Financial Reporting, and the Corporations Regulations; and

    b. give a true and fair view of the company's financial position as at 30 June 2012, and of its performance for the year ended on that date.

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.

Simon Chesson
Director
Dated this 28th September 2012

CARLTON & PARTNERS

CERTIFIED PRACTISING ACCOUNTANTS

ABN 28 251 922 867

3 ALVAN STREET MOUNT LAWLEY WA 6050

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENVIRONMENTAL CARBON OFFSET LIMITED

Report on the financial report

We have audited the accompanying financial report of Environmental Carbon Offset Limited its and Controlled Entities, which comprises the balance sheet as at 30 June 2012, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Environmental Carbon Offset. Limited, would be in the same terms if provided to the directors as at the date of this auditor's report.

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MOUNT LAWLEY WA 6050

CARLTON & PARTNERS

CERTIFIED PRACTISING ACCOUNTANTS
ABN 28 251 922 867
3 ALVAN STREET MOUNT LAWLEY WA 6050

Auditor's Opinion

In our opinion:

a) The financial report of Environmental Carbon Offset Limited and its Controlled Entities is in accordance with the Corporations Act 2001, including:

   i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and

   ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

b) The financial report also complies with International Financial Standards as disclosed in Note 1.

Carlton & Partners

G.V Wovodich
Registered Company Auditor

Dated this 28 day of September 2012 at Perth Western Australia

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