



**carbonconscious™**

# Prospectus

For the issue of up to 20,000,000 Shares at an issue price of 40 cents each to raise a total of up to \$8,000,000.  
Carbon Conscious™ Limited - ACN 129 035 221

## **Important Information**

This is an important document that you should read in its entirety. If you do not understand it, you should consult your professional advisor without delay. The Shares offered by this Prospectus should be considered speculative.



# Corporate directory

## Directors

Matthew Birney  
Non-Executive Chairman

Peter Balsarini  
Executive Director

Daniel Stevens  
Executive Director

Ric Collins  
Executive Director

Nadaisan Logaraj  
Non-Executive Director

Michael Shields  
Non-Executive Director

## Company secretary

Peter Balsarini

## Registered office

Suite 5, Level 1  
12 – 20 Railway Road  
Subiaco WA 6008

## Contact details

**www**.carbonconscious.com.au  
**e** info@carbonconscious.com.au  
**p** (08) 9217 3777  
**f** (08) 9217 3799

## IPO compliance managers

Mining Corporate Pty Ltd  
PO Box 1905  
Subiaco WA 6904

## Legal advisors to the Company

Price Sierakowski  
Level 24, 44 St Georges Terrace  
Perth WA 6000

## Forestry experts

URS Australia Pty Ltd trading as  
URS Forestry  
Level 3, 20 Terrace Road  
East Perth WA 6004

## Investigating accountants

HLB Mann Judd  
Level 2, 15 Rheola Street  
West Perth WA 6005

## Share registry

Advanced Share Registry Services  
110 Stirling Highway  
Nedlands WA 6009  
**p** (08) 9389 8033  
**f** (08) 9389 7871

## Auditors

HLB Mann Judd  
Level 2, 15 Rheola Street  
West Perth WA 6005

## Advisor

PricewaterhouseCoopers  
Freshwater Place  
2 Southbank Boulevard  
Southbank VIC 3006

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# Investment highlights

## Important notice

Prospective investors should read this Prospectus in its entirety, including the Forestry Expert's Report in Section 5, the Investigating Accountant's Report in Section 6 and the Material Contracts Summary in Section 7.

Neither Carbon Conscious™ Limited (Carbon Conscious™), nor any other person, guarantees the performance of the Shares offered pursuant to this Prospectus, or the performance of Carbon Conscious™ or the return on any investment.

## Investment highlights

### Business activities

To produce economically viable quantities of Greenhouse Gas Emission Offsets (or Carbon Credits) in an efficient sustainable manner through the process of Carbon Bio-Sequestration.

### Commercial drivers

The key commercial drivers of Carbon Conscious™ are:

- An emerging domestic and international market demand.
- A Sequestration program that is domestically and internationally a low cost CO<sub>2</sub> Emissions Abatement solution.
- A scalable product with low sovereign risk.
- An internationally recognised Carbon Sequestration accreditation system.

### Strategic advantage

The Directors believe that Carbon Conscious™ has strategic advantages as it has:

- Access to large areas of suitable land through its strategic relationships with farmers and rural land holders in the Western Australian wheatbelt.
- Significant experience in the site planning, seedling production and planting and plantation management of Mallee Trees.
- Contracted supply of Mallee Tree seed and seedlings for up to four years.
- Clear strategies for the establishment and development of Carbon Tree Estates (or sinks) to generate Shareholder value.

## Summary offer

Investment into the Company offers investors:

- An investment into an innovative business model with significant growth opportunities.
- Access to, and leverage in, a new and emerging commodity market – the Carbon Credit Market.
- An ethical investment with environmental benefits of removal and long term storage of Carbon Dioxide from the atmosphere, widely believed to reduce Global Warming.

The above highlights are a brief summary only and must be read in conjunction with the remainder of this Prospectus.

## Risks

Prospective investors should be aware that investment into the Company involves a number of risks. Major specific and investment risks include:

- Uncertain development of the Carbon Market.
- Scientific and technological breakthroughs in the future.
- Ability to gain accreditation.
- Rate and amount of Carbon Sequestered via Mallee Trees.



# Investment Overview

## Important notice

This Prospectus is dated 6 March 2008.

A copy of this Prospectus was lodged with the ASIC on 6 March 2008. Neither the ASIC nor ASX take any responsibility for the contents of this Prospectus.

This Prospectus will be issued in paper form and as an electronic Prospectus, which may be viewed online at [www.carbonconscious.com.au](http://www.carbonconscious.com.au). The offer of Shares pursuant to this Prospectus is available to persons receiving an electronic version of this Prospectus in Australia.

The Corporations Act 2001 prohibits any person from passing onto another person the Application Form unless it is attached to or accompanied by the complete and unaltered version of this Prospectus. During the Offer Period, any person may obtain a hard copy of this Prospectus by contacting the Company by email at [info@carbonconscious.com.au](mailto:info@carbonconscious.com.au)

No person or entity is authorised to give any information or to make any representation in connection with the Offer, which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with the Offer.

No Shares will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus. Application will be made within seven days after the date of this Prospectus for permission for the Shares offered by this Prospectus to be listed for Quotation.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law, and persons who come into possession of this Prospectus should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus does not constitute an Offer in any place in which, or to any person to whom, it would not be lawful to make an Offer.

In accordance with Chapter 6D of The Corporations Act 2001, this Prospectus is subject to an Exposure Period of seven (7) days from the date of lodgement of the Prospectus with the ASIC. This period may be extended by the ASIC for a further period of seven (7) days. The purpose of this Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of the funds; such examination may result in the identification of deficiencies in this Prospectus. If this Prospectus is found to be deficient, Applications received during the Exposure Period will be dealt with in accordance with section 724 of The Corporations Act. Applications received prior to the expiration of the Exposure Period will not be processed until after the Exposure Period. No preference will be conferred upon Applications received in the Exposure Period.

Applicants should read this document in its entirety and, if in any doubt, consult with their professional advisors before deciding whether to apply for Shares. There are risks associated with an investment in Carbon Conscious™ and the Shares offered under this Prospectus must be regarded as a speculative investment. The Shares offered under this Prospectus carry no guarantee with respect to return on capital investment, payment of dividends or the future value of the Shares.

Certain abbreviations and other defined terms are used throughout this Prospectus. Defined terms are generally identifiable by the use of an upper case first letter. Details of the definitions and abbreviations used are set out in the Glossary of this Prospectus.

All amounts are in Australian dollars unless otherwise specified.

## 1. Investment overview

### 1.1 Important notice

This section is not intended to provide full information for investors intending to apply for Shares offered pursuant to this Prospectus. This Prospectus should be read and considered in its entirety.

### 1.2 Objectives

The strategic objectives of the Company are to:

- Utilise funding and expertise to create large scale Carbon Sinks via extensive plantings of Mallee Trees in the Western Australian wheatbelt.
- Market Carbon Conscious™ services to clients such as large industrial Carbon Emitters, businesses and Carbon funds throughout Australia and overseas with a view to undertaking Abatement activities on their behalf.
- Maintain "on-balance sheet" large scale Mallee Tree estates with a view to profiting from the growth in the price of Carbon Offsets over the medium term.

On completion of the Offer, the Board believes the Company will have sufficient working capital to achieve these objectives.

### 1.3 Indicative timetable

Lodgement of Prospectus with ASIC	6 March 2008
Opening Date	14 March 2008
Expected date of dispatch of Holding Statements	30 April 2008
Expected date of listing on ASX	7 May 2008





# Details of the Offer

## 1.4 Purpose of the Offer and use of proceeds

In the two years after listing on the ASX the funds raised from the Issue will be applied as follows:

Use of Funds	Minimum Subscription \$	Full Subscription \$	Over Subscription \$
Pre-Offer cash and receivables	600,000	600,000	600,000
Total raised in the Offer	5,000,000	8,000,000	10,000,000
<b>Total Funds Available</b>	<b>5,600,000</b>	<b>8,600,000</b>	<b>10,600,000</b>
Expenses of the Issue	414,500	564,500	664,500
Business working capital	4,350,000	5,250,000	5,250,000
Development of Carbon Estates	500,000	2,500,000	4,500,000
Additional working capital	335,500	285,500	185,500
<b>Total Funds Applied</b>	<b>5,600,000</b>	<b>8,600,000</b>	<b>10,600,000</b>

### Note

1 In the event that more than the minimum subscription and less than the maximum subscription is raised, the Company intends to allocate the funds primarily towards development of Carbon Estates.

2 The above table represents statements of the intended use of the funds raised by the Company as at the date of this Prospectus. However, it must be recognised that budgets may change, for a number of reasons including, but not limited to, identification of new opportunities, changes in market dynamics, technological and scientific breakthroughs.

## 1.5 Capital structure

The capital structure of the Company following completion of the Offer is summarised below:

Shares on issue at the date of this Prospectus	19,250,000
Ordinary Shares offered pursuant to this Prospectus	20,000,000
Total Ordinary Shares on issue at the completion of the Offer	39,250,000

### Options

BAM Options on issue at date of this Prospectus	5,400,000
Non-Executive Director Options issued to Non-Executive Directors	900,000
Executive Director Options issued to Executive Directors	1,200,000
\$0.20 Options issued	1,875,000
Total Options on issue at completion of the Offer	9,375,000

### Notes

Refer to Investigating Accountant's Report in Section 6 for further information. Assumes the Offer is fully subscribed but assuming no oversubscriptions are accepted.

Refer to Section 8.2.1 for terms and conditions of BAM Options.

Refer to Section 8.2.2 for terms and conditions of Non-Executive Director Options.

Refer to Section 8.2.3 for terms and conditions of Executive Director Options.

Refer to Section 8.2.4 for terms and conditions of \$0.20 Options.

## 2. Details of the Offer

### 2.1 Shares offered for subscription

This Prospectus invites investors to apply for up to a total of 20,000,000 Shares at an issue price of \$0.40 per Share to raise up to \$8,000,000 before expenses of the Offer. All Shares issued pursuant to this Prospectus will be issued as fully paid and will rank equally in all respects with the Shares already on issue.

Applications must be for a minimum of 5,000 Shares and thereafter in multiples of 1,000 Shares and can only be made by completing the Application Form attached to this Prospectus.

The Company reserves the right to reject any Application or to allocate any Applicant fewer Shares than the number applied for.

### 2.2 Minimum subscription

The minimum subscription to the Offer is 12,500,000 Shares at an Issue price of \$0.40 per Share raising \$5,000,000 before expenses of the Offer. If the minimum subscription has not been raised within three (3) months after the date of this Prospectus, all Applications will be dealt with in accordance with the Corporations Act 2001.

### 2.3 Underwriting

The Offer is not underwritten.

### 2.4 Arrangements with brokers

Carbon Conscious™ will pay a Lodgement Fee of 5% on all Applications lodged bearing a stamp representing a licensed broker.

# Details of the offer (cont)

## 2.5 Cash flow projections

Carbon Conscious™ is predominantly a Carbon Bio-Sequestration company. The Carbon Market is a new and emerging market and there are significant uncertainties associated with forecasting future revenue. On this basis, the Directors believe reliable forecasts cannot be prepared and accordingly have not included forecasts in this Prospectus.

## 2.6 Allotment and allocation of Shares

Subject to ASX granting approval for the Company to be admitted to the Official List, the allotment of Shares to Applicants will occur as soon as possible after the Offer is closed, following which statements of Shareholdings will be dispatched. It is the responsibility of Applicants to determine their allocation prior to trading in Shares. Applicants who sell Shares before they receive their holding statements will do so at their own risk.

Pending the Issue of the Shares, or return of the Application Monies, the Application Monies will be held in trust for the Applicants.

The Directors have the right to allocate Shares under the Offer. The Company may reject any Application or allocate any Applicant fewer Shares than applied for under the Offer.

If an Application is not accepted, or is accepted in part only, the relevant part of the Application Monies will be refunded. Interest will not be paid on Application Monies refunded.

## 2.7 Applicants outside Australia

This Prospectus does not constitute an offer of securities in any jurisdiction where, or to any person to whom, it would not be lawful to issue the Prospectus or make the Offer. It is the responsibility of any Applicant who is a resident outside of Australia to ensure compliance with all laws of any country relevant to their Application, and any such Applicant should consult their professional advisers as to whether any government or other consents are required, or whether any formalities need to be observed to enable them to apply for and be allotted Shares.

No action has been taken to register or qualify the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia.

## 2.8 ASX listing

Within seven (7) days after the date of this Prospectus, Application will be made for the Shares offered by this Prospectus to be granted Quotation.

If approval for Quotation is not granted within three (3) months after the date of this Prospectus, the Company will not allot or Issue any Shares, and will repay all Application Monies without interest as soon as practicable.

ASX takes no responsibility for the contents of this Prospectus. The fact that ASX may admit Carbon Conscious™ to its Official List is not to be taken in any way as an indication of the merits of the Company or the Shares offered pursuant to this Prospectus.

## 2.9 CHES

Carbon Conscious™ will apply to participate in the Clearing House Electronic Subregister System (CHES), operated by ASX Settlement and Transfer Corporation Pty Ltd (ASTC) (a wholly owned subsidiary of ASX), in accordance with the Listing Rules and ASTC Settlement Rules. On admission to CHES, the Company will operate an electronic issuer-sponsored subregister and an electronic CHES subregister. The two subregisters together will make up the Company's principal register of securities.

Under CHES, the Company will not issue certificates to Shareholders. Instead, the Company will provide Shareholders with a holding statement (which is similar to a bank account statement) that sets out the number of Shares allotted to that Shareholder under this Prospectus.

This statement will also advise investors of either their Holder Identification Number (HIN) in the case of a holding on the CHES subregister or Security Holder Reference Number (SRN) in the case of a holding on the issuer-sponsored subregister.

A statement will be routinely sent to holders at the end of any calendar month during which their holding changes. A holder may request a statement at any other time however a charge may be incurred for additional statements.

## 2.10 How to apply

Applications for Shares under the Offer can only be made on the Application Form attached to this Prospectus.

The Application Form must be completed in accordance with the instructions set out on the back of each application form. Completed Application Forms and accompanying cheques should, at any time after the Opening Date be:

### Posted to:

Carbon Conscious Limited  
C/- Advanced Share Registry Services  
PO Box 1156 NEDLANDS WA 6909

### OR

### Delivered to:

Carbon Conscious Limited  
C/- Advanced Share Registry Services  
110 Stirling Highway NEDLANDS WA 6009

Cheques must be made payable to "Carbon Conscious Limited – Application Funds" and crossed "Not Negotiable".

No brokerage or stamp duty is payable by Applicants.

Applications must be for a minimum of 5,000 Shares at the issue price of \$0.40 per Share. Applications for more than 5,000 Shares must be in multiples of 1,000.

## 2.11 Escrow provisions

Securities on issue as at the date of this Prospectus may be subject to the restricted securities provisions of the Listing Rules. Accordingly, a proportion of such securities may be required to be held in escrow for up to 24 months and may not be transferred, assigned or otherwise disposed of during that period. These agreements will be entered into in accordance with the Listing Rules.

The Directors expect that a substantial amount of the Shares on Issue at the date of this Prospectus will be subject to escrow restrictions.

## 2.12 Electronic Prospectus

This Prospectus is available online at [www.carbonconscious.com.au](http://www.carbonconscious.com.au)

## 2.13 Privacy disclosure

The Company collects information in relation to each Applicant as provided on an Application Form (Information) for the purposes of processing the Application Form and, should the Application be successful, to administer the Applicant's security holding in the Company (Purposes).

The Company may use the Information for the Purposes and the Company may disclose the Information for the Purposes to the Share Registrar, the Company's related bodies corporate, agents, contractors and third party service providers, and to ASX, ASIC and other regulatory authorities.

The Information may also be used and disclosed to persons inspecting the register, including bidders for your securities in the context of take-overs, licensed securities dealers, mail houses, and regulatory bodies including the Australian Taxation Office.

## 2.14 Risk factors

Prospective investors in the Company should be aware that subscribing for Shares, the subject of this Prospectus, involves a number of risks. These risks are set out in Section 4 of this Prospectus and investors are urged to consider those risks carefully (and if necessary, consult their professional adviser) before deciding whether to invest in the Company. The risk factors set out in Section 4 of this Prospectus, and other general risks applicable to all investments in listed securities not specifically referred to, may in the future affect the value of the Shares. Accordingly, an investment in the Company should be considered highly speculative.

## 2.15 Enquiries in relation to the Offer

This Prospectus provides information for potential investors in Carbon Conscious™ and it should be read in its entirety. If, after reading this Prospectus, you have any questions about any aspect of an investment in Carbon Conscious™, please contact your stockbroker, accountant or independent financial adviser.



# Business summary

## 3. Business summary

### 3.1 Company overview

Carbon Conscious™ is a new Company formed to take advantage of opportunities in domestic and international Carbon Credit or Carbon Offset Markets. The Company will focus on the production of large quantities of quality Carbon Credits utilising the process of Bio-Sequestration. This will be achieved by establishing Mallee Tree Carbon Sinks across various regions of Western Australia and other Australian wheatbelt areas.

Since the Company was incorporated on 2 January 2008 the Directors have raised a total of \$600,000 in seed capital, developed the Company and built key capabilities.

The Directors believe there are a number of variables that combine to provide significant potential for the creation of Shareholder value.

These variables include:

#### A Large and relatively new market with significant growth potential

- Global Carbon Credit Market annual value estimated to now be more than \$64 billion.
- Australian Federal Government's recent ratification of the Kyoto Protocol with the potential to trade Carbon Credits internationally.
- Australian National Emissions Trading Scheme (ETS) to be developed by 2010/2011.
- Australian Federal Government has set a target of 60% reduction in Emissions by 2050 over 2000 levels.
- Australian Federal Government's Garnaut Report release expected by late 2008 to advise the Government on future details of the ETS.
- Australian Federal Government expected to announce 2020 Carbon Emissions reduction target during 2008.
- Significant land cleared in Australia that is suitable for reintroducing native species.

#### An ethical investment with environmental benefits

- Potential for high production due to Mallee Tree growth characteristics.
- Drought tolerant and able to grow in a wide range of conditions.
- Hardy, native Australian species adapted to survive fire with rapid regrowth.
- Long lived plant growing greater than 70 years, in line with Kyoto Protocol regulations.
- Lower cost Abatement option than many alternatives.

#### Mallee Trees are a species suitable for producing Carbon Credits

- Removal and long term storage of Carbon Dioxide from the atmosphere widely believed to contribute to reducing Global Warming.
- Company committed to sustainable operations with low environmental impact. For example, the Company is committed to participating in the Greenhouse Friendly™ Challenge Plus.
- Strategic planting of Mallee Trees will help reduce the effects of salinity.
- Many benefits to the landscape including wind breaks and biodiversity.
- Provides alternative income sources for rural communities and specifically land holders.

#### A sound business strategy

- Clear strategies for establishing Mallee Tree Carbon Sinks to generate Shareholder value.
- Establish plantations across various regions of Western Australia and other Australian wheatbelt areas, reducing geographic risk.
- Company committed to become a major player in the Australian Carbon Bio-Sequestration industry – a major producer of quality, reliable Carbon Credits.

#### An experienced management team with clear vision

- Management team offers depth of experience and understanding in agriculture and the Mallee Tree plantation industry.
- Team includes pioneers in the establishment of the Mallee Tree industry in Western Australia in the 1990's.
- Directors have industry connections with large scale industrial Emitters who are likely to have liabilities under any future ETS.

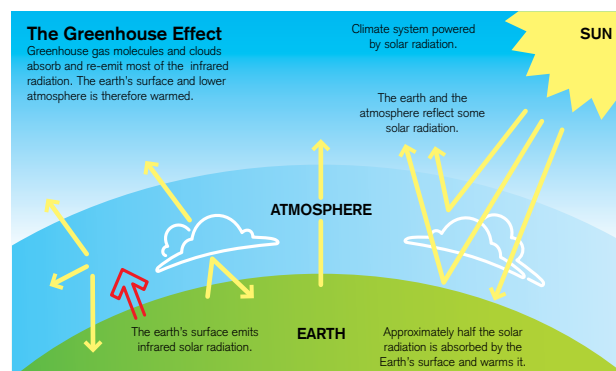
### 3.2 The macro environment

It is now widely accepted by scientists, governments, industries and the general public that our energy intensive way of life is contributing to Global Warming and Climate Change. Global Warming and Climate Change has the potential to affect many aspects of life on our planet - from irregular and extreme weather patterns and events, to rising sea levels which threaten habitats in lower lying regions around the planet. Consensus is building that immediate action is required to minimise the damage expected to be caused by Global Warming and Climate Change.

#### The Greenhouse Effect

The Earth has a natural temperature control system. Certain atmospheric gases are critical to this system and are known as Greenhouse Gases. On average, about one third of the solar radiation that hits the earth is reflected back to space. Of the remainder, some is absorbed by the atmosphere but most is absorbed by the land and oceans. The Earth's surface becomes warm and as a result emits infrared radiation. The Greenhouse Gases trap the infrared radiation, thus warming the atmosphere causing Global Warming. Naturally occurring Greenhouse Gases include water vapour, Carbon Dioxide, ozone, methane and nitrous oxide, and together create a natural Greenhouse Effect. However, human activities are causing Greenhouse Gas levels in the atmosphere to increase.

The Greenhouse Effect is demonstrated in the figure below.



### Climate Change

Australia and the world is experiencing rapid Climate Change. Since the middle of the 20th century, Australian temperatures have, on average, risen by about 1°C with an increase in the frequency of heatwaves and a decrease in the numbers of frosts and cold days. Rainfall patterns have also changed - the northwest of Australia has seen an increase in rainfall over the last 50 years while much of eastern Australia and the far southwest have experienced a decline.

### The Kyoto Protocol

In 1997 the Kyoto Protocol was agreed by the United Nations Framework Convention on Climate Change to combat Climate Change. In a significant step forward, developed countries agreed for the first time to take on legally binding targets for Emissions.

On 3 December 2007, Prime Minister Kevin Rudd signed the instrument of ratification of the Kyoto Protocol as the first official act of the new Australian Government.

Australia has committed to meeting its Kyoto Protocol target, and has set a target to reduce Greenhouse Gas Emissions by 60% on 2000 levels by 2050. Australia will participate actively and constructively in the negotiations working towards a post 2012 agreement which is equitable and effective.

Australia is currently forecast not to meet its 2012 Kyoto target by approximately 7Mt of CO<sub>2</sub>-e.

## 3.3 The Carbon Credit Market

Carbon Markets, or environmental markets, in their various forms, are a government policy measure aimed at dealing with the problem of increasing concentrations of Greenhouse Gases in the atmosphere due to human activities. Carbon Markets also serve other sub-purposes such as technological and industry development tools as well as, in some cases, a stimulator of economic development. Carbon Markets are seen by many policy makers and economists as the most efficient (lowest societal cost) policy measure available for reducing Greenhouse Emissions.

Carbon Markets operate through the use of tradeable certificates with each certificate symbolising a set unit of exchange that is a fraction of the market's requirement or liability - such as a tonne of Carbon Dioxide.

Tradable certificates may be created through:

- A tonne of Carbon Sequestered through planting of trees in land previously deforested (reforestation).
- A megawatt-hour (MWh) of renewable electricity.
- A MWh of electricity saved through energy efficiency.
- A tonne of Carbon Sequestered through new plantings in land that has not had established forests (afforestation).
- A tonne of Carbon saved through avoiding deforestation that may otherwise have occurred.

Market-based measures are flexible, enabling parties to trade between themselves to obtain the lowest cost means of achieving a target, with potential for greater action in one area making-up for less action in another area. The cost of action is transparent and symbolised through the price of tradeable certificates.

Emissions trading is also gaining acceptance on a global scale, however at the present time, there is no fully integrated global market for Carbon or other Emissions. Multiple markets exist at multiple levels, each with their own drivers and prices. The Emissions covered by these schemes are also diverse.

The Carbon Markets can be segmented in a number of different ways. Chief among these being compliance or non-compliance markets which are also referred to as mandatory or voluntary Carbon Markets.

### Mandatory Carbon Markets

Governments around the world are developing Emission Trading Schemes to encourage the reduction of Greenhouse Gas Emissions and the development of renewable energy industries. These are generally "mandatory" for businesses in identified sectors, that is, businesses must purchase or sell Carbon Credits or Offsets to comply with regulatory requirements in particular jurisdictions.

The most recognised scheme globally is the European Union Emissions Trading Scheme (EU ETS) which became active in January 2005. In 2006, approximately 992Mt of CO<sub>2</sub>-e were traded on the EU ETS, representing about 62% of the global Carbon Emissions trading market.

At present the main compliance buyers of Carbon Credits and certificates include:

- European private buyers interested in the EU ETS.
- Government buyers interested in Kyoto compliance.
- Japanese companies with voluntary commitments under the Keidanren Voluntary Action Plan.
- USA multinationals operating in Japan and Europe or preparing in advance for the Regional Greenhouse Gas Initiative (RGGI) in the northeastern USA or the California Assembly Bill 32 establishing a state-wide cap on emissions.
- Power retailers and large consumers regulated by the New South Wales (NSW) market in Australia.
- North American companies with voluntary but legally binding compliance objectives in the Chicago Climate Exchange (CCX).

**Australia is currently forecast not to meet its 2012 Kyoto target by approximately 7Mt of CO<sub>2</sub> - e.**

# Business summary (cont)

Buyers of Carbon Credits in the mandatory market largely engage in Carbon transactions because of Carbon constraints (current or anticipated) at international, national or sub-national levels. The Kyoto Protocol is the largest potential market and the EU ETS, a “tributary” scheme, has spawned a market in the trade of allowances and for the import of project-based reductions. The proposed Australian ETS will form another “tributary” scheme to the Kyoto Protocol that is expected to enable the trade of allowances and credits generated under the Kyoto flexible mechanisms.

**The expected effect of Australia not meeting its Kyoto target by the order of 7Mt will necessitate the need to invest in Offset and Sequestration projects that create certificates that are fungible in the Kyoto scheme.**

## Voluntary Carbon Markets

With voluntary markets, organisations are not compelled to buy or sell Carbon Offsets to comply with regulation or legislation. However globally, businesses have been keen to play a part, leading to the emergence of a variety of voluntary Carbon Markets. Participants trade in the voluntary markets for different reasons, including their desire to take responsibility for their Carbon Emissions, reputation and competitive market reasons and because they see it as valuable training for an inevitable Carbon constrained economy.

Reports of increased interest of banks, credit card issuers, private equity funds and others in this segment suggest that this market could grow exponentially once credible voluntary standards for such assets are introduced and widely adopted. To this end a voluntary standard was released by The Climate Group in conjunction with the International Emissions Trading Association (IETA) and the World Business Council for Sustainable Development (WBCSD) in 2007.

## Carbon Offsetting

Carbon Offsetting schemes arose over a decade ago but have become popular in the past few years. Carbon Offsetting involves calculating one's emissions and then purchasing Offsets from Emission reduction projects. These projects have prevented or removed an equivalent amount of Carbon Dioxide elsewhere, or they promise to prevent or remove an equivalent amount of CO<sub>2</sub>-e in the future.

Carbon Offsets are generated from different types of projects. The most common in Australia are renewable energy, energy efficiency and forestry projects (or Bio-Sequestration).

Instead of preventing Carbon Emissions being released into the atmosphere, Bio-Sequestration or forestry projects, soak up (or Sequester) Carbon from the atmosphere. Trees absorb Carbon through the process of photosynthesis with about 50% of dry matter in trees being Carbon. The Carbon Sequestered when measured allows for the creation of Carbon Offsets. Offsets can be purchased which account for Carbon already Sequestered (since the Kyoto base year of 1990), and also for Carbon which is expected to be Sequestered over the trees' lifetime (70 - 100 years).

## Quality of Carbon Offsets

For Offsetting to help tackle Climate Change, the Offsets need to be generated from projects that are reliably verified and are additional to business as usual activity.

There are a number of factors that differentiate high-quality Carbon Offsets. Such factors include:

- **Baseline Determination:** a credible approach is taken to determine the Emissions that would have occurred in absence of the project.
- **Benefit Quantification:** the quantification of Emissions reductions resulting from a project does not overstate benefits and reflect uncertainties.
- **Permanence:** potential future reversal is not an option for the resulting Offsets.
- **Ownership and Registration:** ownership of the Offsets is clear and formally registered, providing a paper trail and reducing the possibility of Offsets being sold many times.
- **Monitoring and Verification:** the Offset project will be monitored and verified over time.
- **Additionality:** the Carbon Offsets produced make the project viable, that is, the project would not have occurred otherwise.

As the voluntary Carbon Market is relatively new, there is no universally accepted standard for product quality that has gained market dominance. However, some standards do exist, such as Australian Greenhouse Office (AGO) Greenhouse Friendly™, the Voluntary Carbon Standard and the Gold Standard for voluntary Carbon. Others are also under development.

## 3.3.1 The Australian Greenhouse Office - Greenhouse Friendly™ program

The Australian Greenhouse Office Greenhouse Friendly™ program aims to help meet the challenge of Climate Change by providing businesses and consumers with the opportunity to sell and purchase greenhouse neutral products and services. In doing so it encourages and broadens the basis for investment in Greenhouse Gas Abatement by engaging consumers on Climate Change issues.

Through Greenhouse Friendly™, Australian businesses can market greenhouse neutral products or services, deliver Greenhouse Gas Abatement and give Australian consumers greater purchasing choice.

Greenhouse Friendly™ is composed of two interrelated parts, Product certification and Abatement certificate creation.

Greenhouse Friendly™ approved Abatement projects must occur in Australia and must generate additional, permanent and verifiable Greenhouse Gas Emissions reductions or Sequestration.

Additional Abatement projects are generally associated with an investment or behaviour change that would normally not be undertaken as part of a company's established operating practices, or under existing internal investment requirements.

### 3.3.2 A National Emissions Trading Scheme (ETS) for Australia

#### Australian Cap and Trade Scheme

The last 12 months has seen major developments toward the introduction of ETS in Australia. In December 2006 the Former Prime Minister John Howard commissioned a Task Group to investigate Emissions Trading and in May 2007 the Task Group recommended Australia adopt an Emissions cap and trade scheme.

In a speech on 3 June 2007 to the Liberal Party Federal Council the Former Prime Minister affirmed that Australia will move towards an Australian ETS beginning no later than 2012.

At around the same time, the then Labour Opposition Leader Kevin Rudd also committed to implementing an ETS in a speech on 30 May 2007. He stated that an effective ETS must recognise the need to act now to minimise the costs of inaction and advocated that an ETS should start no later than 2010 with the detailed design finalised by the end of 2008.

Following the election of the Rudd Government on 24 November 2007, this commitment toward the introduction of an ETS by 2010 was reaffirmed. However, Emission reduction targets established under this scheme are yet to be finalised as the Government awaits the outcome of the Garnaut review due to be released in late 2008. There is also limited detail presently available regarding the rules and regulations that will be endorsed under the scheme.

### 3.3.3 Demand for credits created by Kyoto ratification and the introduction of an ETS in Australia

As previously noted the Government will await the outcome of the Garnaut review prior to establishing Emission targets however, the Government has publicly supported targets of reducing 2000 baseline Emissions by between 25 - 40% by 2020 and 60% by 2050.

In 2005, at the date of the last National Greenhouse Gas Inventory Australia's total Emissions amounted to 559.1 Megatonnes (Mt) up from 551.5Mt in 2000 and 547.1Mt from 1990 being the Kyoto base year.

In the 2008 to 2012 period Australia's total Emissions are expected to be in the order of 603Mt or an increase of 9% on 1990 levels as detailed in the table below.

#### Australia's total Emissions

Year	Mt CO <sub>2</sub> -e
1990	547.1
1995	507.5
2000	551.5
2005	559.1

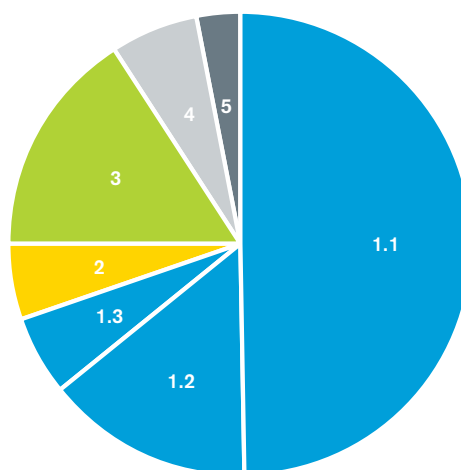
Source – National Greenhouse Gas Inventory

Key elements to note in Australia's Emissions include:

- Within the stationary energy sector, electricity generation dominates Emissions contributing 34.7% and is one of the fastest growing sources of Emissions.
- Within the transport sector, road transport dominates, making up 87.9% of this sector's Emissions much of which comes from passenger cars.

The sources of Greenhouse Gases in Australia in 2005, outlined in the adjacent graph, are based on figures from the Australian Greenhouse Office's 2005 National Greenhouse Gas Inventory.

Sector and Subsector	CO <sub>2</sub> -e Mt
1 All energy (combustion + fugitive)	391.0
1.1 Stationary energy	279.4
1.2 Transport	80.4
1.3 Fugitive emissions from fuel	31.2
2 Industrial processes	29.5
3 Agriculture	87.9
4 Land use, land use change & forestry	33.7
5 Waste	17.0
<b>Total net emissions</b>	<b>559.1</b>



Source – AGO, Tracking to the Kyoto Target, Australia's Greenhouse Emissions Trends

The expected effect of Australia not meeting its Kyoto target by the order of 7Mt will necessitate the need to invest in Offset and Sequestration projects that create certificates that are fungible in the Kyoto scheme.

Additionally, a 25% reduction target by 2020 on a 2000 baseline will require Australia's absolute Emissions amount to approximately 414Mt by 2020 (25% of 2000 Emissions) which equates to an absolute reduction of 190Mt over 2010 forecast Emissions. This type of target will demand significant investment and therefore create an opportunity in Abatement and Sequestration activity within Australia.

#### Value of Carbon Credits

Carbon Credits are now an emerging international traded commodity. Being an emerging market it may display volatile pricing and may be subject to uncertainty, speculation and regulatory intervention.

Carbon Credits or Offsets are priced in terms of tonnes of Carbon Dioxide equivalent (CO<sub>2</sub>-e).

#### Regulated markets

The NSW Greenhouse Gas Abatement Scheme (GGAS) was one of the first mandatory Greenhouse Gas ETS in the world and has been operating since 2003. The NSW GGAS scheme recognises the Carbon captured by trees and the long term storage of Carbon in a Carbon pool. The price for credits in this scheme, at the present time, range from \$6.05 per tonne of CO<sub>2</sub>-e (spot price) to \$8.15 (five year forward). A significant level of uncertainty surrounds the continued operation of this scheme resulting from the potential introduction of an Australian ETS. This has affected both the price and liquidity of this market at present.

# Business summary (cont)

The EU ETS will introduce the second phase of the trading scheme in 2008, which coincides with the key stage of the Kyoto protocol from 2008 to 2012. The second phase is expected to squeeze allocations and push up the Carbon price by creating scarcity. This is evidenced in the forward price for Carbon at December 2008 at €19.92 per tonne. Readers should be aware that at the time of writing the EU ETS excluded Forestry Carbon Sink projects.

## Voluntary Markets & Transactions

Voluntary Emission Reduction (VER) units accredited under the Australian Greenhouse Office Greenhouse Friendly™ scheme can be purchased from accredited suppliers or through the Australian Climate Exchange (ACX). The volume of VER traded through the ACX is minimal with prices quoted in the range between \$8.52 - \$8.75.

In addition there have been examples of public companies voluntarily purchasing Emission reduction units including:

- Rio Tinto Aluminium / Colmalco who entered into an agreement to compensate farmers for clearing rights. The agreement covered 12,000 – 13,000 hectares. Public announcements indicated that VER's of 1 Mt of CO<sub>2</sub>-e were part of the transaction.
- Woodside Burrup Limited, who in November 2007 in conjunction with CO<sub>2</sub> Australia Limited announced it will spend \$100 million planting Mallee Trees to Offset Carbon Emissions from the Pluto gas field in Western Australia. Press releases indicated that this was representative of 20Mt of CO<sub>2</sub>-e over a 20 year lifespan, representing a cost of circa \$5 per tonne.

There are a number of uncertainties existing in the current markets which are yet to be resolved. The significant driver in pricing expectation for Carbon Credits in Australia will be the rules and regulations of the forthcoming ETS.

A key goal of the Australian ETS is to allow forward prices for Carbon to emerge. Forward Carbon prices will reflect future Carbon constraints, including such things as short term caps and long term Emission targets.

Carbon prices will need to be at a level that will facilitate the necessary investment to achieve this change in Emission trajectory.

In a report prepared by the Climate Institute of Australia in December 2007 (The Climate Institute Report) the researchers forecast a price of \$57/tonne by 2030 and \$176/tonne by 2050 with an objective of stabilising Emissions by 2020 and then reducing them 40% by 2050 - targets substantially less than those publicly supported by the Australian Federal Government.

## 3.4 Carbon Sequestration

### How trees Sequester Carbon

Carbon Sequestration through trees relies on natural photosynthesis, which uses Carbon Dioxide from the atmosphere, along with sunlight, in a chemical reaction to produce oxygen and glucose. Hence, Carbon Dioxide from the atmosphere is captured in the structure of each tree.

The rate at which Carbon is Sequestered depends on many factors including the tree species, rainfall events, access to moisture movement in the soil and soil conditions.

In Mallee Tree plantations, Carbon can be Sequestered over decades or even centuries, until mature ecosystems reach a stage of Carbon saturation. However, natural decay and disturbances, such as fire or harvesting, can release Carbon back into the atmosphere as CO<sub>2</sub>.

### Why Mallee Eucalypt Trees

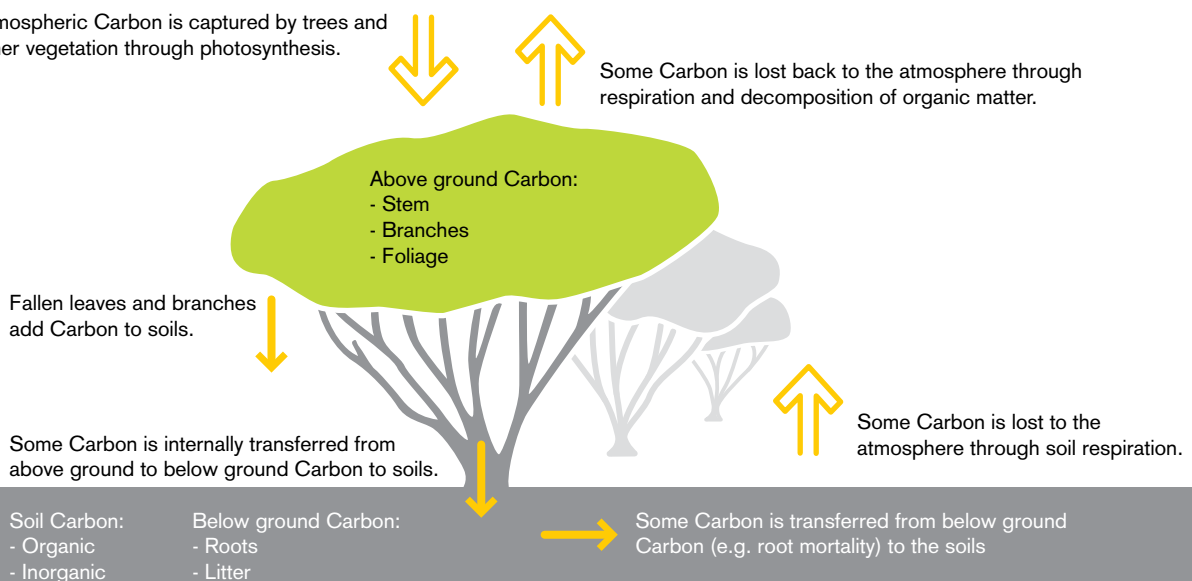
Over the past 150 years, Australia has cleared vast areas of land for use in agricultural operations, such as grain production. Before the land was cleared, native Mallee Trees were widely distributed over that land as the natural vegetation. As such, Mallee Trees have developed over thousands of years to survive Australia's unique and harsh environment.

The benefits of Mallee Trees include:

- Adapted to survival in low rainfall regions of Australia of between 250-450mm.
- Ability to regrow after fire or being cut down. This ability makes Mallee Trees a preferred species for Carbon Sequestration.
- Long lived plant growing greater than 70 years. This enables Mallee Trees to match long term reduction targets of Greenhouse Gas Emitters.

The diagram below illustrates the process of Carbon Sequestration with trees

Atmospheric Carbon is captured by trees and other vegetation through photosynthesis.



- Integrate with established farming operations and provide numerous benefits to farming land and environment. Mallee Trees lower water table levels, reduce the potential impact of salinity, provide sheltered environments for livestock, reduce the drying effect of wind on crops and provide provisions for wildlife corridors for native animals.
- Provide land owners with benefits through revenue paid directly from the use of their land and through a share in resulting Carbon Credit production.
- Generate rural employment benefits through Mallee Tree plantations.

### 3.5 Business Strategy

Carbon Conscious™ is an Australian company formed to take advantage of opportunities in domestic and international Carbon Credit or Carbon Offset Markets. The Company will focus on producing large quantities of quality Carbon Credits utilising the process of Bio-Sequestration by establishing Mallee Tree Carbon Sinks initially in Western Australian wheatbelt regions.

Carbon Conscious™ has recently entered into agreements with key parties to:

- Access suitable agricultural land for Mallee Tree plantations.
- Acquire stocks of Mallee Tree seed for the purpose of germination.
- Provide seedling growing capacity from reputable and well established nurseries with fixed pricing parameters.

In addition Carbon Conscious™ has:

- Commenced the process to gain accreditation under the Greenhouse Friendly™ program.
- Established robust procedures, practices and systems to manage and monitor the performance of the Company.
- Contracted key terms and conditions of employment with a highly skilled and experienced executive management team with performance based incentives.
- Commenced marketing Carbon Conscious™ services to large scale Emitters and business customers.

#### 3.5.1 Vision and values

##### Vision

- The impact of Global Warming and the continued pressure on governments around the world may result in favourable pricing dynamics for Carbon Credits in both the voluntary and regulated markets.
- Companies that can produce low cost Carbon Credits may have the opportunity to create value for their stakeholders.
- Opportunities may exist in international markets for Australian Bio-Sequestration projects. A number of variables combine to provide Australia with a competitive advantage over other countries in this regard.

##### Values

We believe:

- To avoid the impact of Global Warming we must reduce our use of energy, invest in the development of low or zero Emission energy alternatives and Offset what we cannot reduce.
- Agricultural production is a vital part of the Australian economic and social fabric and Bio-Sequestration projects can co-exist and incrementally improve existing primary production ability.
- We must operate in a transparent, accountable and responsible manner for the benefit of all stakeholders and the wider community.

#### 3.5.2 Productive Capacity

##### Securing required productive capacity at competitive prices

In developing its business strategies the Directors have reviewed other strategies and experiences of Australian companies entering new and developing agribusiness markets. Several of these businesses have pursued a strategy of entering these new markets without a full understanding of the competition for resources in the agribusiness market and fail to ensure access to productive means at competitive prices. For some, this approach has resulted in substantial losses through higher than expected input prices and lack of developed demand for product.

In contrast Carbon Conscious™ has taken substantial steps to lock down supply of seed and seedling production at agreed pricing parameters over a five year period.

Carbon Conscious™ has identified the key requirements involved in establishing large scale, quality Mallee Tree plantations and gained control over each section of the process.

##### Access to land

The substantial shareholder of Carbon Conscious™ Limited is Broadacre Asset Management Pty Ltd (BAM). The BAM group of companies provides Carbon Conscious™ with direct access to professional farmers and land via established industry relationships. Carbon Conscious™ has contracted Australian Agricultural Contracts Limited (AACL), an associated entity of BAM, and BAM to provide the following services:

- Identify suitable land for Mallee Tree plantations.
- Negotiate terms and conditions with the landholder/s.
- Prepare contracts and lodge all required caveats and rights.

AACL manages the largest broad acre cropping operation in Australia, predominately based in Western Australia, and has strong relationships with a large number of farmers across the wheatbelt. Carbon Conscious™ is confident AACL / BAM have the capabilities to provide significant access to suitable planting land.

The Company has also employed staff with extensive relationships throughout the key planting target regions that will provide supplementary access to land.

##### Access to Mallee Tree seed

Carbon Conscious™ has executed a heads of agreement with carefully selected seed orchards throughout the Western Australian wheatbelt. These orchards have been chosen as the Mallee Trees on these properties were selected for growth and vigour traits. The Mallee Trees were planted 5-10 years ago and now have large quantities of superior seed readily available. Carbon Conscious™ intends harvesting a range of selected species to supply sufficient seed for the next five seasons planting programs. Following season's requirements will be harvested as required.

##### Seedling nurseries

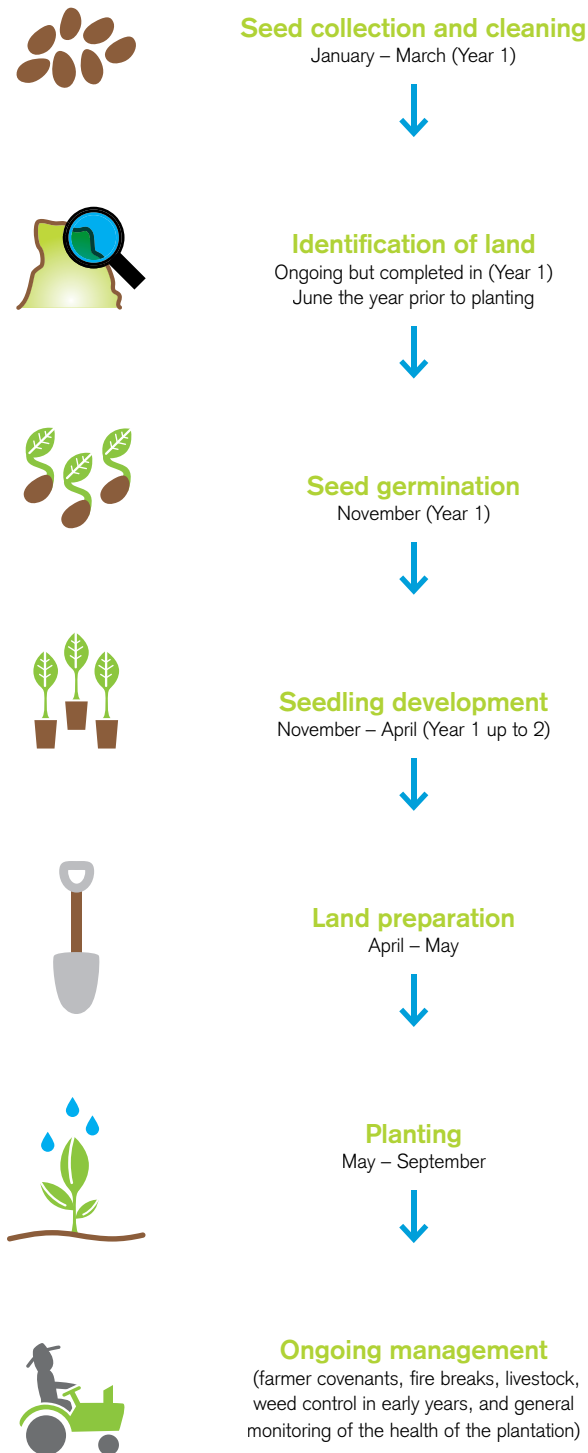
Carbon Conscious™ has executed a heads of agreement with Benara Nurseries to grow a variety of Mallee Tree seedlings and mini plugs over a five year period.

In addition Carbon Conscious™ has entered into contract agreements with additional nurseries for seedling growing services over the initial five year period.

On estimated planting rates Carbon Conscious™ has sufficient capacity to execute the initial four years of the planned planting program requirement with the ability to extend contractual arrangements to ensure 88% of year five capacity.

# Business summary (cont)

The following diagram outlines the production chain dynamics



## Planting contractors

Carbon Conscious™ has held discussions with a leading planting contractor to provide contract planting services on an annual basis over an initial three year period and expects to agree terms subsequent to ASX admission. The company is currently investigating planting equipment and establishing procedures so that additional planting requirements can be managed internally by the company.

The Company has engaged staff experienced in managing and co-ordinating in-house Mallee Tree plantings.

## Plantation development and management

A key driver to the performance of Carbon Conscious™ will be the ability to accurately develop and plan its Mallee Tree plantation process into the future.

Mallee Trees to be used by Carbon Conscious™ will grow well on sandy soils, loams and some clay soils, in low to medium rainfall zones. Preferred plantation sites are in moisture gathering parts of a farm. As such best Mallee Tree growth and hence Carbon Sequestration occurs where there is adequate sub-soil moisture. Planting in these areas also minimises the chance of the water table rising helping to reduce the effects of salinity. Poor production occurs if Mallee Trees are planted on rocky ground, on gravel ridges, and on areas showing any signs of salinity.

For practical reasons, Mallee Trees are planted in conjunction with a cereal crop rotation. This helps with effectiveness and efficiency of weed control as the cereal crops afford some protection to the young Mallee Trees. In addition the ground cover provides protection against abrasive effects of wind borne sand.

Mallee Trees are planted in belts, 10m wide and consisting of four rows of seedlings. The rows can be as long as the farmer's paddocks allow, perhaps up to several kilometres. The distance between the belts (an alley) is matched to the farmers seeding equipment. An alley is commonly 70-100m. Where the belt of Mallee Trees is 10m wide and the distance between the belts is 90m, the planting density in the paddock is 10% of the land area. Carbon Conscious™ targets a planting density of 10-15%.

Australian flora has some 200 species of Mallee Eucalypt. Carbon Conscious™ plans to use a range of species, targeted at different soil types and climate preferences.

The four main species planted are:

- *Eucalypt loxophleba subsp. lissophloia*: smooth bark York gum, from heavy soils of the eastern wheatbelt. Good generalist species across Western Australia.
- *Eucalypt horistes*: from northern soils of the northern wheatbelt of Western Australia. Good robust species, growing on reddish sands through to some heavier loamy clays. Prefers slightly alkaline to acid soils.
- *Eucalypt polybractea*: blue Mallee Trees, from NSW and Victoria. Suited to most soil types, slightly alkaline to acid soils, requires adequate moisture.
- *Eucalypt kochii subsp. plenissima*: from light medium soils in the north-east wheatbelt of Western Australia. Preference for reddish sandy and sandy loam soils, tolerant of heavier clays. Prefers neutral to acid soils.

Carbon Conscious™ has identified, and is in the process of securing seed orchards showing copious seed set. Seed from these seed orchards will be harvested to ensure several years stocks of seed are on hand, and the seed orchards will be nourished to ensure seed supplies endure.

### Accreditation

Carbon Conscious™ is in the process of becoming accredited to be able to trade Carbon Credits. This means meeting the eligibility standards for accreditation as an Abatement Certificate Provider under the Greenhouse Friendly™ program established by the Australian Federal Government's Australian Greenhouse Office.

Carbon Conscious™ will demonstrate that it:

- Has the Carbon Rights to trade Carbon Sequestered in Mallee Tree plantations (and elsewhere if applicable).
- Has adopted appropriate methodology for estimation of Carbon Sequestration in Mallee Tree plantations (Carbon accounting).
- Uses monitoring and reporting protocols consistent with industry specifications.

This should ensure Carbon Conscious™ becomes accredited to a 'Kyoto-compliant' standard to trade internationally. Accreditation under the Greenhouse Friendly™ program is Kyoto compliant and Australia has now signed the Kyoto Protocol.

Carbon Conscious™ has engaged the services of URS Forestry to assist with the application for accreditation under the Greenhouse Friendly™ Program. URS is an international professional services company with excellent credentials and relevant experience to guide the Carbon Conscious™ application.

Carbon Conscious™ will establish Carbon measurement procedures and practices enabling Carbon assessment in different plantations species, at various stages of tree growth and in a range of locations. Sites secured with Carbon Rights will be used for Mallee Tree measurements necessary to refine Carbon Sequestration models.

Carbon Conscious™ will also establish Mallee Tree plantation growth models such that Carbon Sequestration predictions can be as reliable as possible. URS has been engaged to further develop Mallee Tree Plantation growth models to suit the specific needs of Carbon Conscious™ and to improve the predictability of Mallee growth in the Australian Greenhouse Office Carbon accounting toolbox.

Carbon Conscious™ aims to lodge its application by April 2008 with a successful accreditation expected to be achieved by July 2008.

### 3.5.3 Business development

Carbon Credits are now an emerging international traded commodity. Being an emerging market it may display volatile pricing and may be subject to uncertainty, speculation and regulatory intervention.

Carbon Conscious™ will focus on business development activities in line with the Company's objective to achieve maximum plantation establishment whilst maintaining a healthy proportion of Company owned Carbon Credits and interest in Carbon Estates.

The Directors have identified a number of methods for the generation of revenue from the business model including:

- Fee for service business: Carbon Conscious™ would provide identification, sourcing, planting, accreditation and management services on behalf of third parties looking to benefit from the establishment and ownership of Carbon Sinks into the future.
- Off take sale: Carbon Conscious™ develops Carbon Estates with contracts to third parties for the sale of the Carbon Credits produced based on agreed pricing parameters.

- On market sale of Carbon Credits: Trade produced Carbon Credits in an open market. The Directors believe in future years there will be a regulated liquid market for Carbon Credits that would enhance this sale process.
- Develop Carbon Estates and on-sale: The capital value of produced Carbon Estates will be governed by the amount of Carbon Credits produced, or expected to be produced in the future, the quality of these Carbon Credits and the prevailing and expected price of Carbon Credits in the open market.

**Australian flora has some 200 species of Mallee Eucalypt. Carbon Conscious™ plans to use a range of species, targeted at different soil types and climate preferences.**

Carbon Conscious™ will target major Australian businesses that annually emit large amounts of Carbon Dioxide into the atmosphere. Examples include companies involved in the power generation, transport, mining and resources industries and other large industrial concerns. Generally, these companies are expected to have significant Carbon liabilities post the introduction of an Australian ETS in 2010. At the present time these potential customers may voluntarily choose to contract with Carbon Conscious™ for a variety of reasons, including anticipated requirements under the ETS, planning approval requirements, Corporate Governance and customer and stakeholder requirements.

Agreements and undertakings with these entities may take various forms but could see Carbon Conscious™ act as a third party service provider to these entities. Carbon Conscious™ is aware of similar recent undertakings by large scale Emitters and believes premium prices can be extracted for this service at present. Significantly this form of revenue generation is a relatively low risk undertaking as it is generally undertaken via a fee for service, or management fee, arrangement.

In addition Carbon Conscious™ will target the "business to business" market particularly those businesses that add value to their existing product offerings by providing Carbon Offset undertakings on behalf of their customers, clients, employees and other stakeholders. Carbon Conscious™ believes the consumer demand for environmentally friendly undertakings will continue to drive this market and the Company model will provide a well credentialed low cost Abatement option for these businesses.

The Directors of Carbon Conscious™ believe the development of Carbon Estates in the short term will provide ideal opportunities for investors keen to participate in this burgeoning market in the longer term.

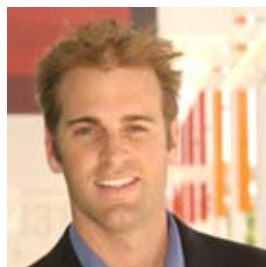
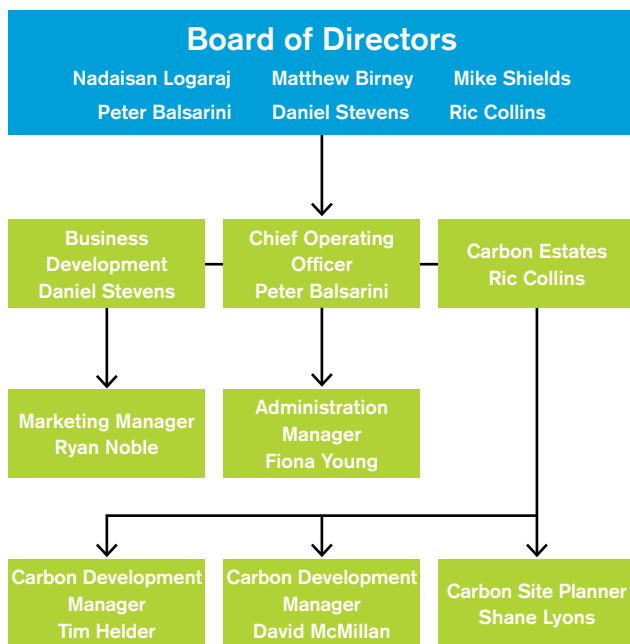
To support this market activity Carbon Conscious™ intends building a trusted brand, synonymous with large scale, quality and environmentally conscious Carbon Credit production through establishing of Mallee Trees as Carbon Sinks. The Company will combine its expertise in commencing and operating large-scale agricultural projects with funds management discipline to deliver a superior product in commercial quantities to its customers.

Carbon Conscious™ intends to focus business development initially on the Western Australian market due to the size of the mining and industrial sectors and the connections the Company has within the state. With the number of projects currently in development in Western Australia, the Company expects demand to rise for Emissions Offsets in the lead up to an ETS and continue once it commences.

# Business summary (cont)

## 3.5.4 Management structure

Carbon Conscious' proposed management structure is illustrated below.



**Mr Daniel Stevens**  
Executive Director – Business Development

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



**Mr Ric Collins**  
Executive Director – Carbon Estates

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

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

**Mr Tim Helder**  
Carbon Development Manager

Mr Helder is a Master Tree Grower and previously has established his own tree seedling nursery in the eastern wheatbelt of Western Australia. He was a significant supplier of Mallee Trees to the Oil Mallee Tree industry throughout the 1990s. In addition, Mr Helder contracted his Mallee Tree establishment skills to the Oil Mallee Tree industry during this time. Mr Helder's skills include site selection, mapping of plantations, arranging planting teams and seedling survival assessment.

**Mr David McMillan**  
Carbon Development Manager

Mr McMillan is an experienced forester who has had senior roles in establishing and managing of pine, bluegum and sandalwood plantations in the south west of Western Australia and other agricultural areas.

His experience has been with government departments and private enterprises. Land acquisition and contracts management have been additional responsibilities.

He has also had sales experience with agribusiness firms in Western Australia.

## 3.5.5 Key personnel



**Mr Peter Balsarini**  
Executive Director – Chief Operating Officer & Company Secretary

Mr Balsarini holds a Bachelor of Economics Degree, is a CPA and has a Masters Degree in Business. He has over 17 years experience in the financial services industry having spent considerable time both as a public practising accountant and Chief Financial Officer of a major Funds Management business. Mr Balsarini's experience spans project feasibility, investment case analysis, implementation of financial control systems, staff management, taxation, product development and distribution amongst others. He has significant experience in the development and ongoing operation of Managed Investment Schemes, including regulatory and compliance requirements.

**Mr Ryan Noble**

Marketing Manager

Mr Noble holds a Bachelor of Business in Marketing and has over 10 years experience in sales, marketing and advertising. Previously a partner with one of Western Australia's leading advertising agencies, he brings to the table a wealth of marketing knowledge and industry contacts. He has significant strategic planning expertise with the unique perspective of working concurrently on both sides of the communication line.

**3.5.6 Non-Executive directors**

The Board of Directors comprises of three Non-Executive Directors. The Non-Executive Directors have been identified based on their background and understanding of investment banking, law, primary production and government.

**Mr Matthew Birney**

Non-Executive Chairman

Matt Birney is the former Leader of the Opposition in Western Australia and is the only Liberal Member of Parliament ever to win the State seat of Kalgoorlie in its 100 year history.

Since 2001 Mr Birney has also held the positions of Shadow State Treasurer for Western Australia, Shadow Minister for Commerce and International Trade, Shadow Minister for Communications and Police.

Mr Birney is also a successful businessman of some 16 years standing and the recipient of a number of business awards from industry peak bodies and other organisations.

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

**Mr Nadaisan Logaraj**

Non-Executive Director

Mr Logaraj has had a distinguished career in law and investment banking.

Currently, he advises several Asian and Australian corporations on their international investments. He is a Member of the NSW Government's Asia Business Council and a Member of The University of Sydney's Council dealing with Asia Pacific issues. He is a Fellow of the Australian Institute of Company Directors (since 1988) and National President of the Australia-Singapore Chamber of Commerce (since 1993).

Mr Logaraj is also a director of Australian Agricultural Contracts Ltd, Broadacre Asset Management Pty Ltd and ASX listed exploration company Scimitar Resources Ltd.

**Mr Michael Shields**

Non-Executive Director

Mr Shields is a leading Western Australian farmer with significant interests in a number of large scale agricultural enterprises. Mr Shields completed a Bachelor of Commerce degree at the University of Western Australia and then went on to work in the USA and Australia in the agricultural services divisions of a number of organisations including John Deere, Caterpillar and Westrac. Previously, Mr Shields was a director of Summit Fertilizers Pty Ltd and is currently a director of ASX listed company Marginbet Ltd.

**3.6 Corporate Governance**

The Board is responsible for the overall Corporate Governance of the Company. It recognises the need for the highest standards of ethical behaviour and accountability. The Board is committed to administering its Corporate Governance structures to promote integrity and responsible decision-making. To the extent that they are relevant to the organisation, the Company has adopted Corporate Governance Principles and Best Practice Recommendations as published by the ASX Corporate Governance Council.

The following policies and procedures have been implemented and are available, in full, on the company's website at [www.carbonconscious.com.au](http://www.carbonconscious.com.au):

- Board Charter.
- Code of conduct for directors and employees.
- Share Trading Policy.
- Shareholder Communication Strategy.
- Environmental Policy.
- Safety Policy.
- Materiality Statement.
- Remuneration & Nomination Committee Charter.
- Risk Management Statement.
- Continuous Disclosure Strategy.
- Board Performance & Evaluation Policy.
- Remuneration Policy.

The Board will consider its Corporate Governance procedures on an ongoing basis and whether they are sufficient given the Company's nature of operations and size.



## 4. Risk factors

An investment in Carbon Conscious™ has risk and prospective investors in the Company should consider the risk factors described in this section, together with the information contained elsewhere in this Prospectus, before deciding whether to apply for Shares.

### 4.1 Investment risks

The business activities of the Company are subject to various risks that may impact on the future performance of the Company. Some of these risks can be mitigated by the use of safeguards and appropriate systems and controls, but some are outside the control of the Company and cannot be mitigated. There are a number of risk factors that investors should consider and seek independent advice on, before deciding whether or not to invest in Shares. The principal risk factors include, but are not limited to, the following:

#### Agricultural risk

As an agricultural business the Company is subject to the risks specific to the agricultural industry including but not limited to:

- Flood and drought.
- Natural disasters.
- Pest and disease.
- Yield variance.

#### Government policy change

Government action or policy change in relation to environmental policies, Carbon Markets, taxation, property rights and Carbon Rights may adversely affect the Company's operational and financial performance. The market for Carbon Credits into the future is dependant on a number of variables surrounding the Government's decisions in these areas.

#### Economic risks

General economic conditions, movements in interest and inflation rates and currency changes may have an adverse impact on the Company's activities as well as its ability to fund those activities.

#### Unforeseen expenditure risk

Expenditure may need to be incurred that has not been taken into account in the preparation of this Prospectus. Although the Company is not aware of any such expenditure requirement, if such expenditure is incurred this may adversely impact on the performance of the Company.

#### Price risk

The prices the Company receives for its product are subject to market forces that are beyond the Company's control. The Company monitors the stability and trends of market prices closely and, where possible, will negotiate agreements that reflect market prices and maintain adequate underlying profit margins.

#### Reliance on key management

The responsibility of overseeing the day-to-day operations and strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment with the Company.

#### Competition

There is a risk that the Company will not be able to compete profitably in the competitive industry in which it intends to operate. The possibility exists for the nature and extent of competition to change rapidly, which may result in loss to the Company.

#### Insurance

The Company may, where economically practical and available, endeavor to mitigate potential risks through relevant insurance cover. However, such insurance cover may not always be available or economically justifiable and the policy provisions and exclusions may render a particular claim by the Company outside the scope of the insurance cover.

### 4.2 Specific risks associated with the Company

There are also a number of specific risks associated with the Company which may adversely affect the Company's financial position, prospects and price of its listed securities. In particular, the Company is subject to risks relating to the production of Carbon Credits which are not generally associated with other businesses.

Set out below are specific risks that may adversely affect the Company:

#### Carbon Market development

As the market for Carbon Credits is an emerging market it may display volatile pricing and be subject to uncertainty, speculation and regulatory intervention. This may adversely affect the profitability of the Company into the future.

#### Scientific and technology breakthroughs

The market for Carbon Offsets may be affected by any major scientific or technological breakthrough into the future that provides:

- An alternative and widely agreed explanation for the phenomenon of Global Warming, debunking the notion that Carbon Dioxide Emissions are the significant cause of Global Warming.
- An alternative method(s) for the mass production of economic output that does not involve Carbon Dioxide Emissions and therefore renders the need for the Carbon Offsets production as obsolete. Examples could include such things as clean coal technologies and alternative natural energy sources.
- An alternative method of Carbon Abatement that is significantly less costly and widely adopted. Examples could include major developments in Carbon Capture via geo-sequestration.

#### Accreditation

The Company is currently seeking accreditation as an Abatement Certificate Provider under the Greenhouse Friendly™ Program established by the Australian Government's Australian Greenhouse Office. An inability to achieve this accreditation would limit the Company's ability to participate in the Carbon Credit market and in turn adversely impact on the performance of the Company.

#### Rate and amount of Carbon Sequestered

Although significant scientific resources and knowledge are utilised to forecast both rates and total amount of Carbon Sequestered from Mallee Trees over a given period of time, these forecasts are reliant upon a number of underlying assumptions that may or may not occur. The total amount of Carbon Sequestered and the rate at which this Carbon is Sequestered may vary which in turn may affect the Company's performance into the future.

#### Limited history / start up company

Carbon Conscious™ was established in January 2008 and as such is a start up company with no meaningful historical financial information or operating history.

The Company's Prospectus must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stages of development and operation.

The Company is subject to operational risks including inter alia:

- Cash flow problems.
- Securing supply agreements.
- Finalising off take or sale agreements.

# Forestry expert's report



6 March 2008  
Project No. 42807396  
Carbon Conscious Limited  
Level 1, Suite 5, 12-20 Railway Road  
Subiaco, WA 6008

Attention: The Directors,

**Subject: Sequestration and verification of carbon in mallee eucalypt plantations in the WA wheatbelt region**

Carbon Conscious™ Limited has engaged URS Forestry to provide an overview of the science and policy related to establishment of mallee eucalypt plantations in the wheatbelt region of Western Australia for the purpose of carbon sequestration.

This letter provides an overview of the carbon sequestration process in mallee eucalypt plantations; summarises the co-benefits of planting mallee eucalypts in conjunction with conventional agriculture; and provides an overview of the process to become certified under the Australian Greenhouse Office (AGO) Greenhouse Friendly™ program.

## 1. Carbon Sequestration

Through the process of photosynthesis, plants remove carbon dioxide (CO<sub>2</sub>) from the atmosphere and store it in the plant tissue ('biomass'). In this way, forests are said to act as carbon 'sinks' and can play a role in the mitigation of global climate change. The process of carbon accumulation in the tree is known as 'sequestration', and the rate of sequestration is directly related to the rate of forest growth. Young, actively growing forests sequester carbon at a greater rate than older, mature forests. Foresters can quantify the amount and rate of carbon sequestration in a tree by measuring its volume, and applying a series of conversion factors. As a general rule of thumb, approximately half of the dry weight of a tree is carbon.

Mallee eucalypt trees are well suited for inclusion in carbon sequestration projects because they exhibit the following characteristics:

- Relatively fast growth/carbon sequestration rates on areas that are marginal for commercial timber plantations;
- Growth in a range of climatic and soil conditions, including low rainfall zones between 250-450 millimetres annually, and on low fertility soils;<sup>8</sup>
- Long lifespan – radiocarbon dating of mallee eucalypt lignotubers suggest a lifespan of over 100 years;<sup>10</sup>
- Large root system capable of continuing to store carbon even if aboveground biomass is harvested;
- Ability to regenerate after fire, by re-shooting of foliage from the trunk and roots; and
- Additional environmental benefits if located appropriately in the landscape.<sup>3,9</sup>

There is a significant amount of research that is currently being undertaken on the rate of carbon sequestration in mallee eucalypts established in plantations. Mallee eucalypt plantations will continue to sequester carbon for decades, although growth rates are more rapid in the early stages of development.

### Growth of mallee eucalypts in WA

Carbon Conscious™ Limited proposes to grow four different species of mallee eucalypts. These are:

- *Eucalyptus loxophleba* subsp. *lissophloia* – commonly known as York gum mallee;
- *Eucalyptus kochii* subsp. *plenissima*;
- *Eucalyptus horistes*; and
- *Eucalyptus polybractea* – commonly known as blue mallee.

The first three species occur naturally in Western Australia, while blue mallee originates from New South Wales.<sup>1,4,11</sup> All four species have been found to grow favourably in the wheatbelt region and were chosen for widespread planting in Western Australia to address salinity issues, and for the potential production of eucalyptus oil and bioenergy. The species selection was based on the results of field trials implemented by the Western Australian Department of Environment and Conservation<sup>4</sup> and studies conducted by the Rural Industries Research and Development Corporation.<sup>1</sup>

### Factors affecting sequestration rates

The rate of growth/sequestration of mallee plantations is affected by the following variables:

- Climate, including rainfall, temperature and evaporation;
- Soil depth;
- Soil type and structure;
- Hard pans, which can restrict root development if they are below the depth where soil ripping is effective; and
- Quality of site preparation and ongoing management, including cultivation, weed control, pest control and exclusion of grazing.

Many of the variables that are critical to success relate to the availability of moisture to the trees. Water availability can also be influenced by planting design and considerable research is being conducted to investigate optimal planting regimes for mallee eucalypt plantations.<sup>4,5,6,9</sup>

## 2. Co-benefits of mallee eucalypt plantations

### Environmental benefits

Vast areas of Western Australia's agricultural land are affected by salinity, resulting in declining agricultural productivity. Revegetation of the landscape with deep-rooted plants is one of the primary mechanisms to control or reverse the effects of salinity. Mallee eucalypts have been used as part of major revegetation programs implemented by the Western Australian Government to alleviate salinity.

Mallee eucalypt plantations can contribute significantly to regional biodiversity objectives and improve habitat connectivity, if they are appropriately located in the landscape. A recent survey of biodiversity in mallee eucalypt plantations in the Western Australian wheatbelt found that a wide variety of birds, mammals, reptiles, amphibians and invertebrates use the plantations as habitat.<sup>9</sup>

### Improved agricultural productivity

Under some management regimes, mallee eucalypts and other plantations when planted in 'shelterbelt' configurations, can shelter crops and pasture, and thereby decrease water use and increase yields.<sup>3</sup> Shelterbelts can also reduce climatic exposure and thereby decrease the energy requirements and reduce mortality of livestock, particularly lambs and shorn sheep.<sup>2,7</sup> Mallee eucalypt plantations carry the additional benefit of having a large and extensive root system, making them ideal for erosion control and preventing topsoil loss from wind.<sup>2,7</sup>

Markets for biodiversity and water credits are emerging, and these could potentially become an additional source of revenue for plantation owners in the years to come.

## 3. The Greenhouse Friendly™ scheme

Carbon Conscious™ Limited intends to seek certification of the proposed plantations as a source of approved abatement under the AGO Greenhouse Friendly™ scheme. Greenhouse Friendly™ is a voluntary certification program which provides independent verification of offsets from forestry abatement projects and allows forestry offsets to be used to assist organisations to become carbon-neutral. Plantations verified under the Greenhouse Friendly™ scheme are also compatible with the requirements of the international Kyoto Protocol. At the time of writing, there is at least one other company with plans to establish mallee plantations in Western Australia that has been certified under the Greenhouse Friendly™ scheme.

### Verification process

Certification under the Greenhouse Friendly™ scheme requires that forestry projects meet specified eligibility criteria; that expected sequestration rates are forecast using verifiable means; and that ongoing monitoring and risk management strategies are in place to support these forecasts.

To gain certification under the scheme, projects are audited by an approved independent verifier. To maintain certification, projects must be re-verified every five years.

Yours sincerely,  
**URS AUSTRALIA PTY LTD**

John Tredinnick  
Principal Consultant

### References

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### Limitations

URS Australia Pty Ltd (URS) has prepared this report in accordance with the usual care and thoroughness of the consulting profession for the use of Carbon Conscious™ Limited and any third parties who have been authorised in writing by URS to rely on the report. It is based on generally accepted practices and standards at the time it was prepared. No other warranty, expressed or implied, is made as to the professional advice included in this report. It is prepared in accordance with the Agreement for Provision of Consulting Services dated 25 January 2007.

The report was prepared during February 2008 and is based on the conditions encountered and information reviewed at the time of preparation. URS disclaims responsibility for any changes that may have occurred after this time.

To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and, to the maximum extent permitted by law, URS expressly disclaims liability to any person and takes no responsibility for any part of the Prospectus other than in respect of this report. This report should be read in full. No responsibility is accepted for use of any part of this report in any other context or for any other purpose.

This report does not and should not be interpreted as giving financial product advice within the meaning of section 766B of the Corporations Act 2001 or section 12BAB of the Australian Securities and Investment Commission Act 2001. This report is not intended to influence the reader in making a decision in relation to the financial product offered under the Prospectus. Financial product advice can only be given by advisors holding an Australian Financial Services Licence. URS is not operating under an Australian Financial Services Licence in providing this report. In accordance with regulation 7.6.01(u) of the Corporations Regulations 2001, URS makes the following disclosures:

- URS has been retained by Carbon Conscious™ Limited to provide a report for inclusion in the Prospectus. The total remuneration for this engagement is \$8,800;
- URS anticipates that further engagements in relation to the provision of forestry consultancy advice may be entered into with Carbon Conscious™ Limited on an as required basis; and
- URS does not make any direct investment in Carbon Conscious™ Limited or the Carbon Conscious™ Limited business interests and has no commercial interests in the financial products being offered other than as a service provider to Carbon Conscious™ Limited.

6 March 2008

The Directors  
Carbon Conscious Limited  
Suite 5, Level 1, 12-20 Railway Road  
SUBIACO WA 6008

Dear Sirs

## INVESTIGATING ACCOUNTANT'S REPORT

### Introduction

This Investigating Accountant's report ("Report") has been prepared for inclusion in a prospectus to be dated on or about 6 March 2008 ("Prospectus") for the issue by Carbon Conscious Limited ("Company") of 20,000,000 ordinary Shares at an issue price of 40 cents each, to raise \$8,000,000 before the expenses of the issue.

This Report has been included in the Prospectus to assist potential investors and their financial advisers to make an assessment of the financial position of the Company.

### Structure of Report

This Report has been divided into the following sections:

1. Background information;
2. Scope of Report;
3. Financial information;
4. Subsequent events;
5. Statements; and
6. Declaration.

### 1. Background information

The Company was registered on 2 January 2008. HLB Mann Judd was appointed as the Company's auditors on 17 January 2008.

As at the date of this Report, the issued share capital of the Company is 19,250,000 ordinary fully paid Shares. The following table summarises share capital movements since registration.

	Number issued	Issue price	\$
Shares issued on Registration	1	-	-
Shares issued to seed capital investors	16,249,999	\$0.0001	1,625
Shares issued to seed capital investors	3,000,000	\$0.20	600,000
Shares on issue at the date of this Report	19,250,000		601,625

Additionally, the Company has the following options on issue at the date of this report:

Number issued	Exercise price	Expiry date
7,500,000	60 cents	31 December 2010
1,875,000	20 cents	31 March 2011
9,375,000		

We understand that the funds raised by the issue of Shares under the Prospectus will be applied in the manner described in Section 1.4 of the Prospectus.

### 2. Scope of Report

You have requested HLB Mann Judd ("HLB") to prepare this Report presenting the following information:

- a) the historical financial information, comprising the historical Balance Sheet as at 31 January 2008 and the historical Income Statement, Statement of Changes in Equity and Cash Flow Statement for the period from registration to 31 January 2008 as set out in Appendix 1 to this Report; and
- b) the proforma financial information comprising, the proforma Balance Sheet as at 31 January 2008 and the proforma Income Statement, Statement of Changes in Equity and Cash Flow Statement for the period then ended.

The Directors have prepared and are responsible for the historical and proforma information. We disclaim any responsibility for any reliance on this Report or on the financial information to which it relates for any purposes other than that for which it was prepared. This Report should be read in conjunction with the full Prospectus.

The historical financial information, as set out in Appendix 1, has been extracted from the unaudited financial statements of the Company for the period ended 31 January 2008. We performed a review of the historical financial information of the Company and the proforma information of the Company as at 31 January 2008 in order to ensure consistency in the application of applicable Accounting Standards and other mandatory professional reporting requirements. Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements.

Our review of the historical financial information of the Company and the proforma information of the Company was carried out in accordance with Australian Auditing Standard AUS 902 "Review of Financial Reports" and included such enquiries and procedures which we considered necessary for the purposes of this Report. The review procedures undertaken by HLB in our role as Investigating Accountant were substantially less in scope than that of an audit examination conducted in accordance with generally accepted auditing standards. Our review was limited primarily to an examination of the historical financial information and the proforma information, analytical review procedures and discussions with senior management. A review of this nature provides less assurance than an audit and, accordingly, this Report does not express an audit opinion on the historical financial information and proforma information included in this Report or elsewhere in the Prospectus.

### HLB Mann Judd (WA Partnership) ABN 22 193 232 714

Level 2 15 Rheola Street West Perth 6005 PO Box 263 West Perth 6872 Western Australia. Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686. Email: hlb@hlbwa.com.au. Website: <http://www.hlb.com.au>

Liability limited by a scheme approved under Professional Standards Legislation

HLB Mann Judd (WA Partnership) is a member of  International, a world-wide organisation of accounting firms and business advisers

# Investigating accountant's report

In relation to the information presented in this Report:

- a) Support by another person, corporation or an unrelated entity has not been assumed;
- b) The amounts shown in respect of assets do not purport to be the amounts that would have been realised if the assets were sold at the date of this Report; and
- c) The going concern basis of accounting has been adopted.

### 3. Financial information

Set out in Appendix 1 (attached) are:

- a) The Balance Sheet of the Company as at 31 January 2008, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the period from registration to 31 January 2008; and
- b) The proforma Balance Sheet of the Company as at 31 January 2008 and the proforma Income Statement, Statement of Changes in Equity and Cash Flow Statement of the Company for the period then ended as they would appear after incorporating the following significant events and proposed transactions by the Company subsequent to 31 January 2008:
  - i) The issue by the Company pursuant to the Prospectus of 20,000,000 ordinary Shares at an issue price of \$0.40 per share raising \$8,000,000.
  - ii) The write off to contributed equity account of the estimated costs of the Prospectus of \$564,500 as follows:
    - \$1,520 incurred to 31 January 2008 and recorded in the Balance Sheet as at that date; and
    - an estimated \$562,980 not already paid or previously provided.

As noted in Section 2.2 of the Prospectus, the minimum subscription to the Offer is 12,500,000 Shares at issue price of 40 cents per share raising \$5,000,000 before the expenses of the Offer. Additionally, the Directors have the right to accept oversubscriptions such that a total of 25,000,000 Shares at an issue price of 40 cents per share raising \$10,000,000 before the expenses of the Offer can be issued under the Prospectus. The following table sets out the proforma cash balance and proforma net asset positions of the Company at the minimum subscription and maximum oversubscription levels:

	Minimum Subscription \$	Maximum Oversubscription \$
Cash and cash equivalents	5,187,361	9,937,361
Net assets	5,122,411	9,872,411

- c) Notes to the historical financial information and proforma information.

### 4. Subsequent events

In our opinion, there have been no material items, transactions or events subsequent to 31 January 2008 not otherwise disclosed in the Prospectus that have come to our attention during the course of our review that would require comment in, or adjustment to, the content of this Report or which would cause such information included in this Report to be misleading.

### 5. Statements

Based on our review, which was not an audit, we have not become aware of any matter that causes us to believe that:

- a) the historical financial information of the Company as at 31 January 2008 as set out in Appendix 1 of this Report, does not present fairly the financial position of the Company as at that date in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory reporting requirements in Australia and its performance as represented by its results of its operations and its cash flows for the period from registration to 31 January 2008; and
- b) the proforma information of the Company as at 31 January 2008 as set out in Appendix 1 of this Report, does not present fairly the financial position of the Company as at that date in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory reporting requirements in Australia and its performance as represented by its results of its operations and its cash flows for the period ended 31 January 2008, as if the transactions referred to in Section 3 (b) of this Report had occurred during that period.

### 6. Declaration

- a) HLB will be paid its usual professional fees based on time involvement, for the preparation of this Report and review of the financial information, at our normal professional rates (expected to be \$8,000). HLB has received no amounts since registration.
- b) Apart from the aforementioned fee, neither HLB, nor any of its associates will receive any other benefits, either directly or indirectly, for or in connection with the preparation of this Report.
- c) Neither HLB, nor any of its employees or associated persons has any interest in Carbon Conscious Limited or the promotion of the Company.
- d) Unless specifically referred to in this Report, or elsewhere in the Prospectus, HLB was not involved in the preparation of any other part of the Prospectus and did not cause the issue of any other part of the Prospectus. Accordingly, HLB makes no representations or warranties as to the completeness or accuracy of the information contained in any other part of the Prospectus.
- e) HLB has consented to the inclusion of this Report in the Prospectus in the form and context in which it appears. The inclusion of this Report should not be taken as an endorsement of the Company or a recommendation by HLB of any participation in the Company by an intending subscriber.

Yours faithfully

**HLB MANN JUDD**



**W M CLARK**  
Partner

## 6. Investigating accountant's report (cont)

### Appendix 1

#### Balance sheet as at 31 January 2008

	Notes	Unaudited \$	Unaudited Proforma \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2	601,861	8,037,361
Receivables and prepayments		17,951	16,431
<b>Total current assets</b>		<b>619,812</b>	<b>8,053,792</b>
<b>NON-CURRENT ASSETS</b>			
Carbon development expenditure	3	22,516	22,516
<b>TOTAL NON-CURRENT ASSETS</b>		<b>22,516</b>	<b>22,516</b>
<b>TOTAL ASSETS</b>		<b>642,328</b>	<b>8,076,308</b>
<b>CURRENT LIABILITIES</b>			
Trade and other creditors	4	105,417	103,897
<b>TOTAL CURRENT LIABILITIES</b>		<b>105,417</b>	<b>103,897</b>
<b>TOTAL LIABILITIES</b>		<b>105,417</b>	<b>103,897</b>
<b>NET ASSETS</b>		<b>536,911</b>	<b>7,972,411</b>
<b>EQUITY</b>			
Issued capital	5	601,625	8,037,125
Reserves	6	261,148	261,148
Accumulated losses		(325,862)	(325,862)
<b>Total equity</b>		<b>536,911</b>	<b>7,972,411</b>

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

#### Income statement for the period from registration to 31 January 2008

	Unaudited \$	Unaudited Proforma \$
Revenue from ordinary activities	476	476
Share based payment compensation	(261,148)	(261,148)
Other expenses from ordinary activities	(65,190)	(65,190)
Loss from ordinary activities before income tax	(325,862)	(325,862)
Income tax expense relating to ordinary activities	-	-
Loss from ordinary activities after income tax expense	(325,862)	(325,862)

This statement should be read in conjunction with the accompanying notes.

#### Cash flow statement for the period from registration to 31 January 2008

	Unaudited \$	Unaudited Proforma \$
<b>Cash Flows From Operating Activities</b>		
Payments to suppliers and employees	476	476
Interest received	(240)	(240)
<b>Net Cash Used In Operating Activities</b>	<b>236</b>	<b>236</b>
<b>Cash Flows From Investing Activities</b>		
Payments - carbon development	-	-
<b>Net Cash Used In Investing Activities</b>	<b>-</b>	<b>-</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from issue of Shares	601,625	8,601,625
Prospectus and share issue costs	-	(564,500)
<b>Net Cash Provided By Financing Activities</b>	<b>601,625</b>	<b>8,037,125</b>
<b>Net Increase In Cash Held</b>	<b>601,861</b>	<b>8,037,361</b>
Cash at the beginning of the financial period	-	-
<b>Cash At The End Of The Financial Period</b>	<b>601,861</b>	<b>8,037,361</b>

This statement should be read in conjunction with the accompanying notes.

## Statement of changes in equity for the period from registration to 31 January 2008

	Contributed Equity \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Issue of Shares at date of registration	-	-	-	-
Result for the period	-	261,148	(325,862)	(64,714)
Issue of Shares to promoters and seed capital investors	601,625	-	-	601,625
As at 31 January 2008	601,625	261,148	(325,862)	536,911
Proforma adjustments:				
Issue of Shares pursuant to Prospectus	8,000,000	-	-	8,000,000
Share issue expenses	(564,500)	-	-	(564,500)
Result for the period	-	-	-	-
Proforma total	8,037,125	261,148	(325,862)	7,972,411

This statement should be read in conjunction with the accompanying notes.

## Notes to the financial statements for the period from registration to 31 January 2008

### 1. Summary of significant accounting policies

The significant accounting policies which have been adopted in the preparation of the historical and proforma financial information reported under Australian Equivalents to International Financial Reporting Standards ("AIFRS") are shown below:

#### a) Basis of accounting

The financial statements have been prepared in accordance with the measurement requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia using the accrual basis of accounting, including the historical cost convention.

#### b) Statement of compliance

The financial information complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial information, comprising the financial statements and notes thereto, comply with International Financial Reporting Standards.

#### c) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Cash Flow Statement, cash includes cash on hand and deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

#### d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised for the major business activities of the Company as follows:

- i) Sale of carbon credits – revenue from the sale of carbon credits is recognised when the Company has transferred to the buyer the significant risks and rewards of the ownership of the carbon credits.
- ii) Project revenue – where the company undertakes the development of carbon sinks for third parties, revenue is recognised in proportion to the percentage completion of the project. Management related income is recognised on an accrual basis in accordance with the substance of the relevant contract.
- iii) Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

#### e) 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 ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the ATO is included as a current asset or liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from or payable to the ATO are classified as operating cash flows.

## 6. Investigating accountant's report (cont)

### Appendix 1 (cont)

#### Notes to the financial statements for the period from registration to 31 January 2008 (cont)

##### 1. Summary of significant accounting policies (cont)

###### f) Income tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

###### g) Recoverable amount

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects current market assessments of the time value of money and the risks specific to the asset.

###### h) Carbon development expenditure

Costs in relation to the development of carbon sinks, other than where the Company is developing carbon sinks for third parties, are initially accumulated as a non-current asset. It must be probable that the costs will generate sufficient future economic benefits to recover the carrying amount and that the costs are clearly identifiable and allocable to a specific project. Costs are reviewed annually for impairment.

After costs are capitalised, they are subsequently transferred to inventories in the proportion that saleable carbon credits are produced relative to the expected output from each specific project.

#### i) Inventories

Inventories of carbon emission reductions are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated selling expenses. The cost of inventory is based on the first-in first-out principle, determined on a weighted average cost basis, and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition.

Cost comprises all production, acquisition and conversion costs and is aggregated on a weighted average basis. At the end of each period, inventory cost is evaluated based on the recoverable value and current market pricing to determine whether any write down is appropriate. To the extent that any impairment arises, losses are recognised in the period they occur. Additionally, the costs associated with producing inventories are charged to the Income Statement in the same period as the related revenues are recognised.

#### j) Trade and other payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services. Amounts are unsecured and are usually paid within 30 days of recognition.

#### k) Issued capital

Issued capital is recognised at the fair value of the consideration received by the Company.

Transaction costs arising on the issue of ordinary Shares are recognised directly in equity as a reduction of the share proceeds received.

#### l) Share based payments - Shares and options

The fair value of Shares and share options granted is recognised as an expense with a corresponding increase in equity. Fair value is measured at grant date and recognised over the period during which the grantees become unconditionally entitled to the Shares or share options.

The fair value of share grants at grant date is determined by the share price at that time.

The fair value of share options at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, any vesting and performance criteria, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

Upon the exercise of the option, the balance of the share-based payments reserve relating to the option is transferred to share capital.

#### m) Proforma transactions

The proforma Balance Sheet, Income Statement, Statement of Changes in Equity and Cash Flow Statement have been derived from the historical financial information as at 31 January 2008 adjusted to give effect to the following actual or proposed significant events and transactions by the Company subsequent to successful listing on the ASX:

- i) the issue by the Company pursuant to the Prospectus of 20,000,000 ordinary Shares at an issue price of \$0.40 per share raising \$8,000,000.
- ii) the write off to contributed equity account of the estimated costs of the Prospectus of \$564,500 as follows: \$1,520 incurred to 31 January 2008 and recorded in the Balance Sheet as at that date; and an estimated \$562,980 not already paid or previously provided.

	Unaudited \$	Unaudited Proforma \$
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#### 2. Cash and cash equivalents

Balance as at 31 January 2008	601,861	601,861
Shares issued pursuant to this Prospectus	-	8,000,000
Share issue costs	-	(564,500)
	<u>601,861</u>	<u>8,037,361</u>

#### 3. Carbon development expenditure

Balance as at 31 January 2008	<u>22,516</u>	<u>22,516</u>
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#### 4. Trade and other creditors

Balance at 31 January 2008	105,417	105,417
Payment of share issue costs	-	(1,520)
	<u>105,417</u>	<u>103,897</u>

#### 5. Issued capital

Issued and paid up capital:

1 fully paid share issued on registration	-	-
16,249,999 fully paid Shares issued at \$0.0001 each to promoters	1,625	1,625
3,000,000 fully paid Shares issued at 20 cents each to seed capital investors	600,000	600,000
20,000,000 fully paid Shares issued at 40 cents each pursuant to this Prospectus	-	8,000,000
Share issue costs	-	(564,500)
Balance at end of period: 19,250,000 ordinary Shares, (Proforma 39,250,000) fully paid	<u>601,625</u>	<u>8,037,125</u>

Number	Number
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#### Issued Options:

Exercisable at 60 cents each expiring on 31 December 2010	7,500,000	7,500,000
Exercisable at 20 cents each expiring on 31 March 2011	1,875,000	1,875,000
	<u>9,375,000</u>	<u>9,375,000</u>

#### Expensing of Options:

The historical financial information as at 31 January 2008 includes a write off to the Income Statement of \$261,148 relating to the issue of 5,400,000 options for no cash consideration, exercisable at \$0.60 each, expiring 31 December 2010 as referred to in Section 8.2 of the Prospectus. These Options were fully vested upon issue.

## 6. Investigating accountant's report (cont)

### Appendix 1

#### 5. Issued Capital (Cont)

The fair value of these options has been estimated at the anticipated grant date using the Black & Scholes options pricing model with the following assumptions.

Volatility	88%
Risk Free rate	6.65%
Dividend yield	0.0%
Spot price at grant date	\$0.20

In addition to the write off to the Income Statement for vested Options as above, the Company has issued an additional 3,975,000 Options to Directors and employees.

At 31 January 2008 these options had not vested and the expense will be brought to account in future Income Statements over the vesting periods of the options.

These Options will vest on the basis of various service periods and achievements of key performance indicators by the Option holders.

The accounting policy of the Company is to expense the fair value of the Options over their respective vesting periods. Utilising the Black Scholes model and the assumptions noted above, the following table represents the maximum fair value that will be expensed to the Income Statements for the forthcoming financial years.

Financial Year Ended	Expense
30 June 2008	51,858
30 June 2009	106,323
30 June 2010	68,844
30 June 2011	30,286
Maximum Fair Value	<u>\$257,311</u>

#### Movement in the number of fully paid Shares

	Number	Number
Issued on registration	1	1
Shares issued to promoters	16,249,999	16,249,999
Shares issued to seed capital investors	3,000,000	3,000,000
Balance at 31 January 2008	19,250,000	19,250,000
Shares to be issued pursuant to the Prospectus	-	20,000,000
	<u>19,250,000</u>	<u>39,250,000</u>

#### 6. Reserves

	Unaudited \$	Unaudited Proforma \$
Share based payment reserve	261,148	261,148

#### 7. Contingencies and Commitments

Carbon development expenditure:

Details of planned expenditure commitments are outlined in Section 1.4 of the Prospectus.

The Directors are not aware of any other contingencies or commitments other than as disclosed in Section 8.10 of the Prospectus.

#### 8. Related party transactions

The names of persons who were Directors of Carbon Conscious™ Limited at any time during the financial period are Nadaisan Logaraj, Richard Collins, Peter Balsarini, Daniel Stevens, Michael Shields and Matthew Birney.

Details of Directors' interests in the Company's issued capital and transactions with the Company are included in Section 8.4 of the Prospectus.

# Material Contracts Summary

## 7. Material Contracts Summary

Set out below is a summary of the contracts to which the Company is a party that may be material in terms of the Offer for the operation of the business of the Company or otherwise may be relevant to a potential investor in the Company.

### 7.1 Australian Agricultural Contracts Ltd Services Agreement

The Company entered into a Services Agreement with Australian Agricultural Contracts Ltd, Broadacre Assets Management Pty Ltd and Macro Funds Ltd (together "AACL") on 22 February 2008 ("the Services Agreement"). Pursuant to the Services Agreement, the Company engaged AACL to provide various services to the Company including but not limited to:

- a) administration of the Company's program of producing carbon credits through mallee eucalypt bio sequestration ("Program");
- b) marketing and promotional services to land owners;
- c) establishing and maintaining appropriate software systems and procedures;
- d) sourcing and identifying suitable land and land owners in connection with the Company's operations and Program and facilitating the agreement between the Company and the landowners to carry out Mallee Tree plantings on the land, including preparation of the necessary documentation;
- e) ongoing analysis and management of the Company's operations and the Program;
- f) identifying and procuring suitably qualified staff including farmer contract managers, mapping officers and contract officers; and
- g) any other services reasonably required by the Company (together "the Services").

AACL may not offer services of a similar nature of the Services to any third party without the written consent of the Company, during the term of the Services Agreement.

The material terms of the Services Agreement are:

- a) an aggregate annual amount of \$180,000 is payable by the Company to AACL in consideration for the provision of the Services ("Base Fee"). In addition to the Base Fee, the following fees are payable by the Company:
  - i) on and from commencement of the Services Agreement, \$30 per hectare of suitable land on which Mallee Trees are planted on behalf of the Company, and which is facilitated and managed by AACL; and
  - ii) in each year in which AACL achieves the following targets, \$20 per hectare of suitable land on which Mallee Trees are planted on behalf of the Company, and which is facilitated and managed by AACL:
    - A) in 2009, 2,000 hectares;
    - B) in 2010, 5,000 hectares;
    - C) in 2011, 7,000 hectares;
    - D) in 2012, 10,000 hectares;
    - E) in 2013, 10,000 hectares; and
    - F) in 2014, 10,000 hectares.

- b) the fees set out above are subject to annual CPI plus 2% increases and are exclusive of GST;
- c) the Company is required to reimburse AACL for all fees and disbursements not incorporated to the Base Fee;
- d) the provision of the Services by AACL is governed by performance indicators including the targets set out in paragraph (a) above and specific turn-around times relating to the preparation of the necessary documentation in connection with the Program;
- e) the Services Agreement commences on 1 February 2008 and terminates on 31 January 2011 unless otherwise terminated earlier in accordance with the provisions of the Services Agreement. The Company has an option to extend the term of the Services Agreement for an additional three (3) years;
- f) AACL shall report regularly to the Company as to the status of the Services and the Program; and
- g) either party may terminate the Services Agreement if the other party commits a breach of the Services Agreement which is not rectified within 30 days of notice of the breach. The Company may terminate the Services Agreement immediately if, among other things, the Company ceases to operate the Program, in which case the Company must pay to AACL an amount equal to 50% of the Base Fee set out in paragraph (a) above, or if AACL becomes insolvent. The Services Agreement is otherwise terminable by either party on 180 days notice.

The Services Agreement contains warranties and other provisions considered standard in an agreement of this type.

### 7.2 Benara Nursery Seeding Agreement

The Company has entered into a heads of agreement ("Benara Agreement") with Benara Nurseries ("Benara"), pursuant to which Benara has agreed to grow:

- a) 2,000,000 Mallee Tree seedlings and 3,000,000 Mallee Tree mini plugs for the 2009 planting season;
- b) 3,000,000 Mallee Tree seedlings and 2,000,000 Mallee Tree mini plugs for the 2010 planting season; and
- c) 10,000,000 Mallee Tree mini plugs for each of the 2011, 2012 and 2013 planting seasons.

The Company will have a first right to acquire from Benara additional Mallee Tree seedlings during the term of the Benara Agreement. The Company has agreed to acquire the seedlings at standard commercial rates. The fees payable by the Company will increase each year by CPI plus 2%.

In consideration for entering into the Benara Agreement, the Company has agreed to pay \$10,000 to Benara, and will procure that Broadacre Asset Management Pty Ltd transfers to Benara 15,000 Shares, upon listing on ASX. The parties will enter into a fuller agreement on terms not inconsistent with the terms of the Benara Agreement in due course.

# Material Contracts Summary

## 7.3 Seedling Supply Agreements

The Company has entered into letter agreements with various nurseries ("Seedling Supply Agreements"), details of which are set out below, pursuant to which the Company has agreed to acquire and the nurseries have agreed to provide Mallee Tree seedlings:

- a) Chatfield's Nursery;
- b) Kulin Plant Farm;
- c) Blythe Nursery; and
- d) GreenOil Tree Nursery.

The number of seedlings to be provided by each of the nurseries, to the Company is set out in the table below:

	2009 Season (x1000)	2010 Season (x1000)	2011 Season (x1000)	2012 Season (x1000)	2013 Season (x1000)
Chatfield's	500	1,000	–	–	–
Kulin	500	750	1,000	1,000	1,000
Blythe	500	2,500	2,500	2,500	2,500
GreenOil	500	2,500	5,000	5,000	5,000

The Company has agreed to acquire the seedlings at standard commercial rates, to be increased each year by CPI plus 2%.

In consideration for each of the nurseries agreeing to enter into the Seedling Supply Agreements and provide the seedlings to the Company, the Company has paid a deposit of \$5,000 to each nursery.

The Company has the option to extend the term of each of the Seedling Supply Agreements for a further five (5) year period and if the nurseries have capacity, may be offered an increase in the number of seedlings provided to it under the Seedling Supply Agreements.

## 7.4 Seed Supply Agreements

The Company has entered into a heads of agreement with three landowners ("Seed Suppliers"), details of which are set out below, pursuant to which the Seed Suppliers have agreed to provide access to their existing Mallee Tree plantations, and sell the Mallee seeds, to the Company and the Company has agreed to acquire Mallee seeds from the Seed Suppliers ("Seed Supply Agreements").

The Mallee seeds will be harvested by the Seed Suppliers and sold to the Company. Pursuant to the Seed Supply Agreements, the Seed Suppliers shall provide access to approximately 26,800 Mallee Trees proposed to be harvested by the Seed Suppliers on behalf of the Company over a five (5) year period.

The Company will have exclusive access to the Seed Suppliers' land to collect the Mallee seeds. The Company has agreed to acquire the seed at standard commercial rates. This fee will be increased each year by CPI plus 2%. The term of each of the Seed Supply Agreements is five (5) years with an option to extend for a further five (5) years.

In consideration for the Seed Suppliers entering into the Seed Supply Agreements, the Company has paid \$1,000 to each seed supplier. Upon successful listing on ASX, the Company will procure that Broadacre Asset Management Pty Ltd transfer to each of the Seed Suppliers 5,000 Shares.

The Company has entered into Seed Supply Agreements with the following persons set out below:

- a) Phil Rae
- b) Paul Chapman

## 7.5 Executive Employment Agreements

The Company has entered into an Executive Services Agreement with each of its Executive Directors, being Peter Balsarini, Daniel Stevens and Richard Collins ("Executive Agreements"). The material terms of the Executive Agreements are as follows:

- a) the Company has engaged each of the Executive Directors to provide Executive Director services to the Company;
- b) the Executive Agreements commence on the date that the Company is admitted to ASX for an initial term of one (1) year;
- c) each Executive Director is required to, among other things, act in accordance with the reasonable instructions of the Board of Directors and perform his duties in good faith, using all reasonable care and acting in the best interests of the Company;
- d) Mr Balsarini will be entitled to annual remuneration of \$120,000 exclusive of superannuation plus reimbursement for reasonable business and vehicle expenses;
- e) Mr Stevens will be entitled to annual remuneration of \$120,000 exclusive of superannuation plus reimbursement for reasonable business expenses;
- f) Mr Collins will be entitled to annual remuneration of \$120,000 exclusive of superannuation plus reimbursement for reasonable business expenses;
- g) the Executive Directors will have standard annual, sick and long service leave entitlements; and
- h) the Company may terminate an Executive Agreement immediately if an Executive Director commits a material specified breach of the Agreement. The Executive Agreements are otherwise terminable on one month notice by either party.

The Executive Agreements contain other provisions considered standard in an agreement of this type including confidentiality obligations and a trade restraint.

## 7.6 Deeds of Indemnity, Access and Insurance

The Company has entered into a Deed of Access, Indemnity and Insurance with each of the Directors ("Deed").

Under the Deed, the Company indemnifies each Director to the maximum extent permitted by law against legal proceedings, damage, loss, liability and other costs suffered, paid or incurred by the Director in connection with the Director being an officer of the Company, or any breach by the Company of its obligations pursuant to the Deed.

The Deed also requires the Company to have in place indemnity insurance and provide the Director with access to the Company's records after the Director ceases to act as an officer of the Company.

# Additional information

## 8. Additional information

### 8.1 Rights attached to securities

Full details of the rights attaching to Shares are set out in Carbon Conscious's Constitution a copy of which can be inspected, free of charge, at Carbon Conscious's registered office during normal business hours.

The following is a broad summary of the rights, privileges and restrictions attaching to all Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders.

All Shares issued pursuant to this Prospectus will from the time they are issued, rank *pari passu* with all the Company's existing Shares.

#### 8.1.1 General meetings

Shareholders are entitled to be present in person, or by proxy, attorney or representation, to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance Section 249D of the Corporations Act and the Constitution of the Company.

#### 8.1.2 Voting rights

Subject to any rights or restrictions for the time being attached to any class or classes of Shares (at present there are none), at meetings of Shareholders of Carbon Conscious™:

- a) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- b) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- c) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the Share, but in respect of partly paid Shares, shall have such number of votes as bears the same proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited).

#### 8.1.3 Dividend rights

Subject to the rights of holders of Shares issued with special, preferential or qualified rights (at present there are none), the profits of Carbon Conscious™ which the Directors determine to distribute by way of dividend are divisible among the holders of ordinary Shares in proportion to the number of Shares held by them.

#### 8.1.4 Transfer of Shares

Subject to the Constitution of the Company, the Corporations Act 2001, and any other laws and ASTC Settlement Rules and ASX Listing Rules, Shares are freely transferable.

#### 8.1.5 Future increases in capital

The allotment and issue of any Shares is under the control of the Directors. Subject to restrictions on the allotment of Shares to Directors or their associates, the ASX Listing Rules, the Constitution of the Company and the Corporations Act 2001, the Directors may allot or otherwise dispose of Shares on such terms and conditions as they see fit.

#### 8.1.6 Variation of rights

Under the Corporations Act 2001, the Company may, with the sanction of a special resolution passed at a meeting of Shareholders vary or abrogate the rights attaching to Shares. If at any time the share capital is divided into different classes of Shares, the rights attached to any class (unless otherwise provided by the terms of the issue of the Shares of that class), whether or not the Company is being wound up may be varied or abrogated with the consent in writing of the holders of three quarters of the issued Shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the Shares of that class.

#### 8.1.7 Rights on winding up

Subject to the rights of holders of Shares with special rights in a winding up (at present there are none), on a winding up of Carbon Conscious™ all assets that may be legally distributed among members will be distributed in proportion to the number of fully paid Shares held by them.

#### 8.1.8 Liabilities

The Shares offered under this Prospectus are fully paid Shares. There is no liability on a holder of those Shares to contribute any further amount to the Company in respect of those Shares.

## 8.2 Terms and conditions of Options

Terms and conditions of the Options are as follows.

### 8.2.1 BAM Options

The material terms and conditions of the BAM Options are as follows:

- a. BAM Options are fully vested to the holder.
- b. Each BAM Option entitles the holder, when exercised, to one Share in the Company.
- c. The BAM Options may be exercised at any time prior to 5pm (WST) on the 31 December 2010 by completing a BAM Option exercise form and delivering it together with the payment for the number of Shares in respect of which the BAM Options are exercised to the registered office of the Company.
- d. The BAM Option exercise price is \$0.60 per BAM Option;
- e. A BAM Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the BAM Option can be exercised.
- f. Subject to the Corporations Act, the ASX Listing Rules and the Company's Constitution, the BAM Options are freely transferable.
- g. All Shares issued upon exercise of the BAM Options will rank *pari passu* in all respects with Carbon Conscious™ issued Shares. Carbon Conscious™ will apply for official quotation by ASX of all Shares issued upon exercise of the BAM Options.
- h. There are no participating rights or entitlements inherent in the BAM Options and the holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the BAM Options. However, the record date for determining entitlements to any such issue will be determined in accordance with the ASX Listing Rules. This will give BAM Option holders the opportunity to exercise their BAM Options prior to the date for determining entitlements to participate in any such issue.
- i. If at any time the issued capital of the Company is reconstructed, all rights of a BAM Option holder are to be changed in a manner consistent with the ASX Listing Rules.

# Additional information (cont)

## 8.2.2 Non-Executive Director Options

The Non-Executive Director Options have been issued to each of the Non-Executive Directors as set in Section 8.4 of this Prospectus. The material terms of the Non-Executive Director Options are as follows:

- a. Non-Executive Director Options will not vest to the holder until completion of one (1) full years service by the Non-Executive Director.
- b. Each Non-Executive Director Option entitles the holder, when exercised, to one Ordinary Share in the Company.
- c. The Non-Executive Director Options may be exercised at any time prior to 5pm (WST) on the 31 December 2010 by completing a Non-Executive Director Option exercise form and delivering it together with the payment for the number of Shares in respect of which the Non-Executive Director Options are exercised to the registered office of the Company.
- d. The Non-Executive Director Option exercise price is \$0.60 per Non-Executive Director Option.
- e. A Non-Executive Director Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Non-Executive Director Option can be exercised.
- f. Subject to the Corporations Act, the ASX Listing Rules and the Company's Constitution, the Non-Executive Director Options are freely transferable.
- g. All Shares issued upon exercise of the Non-Executive Director Options will rank pari passu in all respects with Carbon Conscious™ issued Shares. Carbon Conscious™ will apply for official quotation by ASX of all Shares issued upon exercise of the Non-Executive Director Options.
- h. There are no participating rights or entitlements inherent in the Non-Executive Director Options and the holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Non-Executive Director Options. However, the record date for determining entitlements to any such issue will be determined in accordance with the ASX Listing Rules. This will give Non-Executive Director Option holders the opportunity to exercise their Non-Executive Director Options prior to the date for determining entitlements to participate in any such issue.
- i. If at any time the issued capital of the Company is reconstructed, all rights of an Non-Executive Director Option holder are to be changed in a manner consistent with the ASX Listing Rules.

## 8.2.3 Executive Director Options

The Executive Director Options have been issued to each of the Executive Directors as set in Section 8.4 of this Prospectus. The material terms of the Executive Director Options are as follows:

- a. 50% of the Executive Director Options will vest to the holder upon completion of one (1) full years service and satisfactory attainment of employment related key performance indicators. The additional 50% of the Executive Director Options will vest to the holder upon the completion of an additional one (1) years full service and the attainment of additional employment related key performance indicators.
- b. Each Executive Director Option entitles the holder, when exercised, to one Ordinary Share in the Company.
- c. The Executive Director Options may be exercised at any time prior to 5pm (WST) on the 31 December 2010 by completing an Option exercise form and delivering it together with the payment for the number of Shares in respect of which the Executive Director Options are exercised to the registered office of the Company.

- j. The Executive Director Option exercise price is \$0.60 per Executive Director Option;
- d. An Executive Director Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Executive Director Option can be exercised.
- e. Subject to the Corporations Act, the ASX Listing Rules and the Company's Constitution, the Executive Director Options are freely transferable.
- f. All Shares issued upon exercise of the options will rank pari passu in all respects with Carbon Conscious™ issued Shares. Carbon Conscious™ will apply for official quotation by ASX of all Shares issued upon exercise of the Executive Director Options.
- g. There are no participating rights or entitlements inherent in the Executive Director Options and the holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Executive Director Options. However, the record date for determining entitlements to any such issue will be determined in accordance with the ASX Listing Rules. This will give Executive Director Option holders the opportunity to exercise their Executive Director Options prior to the date for determining entitlements to participate in any such issue.
- h. If at any time the issued capital of the Company is reconstructed, all rights of an Executive Director Option holder are to be changed in a manner consistent with the ASX Listing Rules.

## 8.2.4 \$0.20 Options

The \$0.20 Options have been issued as set in section 8.4 of this Prospectus. The material terms of the \$0.20 Options are as follows:

- a. \$0.20 Options will vest to the holder upon completion of three (3) full years service and satisfactory attainment of employment related key performance indicators.
- b. Each \$0.20 Option entitles the holder, when exercised, to one Ordinary Share in the Company.
- c. The \$0.20 Options may be exercised at any time prior to 5pm (WST) on the 31 March 2011 by completing an Option exercise form and delivering it together with the payment for the number of Shares in respect of which the \$0.20 Options are exercised to the registered office of the Company.
- d. The \$0.20 Option exercise price is \$0.20 per \$0.20 Option;
- e. A \$0.20 Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the \$0.20 Option can be exercised.
- f. Subject to the Corporations Act, the ASX Listing Rules and the Company's Constitution, the \$0.20 Options are freely transferable.
- g. All Shares issued upon exercise of the \$0.20 Options will rank pari passu in all respects with Carbon Conscious™ Limited issued Shares. Carbon Conscious™ Limited will apply for official quotation by ASX of all Shares issued upon exercise of the \$0.20 Options.
- h. There are no participating rights or entitlements inherent in the \$0.20 Options and the holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the \$0.20 Options. However, the record date for determining entitlements to any such issue will be determined in accordance with the ASX Listing Rules. This will give \$0.20 Option holders the opportunity to exercise their \$0.20 Options prior to the date for determining entitlements to participate in any such issue.
- i. If at any time the issued capital of the Company is reconstructed, all rights of an \$0.20 Option holder are to be changed in a manner consistent with the ASX Listing Rules.

### 8.3 Material Contract Summary

The summary of the contracts to which the Company is a party which may be material in terms of the Offer or the operation of the business of Carbon Conscious™ are summarised in the Material Contract Summary in Section 7.

### 8.4 Interests of Directors of the Company

Except as disclosed in this Prospectus, no Director holds, or during the last two (2) years has held any interest in:

- a) The formation or promotion of Carbon Conscious™;
- b) Property acquired or proposed to be acquired by Carbon Conscious™ in connection with its formation or promotion of the Offer; or
- c) The Offer.

No amounts of any kind (whether in cash, Shares or otherwise) have been paid or agreed to be paid to any Director to induce him to become or to qualify as a Director or otherwise for services rendered by him in connection with the formation or promotion of Carbon Conscious™ or the Offer.

#### Directors' Shareholdings

The Directors are not required to hold any Shares in Carbon Conscious™ under the constitution of Carbon Conscious™.

At the date of this Prospectus the relevant interests of each of the Directors in the Shares of the Company are as follows:

#### Directors' Remuneration

The Directors have arranged for Mr Balsarini to provide his services as Chief Operating Officer of Carbon Conscious™. Carbon Conscious™ will pay Mr Balsarini, at a rate calculated on the basis of \$120,000 per annum exclusive of superannuation.

The Directors have arranged for Mr Stevens to provide his services as Director Business Development of Carbon Conscious™. Carbon Conscious™ will pay Mr Stevens, at a rate calculated on the basis of \$120,000 per annum exclusive of superannuation.

The Directors have arranged for Mr Collins to provide his services as Director of Carbon Estates of Carbon Conscious™. Carbon Conscious™ will pay Mr Collins, at a rate calculated on the basis of \$120,000 per annum exclusive of superannuation.

Mr Logaraj will receive director's fees of \$50,000 per annum, exclusive of superannuation.

Mr Birney will receive director's fees of \$50,000 per annum, exclusive of superannuation.

Mr Shields will receive director's fees of \$50,000 per annum, exclusive of superannuation.

#### Directors - Related Party Interests.

Mr Nadaisan Logaraj Non-Executive Director of the Company is a Director of BAM. In addition Mr Daniel Stevens Director has an equity interest in BAM.

At the date of the Prospectus the following represents the interests of BAM in Carbon Conscious™ of which these Directors have a related party interest in.

BAM Shareholding – 14,118,750 Ordinary Shares

BAM Options – 5,400,000 BAM Options – see Section 8.2.1 for further details

In addition, as noted in Section 7 Material Contracts Summary, BAM will provide land identification and acquisition services to the Carbon Conscious™ business for agreed consideration.

Director	No. of Shares	Executive Director Options	Non-Executive Director Options	Other Options
Nadaisan Logaraj	256,250	-	300,000	-
Peter Balsarini	156,250	400,000	-	-
Daniel Stevens	156,250	400,000	-	-
Richard Collins	468,750	400,000	-	937,500
Michael Shields	256,250	-	300,000	-
Matthew Birney	256,250	-	300,000	-

#### Notes:

- a) Shares may be held by related parties or wholly controlled entities.
- b) Nothing in this Prospectus will be taken to preclude Directors, officers or employees of Carbon Conscious™ from applying for Shares under this Prospectus.

# Additional information (cont)

## 8.5 Interests of persons named

Other than as set out below or elsewhere in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus has, or has had within the two years before lodgement of this Prospectus with the ASIC, any interest in:

- the formation or promotion of Carbon Conscious™.
- any property acquired or proposed to be acquired by Carbon Conscious™ in connection with its formation or promotion or in connection with the Offer.
- the Offer.

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of those persons for services rendered by them in connection with the formation or promotion of the Company or the Offer.

HLB Mann Judd will receive professional fees of approximately \$8,000 for accounting services in connection with this Prospectus including the provision of the Investigating Accountant's Report.

HLB Mann Judd will act as auditors of the Company. The Company will pay for auditing or related services in the normal course of business.

URS Forestry will receive professional fees of approximately \$8,000 for the provision of the Forestry Expert's Report.

Price Sierakowski will receive professional fees of approximately \$12,000 for the provision of the Material Contract Summary included in Section 7 of this Prospectus.

Advanced Share Registry Services have been appointed as Carbon Conscious™'s share registry and will be paid for these services on normal commercial terms.

Mining Corporate Pty Ltd have been appointed as IPO Compliance Manager will be paid professional fees of approximately \$30,000.

PricewaterhouseCoopers as has provided advice to the Directors and will be paid professional fees of approximately \$15,500.

## 8.6 Consents

The following persons have each consented to being named in the Prospectus and to the inclusion of the following statements and statements identified in this Prospectus as being based on statements made by those persons, in the form and context in which they are included, and have not withdrawn that consent before lodgement of this Prospectus with the ASIC:

- URS Forestry – Forestry Expert's Report.
- HLB Mann Judd – Investigating Accountant's Report.
- Price Sierakowski – Material Contract Summary.
- Mining Corporate – IPO Compliance Managers.

To the maximum extent permitted by law, each of the persons referred to above expressly disclaims and takes no responsibility for any part of this Prospectus other than the statements referred to above and the statements identified in this Prospectus as being based on statements made by those persons.

- PricewaterhouseCoopers – Advisors.

PricewaterhouseCoopers has not authorised or caused the issue of this Prospectus and has not made any statements or purports to make any statements other than its consent to be named as an adviser to Carbon Conscious™.

## 8.7 Expenses of the Offer

It is estimated that Carbon Conscious™ will pay the following costs in connection with the preparation and issue of this Prospectus excluding GST:

Broker Fees	\$400,000
IPO Advisory	\$30,000
Advisory	\$15,500
Legal	\$12,000
Accounting	\$8,000
Forestry Expert	\$8,000
Printing	\$25,000
ASIC and ASX Fees	\$40,000
Other costs	\$26,000
Total	\$564,500

## 8.8 Taxation

The acquisition and disposal of Shares in Carbon Conscious™ will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in Carbon Conscious™ are urged to obtain independent financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally.

To the maximum extent permitted by law, Carbon Conscious™, its officers and each of their respective advisors, accept no liability or responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.

## 8.9 Exposure period

This Prospectus will be circulated during the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. Potential investors should be aware that this examination may result in the identification of deficiencies in the Prospectus and, in those circumstances, any Application that has been received may need to be dealt with in accordance with Section 724 of the Corporations Act 2001. Applications for Shares under this Prospectus will not be accepted by the Company until after the expiry of the Exposure Period. No preference will be conferred on persons who lodge Applications prior to the expiry of the Exposure Period.

## 8.10 Litigation

The Company has been made aware of legal correspondence received by one of its Directors alleging misuse of confidential information by that individual or his associates. In respect of this allegation the Company may be construed as an associate of the Director and therefore the potential exists for the Company to be made a party to any legal proceedings commenced. No proceedings have been commenced as at the date of this Prospectus. Should proceedings be commenced against the Company as an associate it intends to vigorously defend the matter.

Other than as disclosed above, the Company is not involved in any material litigation or arbitration proceedings, nor, so far as the Directors are aware, are any such proceedings pending or threatened against the Company.

## 8.11 Electronic Prospectus

Pursuant to Class Order 00/044 the ASIC has exempted compliance with certain provisions of the Corporations Act 2001 to allow distribution of an electronic Prospectus and electronic application form on the basis of a paper Prospectus lodged with ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please email the Company at [info@carbonconscious.com.au](mailto:info@carbonconscious.com.au) and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus or both. Alternatively, you may obtain a copy of the Prospectus from the Company's website at: [www.carbonconscious.com.au](http://www.carbonconscious.com.au). The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement Prospectus or any of those documents were incomplete or altered.

## 8.12 Employee incentive scheme

As an incentive to employees of Carbon Conscious™, the Company has adopted a scheme called the Carbon Conscious™ Employee Share Option Plan (ESOP). At the date of this Prospectus, no Options have been granted under this ESOP.

The purpose of the ESOP is to give employees, executive officers and consultants of the Company an opportunity, in the form of options, to subscribe for ordinary Shares in the Company. The Directors consider the ESOP will enable the Company to retain and attract skilled and experienced employees, and executive officers and provide them with the motivation to make the Company more successful.

### Brief overview of the Scheme

A summary of the Terms and Conditions of the ESOP is set out below:

### Participants in the Scheme

The Board may offer free options to persons ("Eligible Persons") who are full-time or part-time employees.

Upon receipt of such an Offer, the Eligible Person may nominate an associate acceptable to the Board to be issued with the options.

### Terms of Options

There is no issue price for the Options.

The exercise price for the Options will be:

- Determined by the Directors in their absolute discretion provided that the exercise price is not less than the average Market Price on ASX on the ASX on the five trading days prior to the day the Directors resolve to grant the Options; or
- Any greater price determined by the Board.

Shares issued on exercise of Options will rank equally with other ordinary Shares of the Company.

Options may not be transferred without the approval of the Board. Quotation of Options on the ASX will not be sought.

### Restrictions on Issues and Exercise of Options

The Board may not offer Options under the Scheme if the total number of Shares which would be issued were each Option accepted, together with the number of Shares in the same class or Options to acquire such Shares issued pursuant to all employee or executive share schemes during the previous five years, exceeds 5% of the total number of issued Shares in that class as at the date of the offer.

Options may only be issued or exercised within the limitations imposed by the Corporations Law and the ASX Listing Rules.

### Exercise of Options

The Directors will determine the expiry date of the Option. All Options will have an expiry period not greater than five (5) years.

Options may be exercised at any time between one (1) year and the Expiry date of the Options.

If an Eligible Person leaves the employment of the group because of retirement at or after 55 years of age, disablement, retrenchment, death or any other circumstances approved by the Board, the Options may be exercised within 30 days (or three (3) months in the case of death), or any longer period permitted by the Board. If not exercised in that time the Options lapse.

If an Eligible Person leaves the organisation voluntarily, or is dismissed from their employment because they act fraudulently, dishonestly or in breach of obligations to the Company or any subsidiary then, at the Board's discretion, Options issued for that person will lapse.

Unexercised Options will automatically lapse on their expiry date.

### Participation in Future Issues

The holders of Options will only participate in new issues, including bonus issues, if they have exercised the Options at that time and provided such exercise is permitted by the terms of the Option.

If there is a bonus issue to shareholders, the number of Shares over which the Option is exercisable may be increased by the number of Shares which the holder of the Option would have received if the Option had been exercised before the record date for the bonus issue.

In the event that a pro rata issue (except a bonus issue) is made to the holders of the underlying securities in the Company, the exercise price of the options may be reduced in accordance with Listing Rule 6.22.

### Capital Reconstruction

In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company, all rights of the Option holder will be changed to the extent necessary to comply with the Listing Rules applying to the reconstruction of capital, at the time of the reconstruction.

# Glossary

**AACL** means Australian Agricultural Contracts Limited ABN 21 080 483 085.

**Abatement** means to decrease or reduce.

**AGO** means Australian Greenhouse Office.

**Applicant(s)** means a person who submits an Application.

**Application(s)** means a valid application to subscribe for Shares under this prospectus.

**Application Form** means the application form attached to and forming part of this Prospectus.

**Application Monies** means monies received by Carbon Conscious™ from Applicants.

**ASIC** means Australian Securities and Investments Commission.

**ASTC** means ASX Settlement and Transfer Corporation Pty Ltd ACN 008 504 532.

**ACX** means Australian Climate Exchange.

**ASX** means Australian Securities Exchange Limited ACN 008 624 691.

**Auditors** means HLB Mann Judd.

**BAM** means Broadacre Asset Management Pty Ltd and all its subsidiaries including Australian Agricultural Contracts Limited (AACL).

**Bio-Sequestration** means the process of capturing carbon dioxide from the atmosphere by planting trees.

**Board** means the board of Directors unless the context indicates otherwise.

**Business Day** means a day other than a Saturday or Sunday on which banks are open for business in Perth, Western Australia.

**Carbon** means a naturally abundant, nonmetallic element that occurs in all organic compounds and can be found in all known forms of life.

**Carbon Conscious™ or Company** means Carbon Conscious™ Limited ACN 129 035 221.

**Carbon Credit(s)** means the measurement of Carbon Dioxide in tonnes that are given a monetary value set by the market and can be bought and sold between groups on state, national and international markets.

**Carbon Credit Market** means the market in which carbon credits are traded.

**Carbon Dioxide** means a heavy odourless colourless gas formed during respiration and by the decomposition of organic substances; absorbed from the air by plants in photosynthesis.

**Carbon Emitter(s)** means an individual or company that releases CO<sub>2</sub> into the atmosphere.

**Carbon Emission(s)** means CO<sub>2</sub> released into the atmosphere.

**Carbon Estate(s)** means a collection of Mallee Eucalypt Trees planted and established for the purpose of providing Carbon Credits.

**Carbon Market** means any market where carbon credit trading takes place.

**Carbon Offset(s)** means the process of reducing the net carbon emissions of an individual or organisation, either by their own actions, or through arrangements with a carbon-offset provider.

**Carbon Offset (credit) Market** means the market in which carbon credits are traded.

**Carbon Rights** means an interest, registered under the Carbon Rights Act 2003 (Western Australia), in the carbon sequestered on a specified parcel of land. In other jurisdictions similar rights entered into under similar acts of parliament.

**Carbon Sequestration/Carbon Sequestered** means the absorption of carbon dioxide from the atmosphere and the storage of carbon.

**Carbon Sink(s)** means a process, activity, or mechanism which removes CO<sub>2</sub> from the atmosphere and stores it e.g. a forest or plantation.

**Carbon Trading** means the purchase or trading of certified carbon credits to offset greenhouse gas emissions.

**CHESS** means ASX Clearing House Electronic Subregister System.

**Climate Change** means changing world wide climatic conditions (eg ocean temperatures, weather patterns) resulting from global warming and attributed to increased greenhouse gas emissions.

**Climate Institute Report** means Hatfield-Dodds, S., Jackson, E.K., Adams, P.D. and Gerardi, W. (2007) Leader, follower or free rider? The economic impacts of different Australian emission targets, The Climate Institute, Sydney, Australia.

**Closing Date** means the date on which the Offer closes.

**CO<sub>2</sub>** means Carbon Dioxide.

**CO<sub>2</sub>-e** means Carbon Dioxide Equivalent.

**Company** means Carbon Conscious™ Limited ACN 129 035 221.

**Constitution** means the constitution of Carbon Conscious™ Ltd ACN 129 035 221.

**Corporations Act 2001** means the Corporations Act 2001 of Australia.

**Corporate Governance** means the system/process by which the directors and officers of Carbon Conscious™ Ltd are required to carry out and discharge their legal, moral and regulatory accountabilities & responsibilities.

**Directors** means the directors of the Company from time to time.

**Directors Options** means options exercisable at on or before as per the terms and conditions outlined in Section 8.2.3.

**Dollars or \$** means Australian dollars unless otherwise stated.

**Emitter(s)** means an individual or company that emits greenhouse gases.

**Emission(s)** – the release of greenhouse gases into the atmosphere.

**Emissions Trading Scheme** means a government scheme established to reduce greenhouse gas emission and establish renewable energy industries.

**EU ETS** means European Union Emissions Trading Scheme.

**ETS** means Emissions Trading Scheme.

**Exposure Period** means the period of seven (7) days after the date of lodgement of this Prospectus, which period may be extended by the ASIC by not more than seven (7) days pursuant to Section 727(3) of the Corporations Act 2001.

**Forestry Expert** means URS Forestry.

**Forestry Expert's Report** means the report contained in Section 5 of this Prospectus.

**Global Warming** means an increase in the earth's average atmospheric temperature that causes corresponding changes in climate and that may result from the greenhouse effect.

**Glossary** means this glossary.

**Greenhouse Effect** means an atmospheric heating phenomenon, caused by short-wave solar radiation being readily transmitted inward through the earth's atmosphere but longer-wave length heat radiation less readily transmitted outward, owing to its absorption by atmospheric carbon dioxide, water vapor, methane, and other gases; thus, the rising level of carbon dioxide is viewed with concern.

**Greenhouse Friendly™ Challenge Plus** means a program administered by the Australian Greenhouse Office aimed at reducing greenhouse gas emission and the uptake or energy efficiencies.

# Consent by the Directors

**Greenhouse Gases** means of the gases whose absorption of solar radiation is responsible for the greenhouse effect, including carbon dioxide, methane, ozone, and the fluorocarbons.

**Greenhouse Gas Abatement** means any activity to reduce greenhouse gas emissions.

**Greenhouse Gas Emissions Offsets** means offsetting greenhouse gas emissions.

**GST** means Goods and Service Tax.

**Investigating Accountant** means HLB Mann Judd.

**Investigating Accountant's Report** means the report contained in Section 6 of this Prospectus.

**IPO** means Initial Public Offer.

**Issue** means the issue of the security pursuant to this offer.

**Listing Rules** means Listing Rules of ASX.

**Lodgement Fee** means the fee to be paid for the licensed broker.

**Mallee Trees (Eucalypt)** means a small tree, part of the eucalyptus species.

**NETS** means National Emissions Trading Scheme.

**Non-Executive Directors Options** exercisable at on or before as per the terms and conditions outlined in Section 8.2.4.

**Offer** means the offer of up to 20,000,000 Shares pursuant to this Prospectus with a further 5,000,000 Shares accepted by way of oversubscription.

**Offer Period** means the period commencing on the Opening Date and ending on the Closing Date.

**Official List** means the Official List of the ASX.

**Offsets** – Offsetting means carbon offsetting.

**Opening Date** means the date on which the Offer opens.

**Options** means an option to acquire 1 or more Shares.

**Ordinary Share(s)** means the principal type of Shares bought representing part ownership of a company.

**Prospectus** means this prospectus dated 6 March 2008 for the issue of up to 20,000,000 Shares including any electronic or online version.

**Quotation** means quotation of the Shares on ASX.

**Sequester(ed)** means captured Carbon Dioxide.

**Share** means 1 fully paid ordinary share in Carbon Conscious™ Limited.

**Shares** means more than 1 share.

**Shareholder** means a holder of Shares.

**Shareholdings (Shareholders)** means individuals who own Shares in the company.

**Share Registrar** means Advanced Share Registry Services Pty Ltd.

**Material Contract Summary** means the report contained in Section 7 of this Prospectus.

**WST** means Western Standard Time, Perth, Western Australia.

**\$0.20 Options** means options exercises outlined in Section 8.2.4.

## Consent by the Directors

The Directors state that they have made all reasonable enquiries and on that basis have reasonable grounds to believe that any statements made by the Directors in this Prospectus are not misleading or deceptive and that in respect to any other statements made in this Prospectus by persons other than Directors, the Directors have made reasonable enquiries and on that basis have reasonable grounds to believe that persons making the statement or statements were competent to make such statements, those persons have given their consent to the statements being included in this Prospectus in the form and context in which they are included and have not withdrawn that consent before lodgement of this Prospectus with the ASIC, or to the Directors' knowledge, before any issue of Shares pursuant to this Prospectus.

Each of the Directors of Carbon Conscious™ Limited has consented to the lodgement of this Prospectus in accordance with Section 720 of the Corporations Act 2001 and has not withdrawn that consent.

Dated the 6 March 2008.



Signed for and on behalf of Carbon Conscious™ Limited.

By Peter Balsarini  
Director

## How to complete the application form

Applications must be made on the Application Form attached to this Prospectus. Please complete all relevant parts of the Application Form using BLOCK LETTERS.

- a) Enter the NUMBER OF Shares you wish to apply for. The application must be for a minimum of 5,000 Shares and thereafter in multiples of 1,000 Shares.
- b) Enter the TOTAL AMOUNT of application money payable. To calculate the amount, multiply the number of Shares applied for by \$0.40.
- c) Enter the FULL NAME(S) of all legal entities that are to be recorded as the registered holder(s). Use correct forms of registrable name (see below). Applications using the wrong form of name may be rejected.
- d) Enter the POSTAL ADDRESS for all communications from the Company. Only one address can be recorded.
- e) Enter a CONTACT NAME and TELEPHONE NUMBER(S) of a person the share registry can speak to regarding any queries they may have on the Application.
- f) The Company will become an Issuer Sponsored participant in the Australian Securities Exchange CHESS System. This enables a holder to receive a statement of their shareholdings from the Company's Share Registrar. If you are already a Broker Sponsored participant in this system, enter your Holder Identification Number (HIN). Otherwise, leave this box blank and your Shares will automatically be issued sponsored on allotment.
- g) Enter the TAX FILE NUMBER(S) of the Applicant(s). Collection of Tax File Numbers is authorised by taxation laws. Quotation of Tax File Number(s) is not compulsory and will not affect the Application.
- h) Enter the details of cheque(s) accompanying the Application Form in payment of application monies.

### Declaration and statements

Before completing the Application Form the Applicant(s) should read the Prospectus dated 6 March 2008. The Applicant(s) agree(s), upon and subject to the terms of the Prospectus, to take any number of Shares equal to or less than the number of Shares indicated on the Application Form that may be allotted to the Applicants pursuant to the Prospectus and declare(s) that all details of statements made are complete and accurate.

No notice of acceptance of the Application will be provided by the Company prior to the allotment of Shares. Applicants agree to be bound upon acceptance by the Company of the Application.

If your Application Form is not completed correctly, it may still be treated as valid. The Company's decision as to whether to treat your Application as valid, and how to construe, amend or complete it, shall be final.

There is no requirement to sign the Application Form.

### Payment

Applications for Shares must be accompanied by the application money of \$0.40 per Share (in Australian currency). Cheques should be made payable to **"Carbon Conscious Limited - Application Funds"** and crossed **'Not Negotiable'**.

### Lodging of applications

Completed Application Forms and accompanying application monies must be:

#### Posted to:

Carbon Conscious Limited  
C/- Advanced Share Registry Services  
PO Box 1156 NEDLANDS WA 6909

#### OR

#### Delivered to:

Carbon Conscious Limited  
C/- Advanced Share Registry Services  
110 Stirling Highway NEDLANDS WA 6009

Applications must be received by no later than **5.00pm WST on the Closing Date, currently 23 April 2008** (unless varied by the Company).

## Correct form of registrable title

Note that only legal entities are allowed to hold Shares. Applications must be in the name(s) of a natural person(s), companies or other legal entities acceptable to Carbon Conscious™. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the example of the correct forms of registrable names below:

Type of investor	Correct form of registrable title	Incorrect form of registrable title
Individual Use given names, not initials	Peter David Jones	PD Jones
Company Use Company title, not abbreviations	AAA Pty Ltd	AAA P/L AAA Co
Trusts Use trustee(s) personal name(s), Do not use the name of the trust	Michelle Jones <Michelle Jones Family A/C>	Michelle Jones Family Trust
Deceased Estates Use executor(s) personal name(s)	James Jones <Est James Jones A/C>	Estate of late James Jones
Partnerships Use partners' personal names, do not use the name of the partnership	James Jones and Peter Jones <James Jones and Son A/C>	James Jones and Son
Clubs/Incorporated Bodies/Business Names Use office bearer(s) personal name(s), Do not use the names of the clubs etc.	Michael Jones <BBB Cricket Association A/C>	BBB Cricket Association
Superannuation Funds Use of name of trustee of fund, do not use the name of the fund.	Lisa Jones Pty Ltd <Super Fund A/C>	Lisa Jones Pty Ltd Superannuation Fund

Broker/Dealer Stamp

Share Registrar Use Only

# Application form

Before completing this Application Form, you should read the Prospectus dated 6 March 2008 and the instructions overleaf. No Shares will be issued pursuant to the Prospectus later than 13 months after the date of the Prospectus.

**Please read carefully all instructions on the reverse of this form.**

I/We apply for

	Shares in <b>Carbon Conscious™ Limited</b> at \$0.40 cents per Share
--	--

or such lesser number of Shares which may be allocated to me/us by the Directors.

I/We lodge full application monies of

\$	
----	--

**First Name** (PLEASE PRINT)

**Surname** (PLEASE PRINT)

--

Joint Applicant #2 or <designated account>

--

Joint Applicant #3 or <designated account>

--

**Postal Address** (PLEASE PRINT)

Street Number

Street


Suburb/Town

State

Post code

--	--	--

**Contact Name**

Telephone number – Business hours

	(		)	
--	---	--	---	--

--

Telephone number – After hours

(		)	
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**Chess HIN** (where applicable)

**E-mail address**

--	--

**Tax File Number or Exemption**

Applicant #2

Applicant #3

--	--	--

**Cheque details**

Drawer

Bank

BSB

Amount of cheque

--	--	--	--

--	--	--	--

Cheques should be marked **'Not Negotiable'** and make payable **"Carbon Conscious Limited - Application Funds"**.

**Declaration and Statements:**

By lodging this Application Form:

- I/We declare that all details and statements made by me/us are complete and accurate;
- I/We agree to be bound by the terms and conditions set out in the Prospectus and by the Constitution of the Company;
- I/We acknowledge that the Company will send me/us a paper copy of the Prospectus free of charge if I/we request so during the currency of the Prospectus;
- I/We authorise the Company to complete and execute any documentation necessary to effect the issue of Shares to me/us; and
- I/We acknowledge that returning the Application Form with the application monies will constitute my/our offer to subscribe for Shares in Carbon Conscious™ and that no notice of acceptance of the application will be provided.

TO MEET THE REQUIREMENTS OF THE CORPORATIONS ACT 2001, THIS FORM MUST NOT BE HANDED TO ANY PERSON UNLESS IT IS ATTACHED TO OR ACCOMPANIED BY THE PROSPECTUS DATED 6 MARCH 2008.



**Broker/Dealer Stamp**

**Share Registrar Use Only**

# Application form

Before completing this Application Form, you should read the Prospectus dated 6 March 2008 and the instructions overleaf. No Shares will be issued pursuant to the Prospectus later than 13 months after the date of the Prospectus.

**Please read carefully all instructions on the reverse of this form.**

I/We apply for

Shares in **Carbon Conscious™ Limited** at \$0.40 cents per Share

or such lesser number of Shares which may be allocated to me/us by the Directors.

I/We lodge full application monies of

\$

**First Name** (PLEASE PRINT)

**Surname** (PLEASE PRINT)

Joint Applicant #2 or <designated account>

Joint Applicant #3 or <designated account>

**Postal Address** (PLEASE PRINT)

Street Number  Street

Suburb/Town  State  Post code

**Contact Name**

Telephone number – Business hours  
(  )

Telephone number – After hours  
(  )

**Chess HIN** (where applicable)

**E-mail address**

**Tax File Number or Exemption**

Applicant #2

Applicant #3

**Cheque details**

Drawer  Bank  BSB  Amount of cheque

Cheques should be marked **'Not Negotiable'** and make payable **"Carbon Conscious Limited - Application Funds"**.

**Declaration and Statements:**

By lodging this Application Form:

- I/We declare that all details and statements made by me/us are complete and accurate;
- I/We agree to be bound by the terms and conditions set out in the Prospectus and by the Constitution of the Company;
- I/We acknowledge that the Company will send me/us a paper copy of the Prospectus free of charge if I/we request so during the currency of the Prospectus;
- I/We authorise the Company to complete and execute any documentation necessary to effect the issue of Shares to me/us; and
- I/We acknowledge that returning the Application Form with the application monies will constitute my/our offer to subscribe for Shares in Carbon Conscious™ and that no notice of acceptance of the application will be provided.

TO MEET THE REQUIREMENTS OF THE CORPORATIONS ACT 2001, THIS FORM MUST NOT BE HANDED TO ANY PERSON UNLESS IT IS ATTACHED TO OR ACCOMPANIED BY THE PROSPECTUS DATED 6 MARCH 2008.



