

Environmental Carbon Offset Limited

ACN 077 014 594

HALF YEAR FINANCIAL REPORT
31 DECEMBER 2011

Corporate information

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Directors

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

Company Secretary

Simon Chesson

Members of the Consolidated Group

Environmental Carbon Offset Limited
ACN 077 014 594

Environmental Forest Farms Management Limited
ACN 087 201 670

EFF Timber Pty Ltd
ACN 082 882 960

Powton Land Holdings Limited
ACN 087 201 652

A&N Enterprises Pty Ltd
ACN 113 434 512

Forestry Finance Limited
ACN 108 513 239

Auditor

Carlton & Partners
3 Alvan Street
Mount Lawley WA 6050

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Directors' Report

Your directors submit the financial report of the company for the six months ended 31 December 2011.

Directors

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

Sydney J. Chesson

Thomas F. Henn (appointed 21 January 2011)

Simon JS Chesson (appointed 14 February 2011)

Global Financial Crisis

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

Paulownia Pricing - Exchange Rates - International Competition

There has been no discernible improvement in the last 6 months in the outlook for the projects from the situation that became apparent in late 2009 and early 2010. The factors affecting assessment of the potential returns from the plantations include:

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

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

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

Review and results of operations

The net loss for the group for the 6 month period to 31 December 2011 amounted to \$696,357 (31 December 2010: Loss \$382,534). The net loss for the company amounted to \$134,409 (31 December 2010: Loss \$141,669).

Plantation Management

Management of the plantations managed by the ECO Group has been reduced to a "mothballing" of the operations during the 6 months period to 31 December 2011. Plantation activities have been reduced to the absolute minimum in order to contain costs in view of the condition of the markets for plantation products.

Marketing of Managed Investment Schemes

There were no new Managed Investment Schemes on offer to the 6 month period ending 31 December 2011. We do not expect to be offering any further Managed Investment Schemes.

Operation of Current Managed Investment Schemes

There were 9 schemes operated by Environmental Forest Farms Management Limited (“EFFM”) as at 31 December 2011. All of the schemes were the subject of review during the period. Schemes which were the subject of Growers meetings were continued for the 12 month period commencing 1 July 2010 and ending 30 June 2011. A number of Growers in the first 3 projects undertaken by EFFM were terminated for non-payment of fees. All projects have been further reviewed and will be completely closed down in the next six months.

Timber Sales

Sales of Paulownia timber grown by the ECO Group through EFF Timber Pty Ltd trading as Highpoint Timbers dropped off during this period. Demand for paulownia products has dropped off. Proposed expansion of processing at Highpoint has been cancelled. Highpoint has also been “mothballed” and current activities are directed at attempting to salvage whatever value is possible. The Highpoint factory premise is being marketed “For Lease” or “For Sale”.

Significant After Balance Date Events

As indicated by the name change of the company to Environmental Carbon Offset Limited, the Company is investigating opportunities to utilize its plantation assets in the newly found carbon industry. Due to the infancy of the industry it is premature to determine the form that will make best use of existing assets. Shareholders will be updated on the progress of this business venture as and when it evolves.

The company intends to reduce debt and related servicing costs via the orderly disposal of non-core assets associated with prior operations. In addition the Company is seeking to raise funds via a Rights Issue in the immediate future, these actions should bring about a more robust Statement of Financial Position, geared to assist in the transition towards the carbon offset industry.

Since the end of the half year period as at 31 December 2011 there have been no other material events to report.

Auditor’s Independence Declaration

The lead auditor’s independence declaration under section 307C of the Corporations Act 2001 is set out on page 6 for the half year ended 31 December 2011.

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



Sydney Chesson
Director
Perth, 11th April 2012

CARLTON & PARTNERS

CERTIFIED PRACTISING ACCOUNTANTS

ABN 28 251 922 867

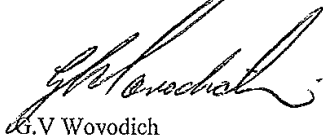
3 ALVAN STREET MOUNT LAWLEY WA 6050

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

I declare that, to the best of my knowledge and belief, during the half-year ended 31
December 2011 there have been:

- i) no contraventions of the auditor independence requirements as set out in the
Corporations Act 2001 in relation to the review; and
- ii) no contraventions of any applicable code of professional conduct in relation to the
review.

Carlton & Partners



G.V. Wovodich
Registered Company Auditor

Dated this 11 day of April 2012 at Perth Western Australia

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ECO Limited and its Controlled Entities
ACN 077 014 594
Consolidated Statement of Comprehensive Income
for the Period 1 July 2011 to 31 December 2011

		Consolidated Group		The Company	
		31 December 2011	31 December 2010	31 December 2011	31 December 2010
	Notes	\$	\$	\$	\$
<i>Revenue from ordinary activities</i>					
Revenue Income	2 (a)	458,606	1,064,583	90,005	102,815
<i>Expenses</i>					
Administration Expenses	2 (b)	(1,030,168)	(1,327,157)	(198,125)	(218,199)
Finance Costs	2 (c)	(124,795)	(119,961)	(26,288)	(26,285)
Total Expenses Incurred		(1,154,963)	(1,447,118)	(224,413)	(244,484)
Profit/(Loss) before Income Tax		(696,357)	(382,534)	(134,409)	(141,669)
Income Tax (Expense)/Benefit		-	-	-	-
Profit/(Loss) for the period		(696,357)	(382,534)	(134,409)	(141,669)
Profit/(Loss) Attributable to Members		(696,357)	(382,534)	(134,409)	(141,669)

The above statement is to be read in conjunction with the attached notes.

ECO Limited and its Controlled Entities
ACN 077 014 594
Consolidated Statement of Financial Position
as at 31 December 2011

	Consolidated Group		The Company	
	31 December 2011 \$	30 June 2011 \$	31 December 2011 \$	30 June 2011 \$
Current Assets				
Cash and cash equivalents	3,296	141,437	400	24,165
Trade and other receivables	1,241,093	2,133,365	2,661	60,620
Inventories	250,000	507,149	-	-
Other financial assets	103	103	-	-
Total Current Assets	1,494,492	2,782,054	3,061	84,785
Non-current Assets				
Receivables	977,510	1,002,185	-	-
Investments	-	-	6,291,501	6,291,501
Property, plant and equipment	7,982,158	8,006,668	31,997	34,149
Biological assets	772,661	772,661	-	-
Intangible assets	7,936	7,936	-	-
Deferred tax assets	169,782	169,782	-	-
Intercompany Loans	-	-	1,181,636	1,167,065
Total Non-current Assets	9,910,047	9,959,231	7,505,134	7,492,715
Total Assets	11,404,539	12,741,285	7,508,195	7,577,500
Current Liabilities				
Trade and other payables	2,540,021	2,427,585	2,126,508	2,065,371
Borrowings	1,776,504	-	-	-
Unearned Income	-	772,103	-	-
Current Tax Liabilities	90,768	232,781	94,991	85,888
Total Current Liabilities	4,407,293	3,432,469	2,221,499	2,151,258
Non-current Liabilities				
Borrowings	835,778	2,500,990	86,579	91,716
Deferred tax liabilities	1,493,455	1,493,455	-	-
Intercompany Loans	-	-	-	-
Total Non-current Liabilities	2,329,233	3,994,445	86,579	91,716
Total Liabilities	6,736,526	7,426,914	2,308,078	2,242,974
Net Assets	4,668,013	5,314,370	5,200,117	5,334,526
Equity				
Contributed Equity	5,647,603	5,647,603	5,647,603	5,647,603
Retained Earnings	(4,791,483)	(4,095,127)	(447,486)	(313,077)
Asset Revaluation Reserve	3,811,893	3,761,893	-	-
Total Equity	4,668,013	5,314,370	5,200,117	5,334,526

The above statement is to be read in conjunction with the attached notes.

ECO Limited and its Controlled Entities
ACN 077 014 594
Consolidated Statement of Changes in Equity
as at 31 December 2011

	Issued Capital			Total \$
	Fully Paid Ordinary \$	Retained Profits \$	Asset Revaluation \$	
At 1 July 2011	5,647,603	(4,095,127)	3,761,893	5,314,370
Shares issued during the year	-	-	-	-
Profit attributable to members of parent equity	-	(696,357)	-	(696,357)
Adjustment to retained earnings	-	-	-	-
Increase in asset revaluation reserve	-	-	50,000	-
At 31 December 2011	5,647,603	(4,791,483)	3,811,893	4,668,013

The above statement is to be read in conjunction with the attached notes.

ECO Limited and its Controlled Entities

ACN 077 014 594

Consolidated Statement of Cash Flows

for the Period 1 July 2011 to 31 December 2011

Notes	Consolidated Group		The Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	\$	\$	\$	\$
Cash flows from operating activities				
Cash receipts from customers	1,338,532	1,606,864	147,959	921,215
Cash payments to suppliers and employees	(1,615,325)	(1,216,850)	(134,837)	(45,700)
Income tax (paid)/received	(142,014)	(681,305)	9,104	(92,567)
Interest received	37,018	50,699	5	-
Finance costs	(124,795)	(119,961)	(26,288)	(26,285)
Net cash provided by/ (used in) operating activities	(506,582)	(360,552)	(4,057)	756,664
Cash flows from investing activities				
Payment for property plant and equipment	-	44,704	-	2,317
Purchase of Investments	-	-	-	1,000,000
Purchase of Stock	257,149	174,194	-	-
Net cash flows used in investing activities	257,149	218,898	-	1,002,317
Cash flows from financing activities				
Repayment of intercompany loans	-	-	(14,571)	(1,731,955)
Proceeds (repayment) of borrowings	111,292	136,577	(5,137)	(12,889)
Net cash flows used in financing activities	111,292	136,577	(19,708)	(1,744,844)
Net increase/(decrease) in cash held	(138,141)	(5,077)	(23,765)	14,136
Cash at the beginning of financial year	141,437	42,656	24,165	400
Cash at the end of financial year	3,296	37,580	400	14,536

The above statement is to be read in conjunction with the attached notes.

ECO Limited and its Controlled Entities
ACN 077 014 594
Notes to Financial Statements
For the period 1 July 2011 to 31 December 2011

1. Basis Of Preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2011 have been prepared in accordance with requirements of the Corporation Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of ECO Limited and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2011, together with any public announcements made during the half-year.

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

Accounting Standards not Previously Applied

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements

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

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

ECO Limited and its Controlled Entities
ACN 077 014 594
Notes to Financial Statements
For the period 1 July 2011 to 31 December 2011

	Consolidated Group		The Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	\$	\$	\$	\$
2 (a) Revenue Income				
EFFM Management Fees	-	-	60,000	60,000
Growers Lease & Management Fees	404,306	944,527	30,000	30,000
Management Fees - Other	-	264	-	-
Retail Sales	8,473	27,161	-	-
Interest Income	37,018	50,699	5	-
Other Income	1,945	15,612	-	12,814
Woodlot Management Fee	-	51	-	-
Diesel Fuel Rebate	6,864	26,269	-	-
Assets/Plantation Revaluation	-	-	-	-
Total Operating Revenue	458,606	1,064,583	90,005	102,815
(b) Administration Expenses				
General Administration	(1,040,106)	(814,517)	(198,125)	(218,199)
Marketing Costs	(62)	(1,000)	-	-
Doubtful Debt	10,000	(511,639)	-	-
Total Administration Expenses	(1,030,168)	(1,327,157)	(198,125)	(218,199)
(c) Finance Costs				
Interest on convertible notes	-	-	-	-
Borrowing Costs	(290)	(60)	-	-
Interest Expenses	(124,505)	(119,901)	(26,288)	(26,285)
Total Finance Cost	(124,795)	(119,961)	(26,288)	(26,285)

ECO Limited and its Controlled Entities
ACN 077 014 594
Notes to Financial Statements
For the period 1 July 2011 to 31 December 2011

3. Segment Reporting

	Financing & Investment		Tree Plantation	
	31 Dec 2011	30 Jun 2011	31 Dec 2011	30 Jun 2011
	\$	\$	\$	\$
Revenue				
External Revenue	37,018	117,351	412,979	910,180
Total Sales Revenue	37,018	117,351	412,979	910,180
Total Segment Revenue	37,018	117,351	412,979	910,180
Total revenue from ordinary activities	37,018	117,351	412,979	910,180
Result				
Segment Result	(87,776)	(162,781)	218,755	30,588
Income tax expense / benefit	-	-	-	-
Post-Tax Profit	(87,776)	(162,781)	218,755	30,588
Assets				
Segment Assets	528,667	788,596	9,167,530	9,703,959
Liabilities				
Segment Liabilities	2,628,157	2,125,167	41,229	832,127
Net Segment Assets	(2,099,490)	(1,336,571)	9,126,300	8,871,832
Net Segment Assets				

ECO Limited and its Controlled Entities
ACN 077 014 594
Notes to Financial Statements
For the period 1 July 2011 to 31 December 2011

3. Segment Reporting (continued)

	Unallocated 31 Dec 2011 \$	30 Jun 2011 \$	Total 31 Dec 2011 \$	30 Jun 2011 \$
Revenue				
External Revenue	8,608	54,976	458,606	1,082,507
Total Sales Revenue	8,608	54,976	458,606	1,082,507
Total Segment Revenue	8,608	54,976	458,606	1,082,507
Total revenue from ordinary activities	8,608	54,976	458,606	1,082,507
Result				
Segment Result	(827,336)	(625,434)	(696,357)	(757,627)
Income tax expense / benefit	-	-	-	115,198
Post-Tax Profit	(827,336)	(625,434)	(696,357)	(642,429)
Assets				
Segment Assets	1,708,343	2,248,729	11,404,539	12,741,284
Liabilities				
Segment Liabilities	4,067,140	4,469,620	6,736,526	7,426,914
Net Segment Assets	(2,358,797)	(2,220,891)	4,668,013	5,314,370
Net Segment Assets				

ECO Limited and its Controlled Entities
ACN 077 014 594
Notes to Financial Statements
For the period 1 July 2011 to 31 December 2011

4 Dividends

No dividends have been declared or paid.

5. Events Subsequent to Balance Date

As indicated by the name change of the company to Environmental Carbon Offset Limited, the Company is investigating opportunities to utilize its plantation assets in the newly found carbon industry. Due to the infancy of the industry it is premature to determine the form that will make best use of existing assets. Shareholders will be updated on the progress of this business venture as and when it evolves.

The company intends to reduce debt and related servicing costs via the orderly disposal of non-core assets associated with prior operations. In addition the Company is seeking to raise funds via a Rights Issue in the immediate future, these actions should bring about a more robust Statement of Financial Position, geared to assist in the transition towards the carbon offset industry.

Since the end of the half year period as at 31 December 2011 there have been no material events to report.

Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 7 to 15:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting, and the Corporations Regulations; and
 - b. give a true and fair view of the company's financial position as at 31 December 2011, and of its performance for the half-year ended on that date,
2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Sydney J Chesson
Director
Dated this 11th day of April 2012

CARLTON & PARTNERS

CERTIFIED PRACTISING ACCOUNTANTS

ABN 28 251 922 867

3 ALVAN STREET MOUNT LAWLEY WA 6050

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

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Environmental Carbon Offset Limited, which comprises the consolidated condensed statement of financial position as at 31 December 2011, the consolidated condensed statement of comprehensive income, consolidated condensed statement of changes in equity, consolidated condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the Half-year Financial Report

The directors of Environmental Carbon Offset Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagement ASRE 2410: Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporation Act 2001 including: giving a true and fair view of Environmental Carbon Offset Limited's financial position as at 31 December 2011 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporation Regulations 2001. As the auditor of Environmental Carbon Offset Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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CARLTON & PARTNERS

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Independence

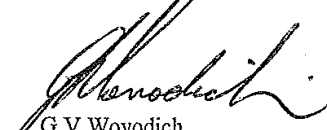
In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Environmental Carbon Offset Limited, would be in the same terms if provided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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Environmental Carbon Offset Limited is not in accordance with Corporation Act 2001 including:

- i) giving a true and fair view of Environmental Carbon Offset Limited's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- ii) complying with AASB 134: Interim Financial Reporting and the Corporation Regulations 2001.

Carlton & Partners



G.V Wovodich
Registered Company Auditor

Dated this 11 day of April 2012 at Perth Western Australia

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