

Environmental Carbon Offset Limited ACN 077 014 594

# **Replacement Rights Issue Prospectus (“Prospectus”)**

**Dated 17 May 2012**

## **Prospectus**

For a pro-rata non-renounceable entitlement issue of five (5) Shares for each one (1) held by Shareholders at an issue price of \$2.50 to raise \$3,560,263.

## **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 advisers.

**THE SHARES OFFERED BY THIS PROSPECTUS ARE OF A SPECULATIVE NATURE.**

**THE ISSUE OF THE SHARES UNDER THIS PROSPECTUS IS LIKELY TO HAVE A DILUTIONARY EFFECT FOR THE SHAREHOLDING OF THOSE SHAREHOLDERS WHO DO NOT TAKE UP THEIR FULL RIGHTS ISSUE ENTITLEMENT.**

## **Corporate Directory**

Registered Office  
Level 1, AustAsia House  
412 - 414 Newcastle Street  
West Perth WA 6005

Postal Address  
PO Box 332  
Leederville WA 6903

Telephone: (08) 9227 8422  
Facsimile: (08) 9227 8455  
Email: [kpadmin@kiripark.com.au](mailto:kpadmin@kiripark.com.au)  
Web: [www.kiripark.com.au](http://www.kiripark.com.au)

Directors  
Sydney J. Chesson (Chairman)  
Thomas F. Henn (Director)  
Simon JS Chesson (Director)

Company Secretary  
Simon JS Chesson

Auditor  
Carlton and Partners  
3 Alvan Street  
Mount Lawley WA 6050

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 Limited  
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

## **Contents**

Chairman's Letter

Sections

1. Important Information
2. Details of the Offer
3. Purpose and Effect of Offer
4. Rights and Liabilities Attaching to Shares
5. Risks
6. Additional Information
7. Director's Consent
8. Definitions
9. Application Form

## **Chairman's Letter**

Dear Shareholders,

The Board of Directors of Environmental Carbon Offset Limited (**ECO**) invite you to participate in this non-renounceable Rights Issue which is open to all ECO shareholders on an equal basis and at a significant discount to the Net Tangible Assets (NTA) of the Company.

ECO intends to raise up to \$3,560,263 through this non-renounceable Rights Issue of five (5) new Shares for every one (1) Share held at the Record Date. The subscription price of the new shares is \$2.50 per share, and is payable in full on application.

### Background to this Rights Issue

The Company has navigated through a challenging climate:

- The economic climate has been difficult in the wake of the Global Financial Crisis.
- The collapse of significant industry participants has resulted in general negative sentiment towards the MIS timber industry.

The Board of Directors has worked for the survival of ECO and its subsidiaries and to stabilize the Company through these difficult times. The Board has now progressed to assess the current financial and operational status of the Company for the future.

### Purpose of the Rights Issue

The purpose of this prospectus is to offer all shareholders an equal opportunity to participate in a capital raising at a "bargain basement" price. Even though the NTA is estimated at approximately \$16.00 per share, the Directors are of the belief that any attempt to raise capital at a higher price than \$2.50 per share would attract no interest from shareholders.

Proceeds raised from this Rights Issue will be used to reduce the Company's debt level by the retirement of the debenture over the Kiri Park land held by Powton Land Holdings Pty Ltd and to provide working capital for the Company's operations.

### Future Direction of the Company

The company intends to pursue opportunities that may present as a result of the recent introduction of the Carbon Tax in Australia. With ECO already in possession of significant land and plantation assets, the ability to utilize these assets presents an early entry opportunity to the ECO Group. The Board intends to thoroughly investigate and determine the best use of current assets within this emerging market, for the benefit of all shareholders.

### Warnings

The future direction of ECO and the future success or otherwise of the activities of the companies in the group is by no means certain.

Despite the apparent value of assets shown on the balance sheet of ECO and the consolidated group of companies approximating \$16.00 per share, there is no certainty that this amount or any net amount will be realizable in any method of sale of the assets, whether by stress sale or orderly marketing. The take-up of the shares offered under this Prospectus may be critical to the survival of ECO and its subsidiary companies.

**Shareholders who do not take up their entitlements are likely to have their shareholding diluted significantly.**

There is no undertaking provided by the Directors of ECO whether they and their related entities will or will not take up their entitlements or any entitlement under this Prospectus.

The major shareholder of ECO has not provided any advance commitment to support or not support the capital raising objectives of the Prospectus.

The Directors of ECO are not prepared to pre-empt any action that they may take in the event that the capital raising under this Prospectus falls short of the amount required to retire the Debenture. If the capital raising objectives set out in this Prospectus are not achieved then the Directors will consider the position carefully and make a decision on the basis of what they believe to be in the best interest of the stakeholders and the shareholders as a whole.

**The risks of not participating in the Rights Issue offer under the Prospectus include the dilution of your interest in ECO and that you may lose your current investment.**

**The risks of participating in the Rights Issue offer under the Prospectus include that you may not reap the rewards that may be found in other investments or any rewards and including the risk that you may still lose your current and your further investment.**

This Prospectus should be read carefully, and Applicants should make themselves aware of the risks described in Section 5 of this Prospectus. This Prospectus should also be read in conjunction with the Company's Annual Report to 30 June 2011 and the Company's Half Year Financial Report to 31 December 2011.

The Board of Directors recommends this Rights Issue to you and to the major shareholder.

ECO is your company, and its survival requires your participation in this Rights Issue.

Yours Faithfully,



Sydney J Chesson  
Chairman

## **Section 1: Important Information**

### **1.1 Introduction**

This Prospectus is dated 17 May 2012 and has been lodged with the Australian Securities and Investment Commission (**ASIC**) on that date. ASIC take no responsibility for the contents of this Prospectus.

No Securities will be allotted or issued on the basis of this Prospectus later than twelve (12) months after the date of this Prospectus.

Applications for Shares offered pursuant to this Prospectus can only be submitted on an original Entitlement and Acceptance Form, which accompanies this Prospectus.

### **1.2 Important Dates**

<b>Record Date</b>	17 May 2012
<b>Lodgement of Prospectus with ASIC</b>	17 May 2012
<b>Prospectus dispatched to Shareholders</b>	21 May 2012
<b>Closing Date</b>	2 July 2012
<b>New Shares Issued and Allotted</b>	6 July 2012
<b>Holding Statements Dispatched to Shareholders</b>	10 July 2012

### **1.3 Foreign Jurisdictions**

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

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons whom 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.

Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

### **1.4 Notes to Applicants**

The information in this Prospectus is not financial product advice and does not take into account your investment objectives, financial situation or particular needs.

It is important that you read this Prospectus carefully and in its entirety before deciding whether to invest in the Company. In particular, you should consider the risk factors that could affect the performance of the Company. You should carefully consider these risks in light of your personal circumstances and seek professional guidance from your professional advisers before deciding whether to invest in the Securities.

Some of the key risk factors that should be considered by prospective investors are set out in Section 5 of this Prospectus. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

No person named in this Prospectus, nor any other person, guarantees the performance of the Company or the repayment of capital or any return on investment made pursuant to this Prospectus.

#### **1.5 Disclosing Entity**

In making representations in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

#### **1.6 No Authority**

No person is authorised to give any information or to make any representation regarding the Rights Issue. Any information or representation in relation to the Rights Issue which is not contained in this Prospectus may not be relied upon as having been authorised by the Company or its Directors.

#### **1.7 Definitions**

Certain abbreviations and other defined terms are used throughout this Prospectus and are generally identifiable by the use of upper case first letter. Details of the definitions and abbreviations are set out in Section 8 of this Prospectus.

#### **1.8 Exposure Period**

In accordance with Chapter 6D of the Corporation Act, this Rights Issue is subject to an exposure period of seven (7) days from the date of lodgment with ASIC. This period may be extended by ASIC for a further period of seven (7) days. The purpose of the exposure period is to enable this Prospectus to be examined by market participants prior to the raising of funds. If this Right Issue is found to be deficient, any Application Forms received during the exposure period will be dealt with in accordance with section 724 of the Corporations Act. Application Forms received during the exposure period will be treated as if they were received simultaneously on the Opening Date.

## **Section 2: Details of the Offer**

### **2.1 Introduction**

This Prospectus should be read in conjunction with the Company's Annual Report to 30 June 2011 and Half Year Financial Report to 31 December 2011.

You should carefully read this Prospectus in its entirety and seek independent professional advice to make an informed assessment and decision on whether to participate in this Rights Issue.

### **2.2 Offer**

Under this Prospectus, ECO is making an Offer to all Shareholders who are registered or entitled to be registered as Shareholders in ECO as at 5:00pm Western Standard Time (WST) on 17 May 2012 (the Record Date), of five (5) ordinary new Shares for every one (1) Share then held at a subscription price of \$2.50 per new Share. The subscription price is payable in full on Application.

These shares will rank equally with the ordinary shares of the Company currently on issue.

This Rights Issue is made to all Shareholders on an equal basis. Any Entitlements that are not taken up by existing Shareholders can be issued to other parties at the discretion of the Directors and including entities related to the Directors.

ECO proposes to raise up to \$3,560,263 through this Rights Issue. Proceeds raised from this Issue will be used to retire the debenture held over the Kiri Park property and to provide working capital to seek out and advance the interests of the ECO group of companies. Details of the Application of Funds are contained in Section 3 of this Prospectus.

Interested shareholders may apply for more shares than their entitlement and to participate in the issue of shares under the Shortfall Offer.

### **2.3 Closing Date**

The Closing Date for receipt of applications for Shares pursuant to this Prospectus will be 5:00pm WST on 2 July 2012, however, the Directors reserve the right to extend the Closing Date.

Entitlement and Acceptance Forms should be submitted as soon as possible, however, they must be received by the Closing Date. The Company reserves the right to vary the Closing Date without prior notice. The Company also reserves the right not to proceed with the Rights Issue at any time prior to issuing the Shares.

### **2.4 Participation in this Rights Issue**

Eligible persons and entities to this Rights Issue may choose one of the following alternatives:

### **Taking Up Your Full Entitlement**

Shareholders wishing to take up their full Entitlement, must complete section A “Shareholders details and Entitlement” and section B “Application Amount” of the Entitlement and Acceptance Form accompanying this Prospectus, and return it together with the full subscription amount payable in the enclosed envelope to ECO by no later than 5:00pm WST on 2 July 2012.

### **Taking Up Part Of Your Full Entitlement**

Shareholders wishing to take up only part of their Entitlement, must complete section A “Shareholders details and Entitlement” and section B “Application Amount” of the Entitlement and Acceptance Form accompanying this Prospectus, and return it together with the subscription amount payable in the enclosed envelope to ECO by no later than 5:00pm WST on 2 July 2012.

### **Allowing Your Entitlement to Lapse**

If you do not wish to accept all or part of your Entitlement, you are not obliged to do anything.

### **2.5 Minimum Subscriptions**

There is no minimum subscription in this issue. Shareholders should be aware that this is a Non Renounceable Rights Issue, which provides for the Directors to issue shares to parties outside of the current shareholders in the event that shareholders do not exercise their right to fully participate in this Rights Issue. Should the Rights Issue not be fully subscribed a shortfall arises and a Shortfall Offer will be undertaken, refer to s 2.6 Shortfall Offer.

In addition to a Shortfall Offer alternate funding sources will be reviewed by the Company, refer s3.8

### **2.6 Shortfall Offer**

If you do not wish to take up any part of your Entitlement you are not required to take any action. That part of your Entitlement not taken up will form part of the Shortfall.

Shareholders who wish to apply for more than their Entitlement can complete the Application for Additional Shares Form attached to this Prospectus, together with the additional subscription amount payable, by the Closing Date.

The offer of the Shortfall is a separate offer pursuant to this Prospectus. This issue price of any Shares offered pursuant to the Shortfall Offer shall be at \$2.50, being the price at which the Entitlement has been offered to Shareholders pursuant to this Prospectus.

The Shortfall shall be placed at the discretion of the Company with priority to be given to those Shareholders who subscribe for their Entitlement in full. The Company reserves the right to allot to an Applicant a lesser number of Shortfall Shares than the number for which an Applicant applies, or to reject a Shortfall Application, or to not proceed with placing the Shortfall.

The extent to which the Shortfall Offer is participated in by external shareholders may determine any dilution and control impacts upon ECO. Refer s3.6 Effects of the Entitlement Issue on Control of the Company.

### **2.7 Payment Under This Issue**

Cheques should accompany the Entitlement and Acceptance Form and are to be made in Australian currency totaling the cost of the new Shares being accepted. Cheques should be made payable to:

“Environmental Carbon Offset Limited - Rights Issue” and crossed “Not Negotiable.”

In the event that a cheque does not match the number of Shares indicated on the Entitlement and Acceptance Form, the number of Shares applied for will be deemed to match the cheque.

### **2.8 Share Allotment**

Shares issued pursuant to the Rights Issue will be allotted as soon as practicable after the Closing Date. The Company will allot the Shares on the basis of a Shareholder’s Entitlement. Where the number of Shares issued is less than the number applied for, or where no allotment is made, surplus application monies will be refunded without any interest to the Applicant as soon as practicable after the Closing Date.

Pending the allotment and issue of the Shares or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company, however, will be entitled to retain all interest that accrues on the bank account and each Applicant waives the right to claim interest.

Investors participating in this Rights Issue are making an offer to ECO for additional Shares in the Company on the terms and conditions set out in this Prospectus and the Entitlement and Acceptance Form.

Shares will be allotted as soon as possible after the Closing Date of this Prospectus. Holding statements will be dispatched within 14 working days after being allotted. An indicative timetable of this Rights Issue is contained in section 1.2 of this Prospectus.

### **2.9 No Underwriting**

This issue is not underwritten.

### **2.10 Overseas Shareholders**

This Rights Issue does not, and is not intended to, constitute an offer in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus.

It is not practicable for the Company to comply with the securities laws of overseas jurisdictions having regard to the number of overseas Shareholders, the number and value of Securities these Shareholders would be offered and the cost of complying with regulatory requirements in each relevant jurisdiction. Accordingly, the Rights Issue is not being extended and Securities will not be issued to Shareholders with a registered address which is outside Australia.

### **2.11 Taxation Implications**

The Directors do not consider that it is appropriate to give Applicants advice regarding the taxation consequences of applying for Securities under this Prospectus, as it is not possible to provide a comprehensive summary of the possible taxation consequences. The Company, its advisers and officers, do not accept any responsibility or liability for any taxation consequences to Applicants. Potential Applicants should, therefore, consult their own professional tax adviser in connection with the taxation implications of the Securities offered pursuant to this Prospectus.

### **2.12 Commissions and Brokerage**

Commissions and brokerage may be payable to appropriately licensed dealers in securities, members of the ASX, and other persons entitled to receive commissions. The Directors have agreed to pay commissions up to a maximum rate of 6%. Commissions will only be paid on Shares that are issued under the Shortfall Offer.

### **2.13 Privacy**

If you complete an Application for Shares, you will be providing personal information to the Company. The Company collects, holds and will use that information to assess your Application, service your needs as a Shareholder, facilitate distribution payments and corporate communications to you as a Shareholder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company's share registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company if you wish to do so at the relevant contact numbers set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988, the Corporations Act and certain rules and regulations. You should note that if you do not provide the information required on the Application for Shares, the Company may not be able to accept or process your Application.

## **2.14 Queries**

Investors with queries concerning any aspect of this Prospectus are encouraged to seek professional advice. Investors with queries in relation to their shareholding in ECO, or investors requiring assistance in completing their Entitlement and Acceptance Forms should contact the Company:

Environmental Carbon Offset Limited  
Level 1, 412 Newcastle Street  
WEST PERTH, WA 6005

AUSTRALIA  
Telephone: (+ 61 8) 9227 6300  
E-mail: [kpadmin@kiripark.com.au](mailto:kpadmin@kiripark.com.au)

## **Section 3. Purpose of the Offer**

### **3.1 Introduction**

This section of the Prospectus provides information about ECO and the purpose of the Rights Issue.

ECO is one of Australia's leading paulownia organizations, with experience in the establishment, plantation management, research, and propagation of paulownia trees. The Company and its subsidiaries, own and operate the Kiri Park plantations.

ECO is changing its focus to the Carbon market with more focus on carbon offset in the future. Directors plan to explore opportunities using the existing plantation for the provision of Carbon Credits for sale to companies seeking such credits for compliance with the new regulations planned to commence in Australia in July 2012.

At this point in time the Directors do not have a comprehensive plan for the pursuit of Carbon Credits however the Directors are committed to examine the possibilities. Publicity by the Prime Minister and her government has been directed at encouraging companies to pursue the possibilities. The Directors are of the view that the financial security of ECO and its subsidiaries needs to be secured before a comprehensive plan can be formulated.

The first step in securing the future of ECO and its subsidiaries is the retirement of the debenture over Kiri Park and management of the balance of the debt.

### **3.2 Board of Directors**

The Board of Directors possess considerable business, legal, marketing, and project management skills and experience. Additional skills and expertise will be sought from consultants as may be found to be necessary or expedient.

### **3.3 Kiri Park Introduction**

"Kiri Park" is located at Lot M1254 Hunter Road, Regan's Ford, in Western Australia, and consists of approximately 536 hectares of land on the north bank of the Moore River and is located off the Brand Highway. Over 350 hectares of the Property is suitable for Paulownia plantations with approximately 198,180 Paulownia trees having already being planted and are maintained on the Property.

Kiri Park is encumbered by a mortgage to support a debenture that was raised in 2000. The balance outstanding on the debenture is approximately \$1.2 million. The funds were applied to the provision of loans for the financing of woodlot investors ("Growers") in the Kiri Park Projects. ECO and its subsidiaries are pursuing the collection of those loans.

The debenture is intended to be repaid from the sale of timber from the harvest of the 40,000 trees belonging to Powton Land Holdings Pty Ltd however the debenture trustee and the debenture holders seek repayment of the \$1.2 million without waiting for the harvest of the 40,000 trees.

ECO and the subsidiary companies in the group (other than Powton Land Holdings) are not party to or required to provide security for the debenture of \$1.2 million over Kiri Park.

### **3.4 Purpose of the Offer**

This Rights Issue is being made to all Shareholders of ECO to raise up to \$3,560,263. Proceeds raised from this Rights Issue will be used to pay down debt and to provide additional working capital to assist the Company to stabilize its balance sheet and pay down debt. The

Proceeds raised from this Rights Issue will be apportioned towards the following:

	<b>Application of Funds</b>	\$
1	Costs of Issue	50,000
2	Retirement of Debenture Debt	1,200,000
3	Kiri Timber Trust	170,000
4	Agricultural Mortgage Trust	230,000
5	Payment of Creditors	500,000
6	Working capital	1,410,263
	<b>Total</b>	<b>3,560,263</b>

In the instance that funds raised are less than the proposed funds of \$3,560,263, the company will apply any funding raised in the numbered order as shown above, after paying for the costs of issue.

A shortfall in the level of funds raised will also require ECO to review and potentially undertake other forms of fund raising as noted at s3.8.

Information on the Costs of Issue are Contained in Section 6 of this Prospectus.

### **3.5 Future Developments**

The likely developments in the operation of the Company and the expected results of those operations in future financial years are as follows:

- The Company expects to continue to support its subsidiary companies with the successful operation and management of the existing Kiri Park Plantations and the other plantation interests of the ECO Group.
- The Company seeks to pursue opportunities for the development of Carbon Credits to address the recently introduced Carbon Tax. Due to the relative infancy of the industry it is difficult to know the exact manner in which ECO will be able to benefit from the emerging industry. That the industry is relatively new provides opportunity for ECO to be involved from ground level and gain early mover advantage by participating.

The Managed Investment Schemes (MIS) operated by Environmental Forest Farms Management Limited have been suspended due to a number of factors including higher than budget costs, high Australian dollar, withdrawal of ATO rulings and reductions in Grower participation and payments.

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

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

### **3.6 Effect of the Entitlement issue on Control of the Company**

The potential effects that the issue of the Shares under the Rights Issue will have on the control of the Company, and the consequences of these effects will depend on a number of factors, including the number of Shareholders who take up their Entitlements under the Rights Issue.

Under the Shortfall Offer ECO can offer rights to non-shareholders. The greater the participation in any such Shortfall Offer, the greater the dilution impact upon current shareholders.

If all Shareholders take up their Entitlements under the Rights Issue, the Rights Issue will not have a material effect on the control of the Company.

If the Shareholders do not take up their entitlements then it is possible that a new party or parties or alternatively interested current shareholders could take up to 83.33% of the company under the Shortfall Offer and could thereby attain effective total control of the company.

Any uptake of shares under the Shortfall Offer could have a significant effect on the percentage interest of shareholders who do not take up their Rights Issue entitlements under the Prospectus.

### **3.7 Effect on Capital Structure**

A comparative table of changes in the capital structure of the Company as a consequence of the Rights Issue is set out below, assuming that the Rights Issue is fully subscribed.

<b>Structure</b>	<b>Before Rights Issue</b>	<b>After 25 % uptake of Rights Issue</b>	<b>After 50 % uptake of Rights Issue</b>	<b>After 100% uptake of Rights Issue</b>
Shares on Issue before Right Issue	284,821	284,821	284,821	284,821
Additional Shares under this Prospectus	0	356,027	712,053	1,424,105
<b>Total shares Issued on partial or full completion of this Offer</b>	<b>284,821</b>	<b>640,848</b>	<b>996,874</b>	<b>1,708,926</b>
Percentage held by Current Shareholders	100%	44.44%	28.57%	16.67%
<b>Percentage Held by New Shareholders</b>	<b>0%</b>	<b>65.56%</b>	<b>71.43%</b>	<b>83.33%</b>

### **3.8 Effect of the Offer on the Pro-Forma Consolidated Balance Sheet**

The principal effect of the Rights Issue will be to:

- Increase the cash reserves by \$3,560,263 immediately after completion of the Rights Issue after deducting the estimated expenses of the Rights Issue; and
- Increase the number of Shares on issue from 284,821 to 1,708,926 following completion of the Rights Issue.

The funds raised will be used to pay the debenture, to pay down debt and to provide working capital as shown at s3.4.

The financial impact of this Rights Issue, along with the outlined use of funds is shown on the Consolidated Statement of Financial Position at s3.9.

If after the Rights Issue and Shortfall Offer the proposed level of funds is not raised, then the Company will be required to review the sale of assets in order to pay out debt.

Regardless of the level of funding raised the purpose for fund raising will has not altered. Funds raised will be applied as show at s 3.4.

### **3.9 Consolidated Balance Sheet**

The unaudited consolidated Balance Sheet as at 31 December 2011 and the unaudited consolidated Pro-Forma Balance Sheet as at 31 December 2011 shown on the following page have been prepared on the basis of the accounting policies normally adopted by the Company and reflect the changes to its financial position. They have been prepared on the assumption that all Shares pursuant to the Rights Issue in this Prospectus are issued.

The unaudited consolidated Balance Sheets have been prepared to provide Shareholders with information on the assets and liabilities of the Company and pro-forma assets and liabilities of the Company as noted below.

The historical pro-forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

It has been prepared on the basis that there has been no material movement in the assets and liabilities of the Company between 31 December 2011 and the close of the Rights Issue, other than those stated above.

Investors should read in entirety the Annual Report to 30 June 2011 and the Half Year Financial Report to 31 December 2011 for further details on the past financial performance of the Company and the accounting policies adopted by the Company.

Note:

*The assets stated in the Balance sheet of ECO and its Controlled Entities may not be realizable at the values provided. The risk that the values will not be realizable would be increased in the event that the capital raising under this Prospectus is not successful.*

**ECO Limited and its Controlled Entities  
Pro-forma Statement of Financial Position**

**As at 31 December 2011**

	<b>Audited</b> <b>31 Dec 2011</b>	<b>Unaudited</b> <b>Pro-forma</b> 31 December 2011
	\$	\$
<b>Current Assets</b>		
Cash and cash equivalents	3,296	1,651,561
Trade and other receivables	1,241,093	1,241,093
Inventories	250,000	250,000
Other financial assets	103	103
<b>Total Current Assets</b>	<b>1,494,492</b>	<b>1,494,492</b>

<b>Non - Currents Assets</b>		
Receivables	977,510	977,510
Property, plant and equipment	7,982,158	7,982,158
Biological assets	772,661	772,661
Intangible assets	7,936	7,936
Deferred tax assets	169,782	169,782
<b>Total Non-Current Assets</b>	<b>9,910,047</b>	<b>9,910,047</b>
<b>Total Assets</b>	<b>11,404,539</b>	<b>13,052,806</b>
<b>Current Liabilities</b>		
Trade and other payables	2,540,021	2,521,934
Borrowings	1,776,504	-
Current tax liabilities	90,768	-
<b>Total Current Liabilities</b>	<b>4,407,293</b>	<b>2,521,934</b>
<b>Non-Current Liabilities</b>		
Borrowings	835,778	841,052
Deferred tax liabilities	1,493,455	1,493,455
<b>Total Non-Current Liabilities</b>	<b>2,329,233</b>	<b>2,334,507</b>
<b>Total Liabilities</b>	<b>6,736,526</b>	<b>4,856,441</b>
<b>Net Assets</b>	<b>4,668,013</b>	<b>8,196,365</b>
<b>Equity</b>		
Contributed Equity	5,647,603	9,207,867
Retained Earnings	(4,791,483)	(4,773,395)
Asset Revaluation Reserve	3,811,893	3,811,893
Cost of Rights Issue	-	50,000
<b>Total Equity</b>	<b>4,668,013</b>	<b>8,196,365</b>

## **Section 4: Rights Attaching to Shares**

### **4.1 Rights Attaching to Shares**

The Shares issued pursuant to this Prospectus will rank pari passu with all other Shares presently on issue. The Shares when issued will be credited as fully paid. The following is a broad summary (though not necessarily an exhaustive or definitive statement) of the rights and liabilities attaching to all Shares.

### **4.2 Voting**

At a general meeting, every member present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each Share held. On a poll, partly paid shares confer a fraction of a vote pro-rata to the amount paid on the Share.

### **4.3 General Meetings**

Each member is entitled to receive notice of and, except in certain circumstances, to attend and vote at general meetings of the Company and receive all financial statements, notices and other documents required to be sent to members under the Constitution, the Listing Rules or the Corporations Act.

### **4.4 Dividends**

Subject to any special terms and conditions of issue, the profits of the Company which the Directors from time to time determine to distribute by way of dividend are divisible amongst the members in proportion to the amounts paid up on the Shares held by them.

The Constitution contains a provision allowing Directors to implement a dividend reinvestment plan.

### **4.5 Transfer of Shares**

Holders of Shares may transfer them by a proper transfer affected as permitted by the Corporations Act. The Directors may decline to register a transfer of Shares where the transfer is not in registrable form or where the refusal to register the transfer is permitted under the Constitution or the Corporations Act. If the Directors decline to register a transfer the Company must give the party lodging the transfer written notice of the refusal and the reason for refusal.

### **4.6 Winding Up**

Subject to any special or preferential rights attaching to any class or classes of shares, members will be entitled in a winding up to share in any surplus assets of the Company in proportion to the Shares held by them irrespective of the amount paid up or credited as paid up, less any amounts which remain unpaid on these Shares at the time of distribution.

#### **4.7 Alteration of the Constitution**

The Constitution can only be amended by a special resolution passed by at least three quarters of members present and voting at a general meeting of the Company. The Company must give at least 28 days written notice of its intention to propose a resolution as a special resolution.

#### **4.8 Future Increase in Capital**

The allotment and issue of any new Shares is under the control of the Directors of the Company. Subject to restrictions on the issue or grant of securities contained in the Constitution and the Corporations Act (and without affecting any special right previously conferred on the holder of an existing share or class of shares), the Directors may issue the Shares under this Prospectus and such further shares as they shall, in their absolute discretion, determine.

#### **4.9 Variation of Rights**

Pursuant to Section 246B of the Corporations Act, 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 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.

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

### **Section 5: Risks**

#### **5.1 Introduction**

This Section identifies the areas the Directors regard as the major risks associated with participation in the Rights Issue.

Investors should be aware that an investment in the Company involves many risks, which may be higher than the risks associated with an investment in other companies.

Intending investors should read the whole of this Prospectus in order to fully appreciate such matters and the manner in which the Company intends to operate before any decision is made to apply for Shares.

There are numerous widespread risks associated with investing in any form of business. There is also a range of specific risks associated with the Company's business and its involvement in the agricultural industry. These risk factors are largely beyond the control of the Company and its Directors because of the nature of the proposed business of the Company.

The following summary, which is not exhaustive, represents some of the major risk factors which potential investors need to be aware of.

### **5.2 General Economic Conditions**

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

Demand for carbon offset and paulownia may be affected by many factors such as:

- general economic outlook;
- currency fluctuations;
- commodity prices;
- world events including natural disaster;
- changes in taxation treatment of carbon credits.

As a result of the current Federal Government's intention to continue the progression of addressing carbon emissions there exists potential to utilise the existing plantations to be involved in the production of Carbon Credits.

While the industry is still in its infancy both in Australia and globally the resolve of governments and industry is becoming more apparent as interest and participation grows.

Carbon abatement plans such as those being formulated by the Government's Department of Climate Change and Energy Efficiency are far reaching in their impact to the way in which business and individuals exist and function going forwards. The global impacts of the Kyoto Protocol will continue to increase in prominence as a result of greater environmental awareness and social conscience.

### **5.3 The Kiri Park Plantations**

The Kiri Park Plantations are susceptible to normal agricultural and forestry risks including:

- Fire
- Lack of nutrition
- Pests and diseases
- Weeds
- Timber yield from each tree
- Flood
- Drought
- Storm

#### **5.4 Inherent Business Risks**

Inflation, interest rates, and exchange rates in Australia and other international economies are factors that may have an impact on the operating costs and revenues of the Company. Many variables in the domestic and international economies are beyond the control of the Company. The Board cannot foresee with certainty, any changes to the Australian economy.

#### **5.5 Agricultural Investments**

Due to the Global Economic Crisis and the re-call of financing by banks, the MIS timber industry has also seen the collapse of significant participants in the industry.

These factors have had a negative impact on the reputation of the MIS timber industry generally and resulted in the Company making the decision to suspend its MIS offering.

The Company does not expect to be offering any further MIS for the foreseeable future.

#### **5.6 Delayed or Non-Payment of Annual Management Fees**

EFFM, a wholly owned subsidiary of ECO, has entered into a Management Agreement with each Grower in the Kiri Park projects. The Growers are contracted to pay annual management fees to EFFM, over the course of the respective projects. Those schemes have been terminated or are in the process of being terminated, however significant amounts of money are outstanding to EFFM at the current time.

There is a risk that a percentage of Growers may have difficulty in paying their annual commitments. This may result in late or non-payment of those fees.

If a Grower fails to pay any Management Fee by the date for payment, pursuant to the Management Agreement, the Manager may terminate the Agreement and the Grower must pay interest on the outstanding amount.

The collection of the outstanding fees involves legal and administration costs. To date several of the parties being pursued for larger sums have declared themselves bankrupt.

#### **5.7 Commodity Prices and Exchange Rate Risk**

The market for paulownia timber is exposed to commodity prices and exchange rate risks. Commodity prices fluctuate and are affected by many factors beyond the control of the Company.

International prices of commodities are denominated in United States dollars, whereas the income and expenditure of the Company are and will be conducted in Australian currency, exposing the Company to the fluctuations and volatility of the rate of exchange between the United States dollar and the Australian dollar as determined in international markets.

### **5.8 Insufficient Working Capital**

The Company requires working capital to facilitate its financial and operating activities. If insufficient working capital is raised through this Rights Issue, then the Board may need to consider other avenues for injecting capital into the Company.

### **5.9 Key Management Personnel**

The responsibility of overseeing the day-to-day operations and the 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.

### **5.10 An Illiquid Investment**

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

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

### **5.11 Speculative Nature of Investment**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above risk factors and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Shares offered under this Prospectus.

Potential investors should consider the investment in the Company as speculative and should seek professional advice before deciding whether to apply for Shares.

## **Section 6: Additional Information**

### **6.1 Prospectus**

This Prospectus is a replacement for an earlier Prospectus dated 2 May 2012, and was lodged with the ASIC on that date. This Replacement Prospectus is issued on 17 May 2012.

ASIC takes no responsibility for the contents of this Prospectus.

This Prospectus is intended to be read in conjunction with:

- (i) the financial statements of the Company for the financial year ended 30 June 2011 being the last financial statements for a financial year, of the Company lodged with the ASIC before the issue of this Prospectus.
- (ii) the Half Year Financial Statements of the Company lodged with ASIC for the half year ended 31 December 2011 lodged with ASIC before the issue of this Prospectus.

The Company will provide a copy of the Company's financial statements as referred to above, free of charge, to any person on request between the date of issue of this Prospectus and the Closing Date:

### **6.2 Directors Remuneration**

The Directors remuneration has been set and is shown below

<b>Director</b>	<b>Remuneration</b> \$
Mr. Syd Chesson	50,000
Mr. Thomas Henn	20,000
Mr. Simon Chesson	20,000
<b>Total</b>	<b>90,000</b>

The Directors have agreed not to receive Directors fees until the Company has funds available.

### **6.3 Interests of Directors**

Other than as set out below, no Director or proposed Director of ECO and no firm in which a Director of ECO is a partner, has an interest in the promotion of, or any property proposed to be acquired by ECO and no amounts, whether cash or otherwise, have been paid or agreed to be paid to any Director or proposed Director of ECO, or any firm in which he is a partner, either to induce him to become or to qualify him as a Director, or otherwise services rendered by him or by the firm in which he is a partner in connection with the promotion or formation of ECO except as detailed in this Prospectus.

Director's interests in securities of the Company at the date of the Prospectus are:

**Shareholdings**

Director	Shares (Indirect)
Mr. Sydney J Chesson	93,320
Mr. Thomas F Henn	1,008
Mr. Simon JS Chesson	93,320

The following Directors have the following interests arising from the following transactions entered in the ordinary course of business:

- AustAsia Group Pty Ltd an entity related to both Mr. Sydney J Chesson and Mr. Simon JS Chesson, is entitled to be remunerated \$10,000 for services in relation to the preparation of this Prospectus and consulting services provided to the Company in relation to the issue of this Prospectus. This cost is included in the Expenses of the Rights Issue contained in this section of the Prospectus.
- AustAsia Financial Planning Pty Ltd, an entity related to Mr. Sydney J Chesson and Mr. Simon JS Chesson, is a licensed dealer in securities. Authorised representatives of AustAsia Financial Planning Pty Ltd. may receive commissions on the issue of any Shares procured by them.
- AustAsia Group Pty Ltd is entitled to be remunerated \$120,000 plus GST per annum for services provided to the Company in relation to day-to-day management and bookkeeping of the Group. AustAsia Group Pty Ltd has agreed to defer its remuneration until such time that the Company has funds available.

**6.4 Commissions and Brokerage**

Commissions and brokerage may be payable to appropriately licensed dealers in securities, members of the ASX, and other persons entitled to receive commissions. The Directors have agreed to pay commissions up to a maximum rate of 6%.

**6.5 Interests and Consents of Named Parties**

Other than as set out below or elsewhere in this Prospectus, no expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, nor any firm in which any of those persons is or was a partner, nor any company with which any of those persons is or was associated, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

- the formation or promotion of the Company; or
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Rights Issue of securities pursuant to this Prospectus; or
- the Rights Issue of securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any expert, underwriter, promoter or any other 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, or to any firm in which any of those persons is or was a partner, or to any company with which any of those persons is or was associated, for services rendered by that person, or by the firm or the company, in connection with the formation or promotion of the Company or the Rights Issue pursuant to this Prospectus.

Pursuant to section 716 of the Corporations Act, Powton Land Holdings Ltd has given, and has not withdrawn its consent to being named as a partially owned subsidiary of ECO in this Prospectus in the form and context in which it is named. Powton Land Holdings Ltd has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus.

Pursuant to section 716 of the Corporations Act, EFFM has given, and has not withdrawn its consent to being named as a wholly owned subsidiary of ECO in this Prospectus in the form and context in which it is named. EFFM has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus.

Pursuant to section 716 of the Corporations Act, AustAsia Group Pty Ltd has given, and has not withdrawn its consent to being named as an adviser in this Prospectus in the form and context in which it is named. AustAsia Group Pty Ltd has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus.

The Company has entered into an agreement with AustAsia Group Pty Ltd pursuant to which AustAsia Group Pty Ltd has agreed to prepare the Prospectus for the Rights Issue. The Company has agreed to pay AustAsia Group Pty Ltd a fee of \$10,000 (plus GST). The Company will also pay AustAsia Group Pty Ltd reasonable out-of-pocket expenses.

Pursuant to Section 716 of the Corporations Act, Carlton & Partners Pty Ltd has given, and has not withdrawn its consent to being named as Auditors to the Company in the Corporate Directory of this Prospectus in the form and context in which it is named. Carlton & Partners Pty Ltd has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus.

#### **6.6 Legal Proceedings**

The Company and its subsidiaries are currently engaged in a number of legal proceedings for the purpose of recovery of funds from Growers.

The Company is not engaged in any other legal proceedings at the time of this Prospectus.

## **6.7 Expenses of the Rights Issue**

The expenses of this Rights Issue are estimated as follows:

<b>Item</b>	<b>Cost \$</b>
ASIC Fees	2,000
Commissions and Brokerage	15,000
Preparation of the Prospectus	10,000
Printing and Distribution	10,000
Other Costs	13,000
<b>Total</b>	<b>50,000</b>

## **6.8 Electronic Prospectus**

Pursuant to Class Order 00/44, ASIC has excepted compliance with certain provisions of the Corporations Acts to allow distribution of an electronic prospectus on the basis of a paper prospectus lodged with ASIC and the issue of Securities in response to an electronic application form, subject to compliance with certain provisions

If you have received this Rights Issue document as an electronic prospectus, please ensure that you have received the entire Rights Issue document accompanied by the Application Form. If you have not, please contact the Company on telephone (08) 9227 8422 and the company will send to you free, a hard copy of the Rights Issue.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when the person was given access to the electronic Application Form, it was not provided together with the electronic Rights Issue document and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

## **6.9 Disclaimers**

Neither the Company, nor the Directors, give any guarantee with respect to the performance of the Company or its investments, the return of any income or capital, payment of distributions, tax deductions, production results, prices for trade, or any other returns to holders of Shares offered in this Prospectus.

## **Section 7: Director's Authorisation**

This Prospectus is dated 17 May 2012 and is issued by Environmental Carbon Offset Limited.

The Directors have made all reasonable enquiries and on that basis have reasonable grounds to believe that any statements made by the Directors in the Prospectus are not misleading or deceptive.

This Prospectus is prepared on the basis that certain matters may reasonably be expected to be known to likely investors or their professional advisors.

Each of the Directors of ECO Limited has consented to the lodgment of this Prospectus in accordance with section 720 of the Corporations Act and has not withdrawn that consent.

Signed for and on behalf of ECO Limited

A handwritten signature in black ink, appearing to read "Chesson".

Simon J Chesson  
Director

## Section 8: Definitions

**Applicant** means a Shareholder or other party who applies for Shares pursuant to the Rights Issue.

**Application** means a valid application to subscribe for Shares pursuant to the Rights Issue.

**Application for Additional Shares** means the forms attached to this Prospectus, allowing you to apply for additional shares pursuant to this Rights Issue.

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

**Board** means the Company's board of directors unless the context indicates otherwise.

**Company** means E.C.O. Limited (ACN 077 014 594).

**Constitution** means the Company's Constitution as at the date of this Prospectus. .

**Corporations Act** means the *Corporations Act 2001 (Cth)*.

**Closing Date** means 5:00pm WST on 2 July 2012

**Directors** means the Directors of ECO, being Mr Sydney Chesson, Mr Thomas Henn and Mr Simon Chesson

**ECO** means Environmental Carbon Offset Limited (ACN 077 014 594).

**ECO Group** means ECO and its controlled entities. Members of the ECO Group are disclosed in the Corporate Directory.

**EFFM** means Environmental Forest Farms Management Limited (ACN 087 201 670).

**Eligible Parties to this Offer** means holders of Shares in ECO as at the Record Date. **Entitlement** means the number of new shares available to each shareholder pursuant to this Prospectus.

**Entitlement** means the entitlement of a Shareholder who is eligible to participate in the Rights Issue.

**Entitlement and Acceptance Forms** means the forms accompanying this Prospectus, enabling participation in this Rights Issue.

**Growers** means an individual or entity that has entered into a lease and management agreement with the Company or its subsidiaries.

**Kiri Park** means Lot M1254 Hunter Rd, Gingin, Western Australia.

**New Shares** means shares allotted under this Prospectus.

**Offer** means the Rights Issue detailed in this Prospectus.

**PLH** means Powton Land Holdings Limited (ACN 087 201 652).

**Privacy Act** means the *Privacy Act 1988 (Cth)*.

**Prospectus** means this Prospectus dated 17 May 2012.

**Record Date** means 5:00pm WST on 17 May 2012.

**Rights Issue** means a rights offer to all existing shareholders that may only be taken up or forfeited, and cannot be traded nor transferred.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a shareholder of the Company.

**Shortfall** means those Shares under the Rights Issue not applied for by Shareholders under their Entitlement.

**Shortfall Offer** means an offer to shareholders of more than their entitlement under the Rights Issue or an offer to new (non) shareholders to acquire new shares in ECO

**WST** means Western Standard Time.

## **How to Apply for Shares in Environmental Carbon Offset Limited pursuant to the Non-Renounceable Rights Issue Prospectus dated 17 May 2012 and/or the Shortfall Offer.**

To Apply for Shares in ECO pursuant to the Non-Renounceable Rights Issue Prospectus or the Shortfall Offer dated 17 May 2012, you are required to:

Complete all sections of the form overleaf;

Forward the form, together with a cheque made payable to "E.C.O. Limited - Rights Issue" and crossed "Not Negotiable", for the total number of additional shares being applied for, in the enclosed envelope to ECO, to reach us by no later than 5:00pm WST on 2 July 2012.

### **GENERAL INSTRUCTIONS:**

Cheques and/ or bank drafts in Australian currency and drawn or payable on a bank within Australia will be accepted.

Personal cheques drawn on overseas banks in Australian or foreign currency will not be accepted. These will be returned and the application deemed invalid;

Receipt for payment will not be forwarded;

Overseas shareholders are advised to ensure that their documents are posted by airmail.

Electronic banking transfers are also accepted to ECO Limited – Rights Issue

### Bank Account Details

BSB 086-492  
Account 79-647-6089

### **ENQUIRIES**

Any enquiries about your entitlement should be directed to:

Environmental Carbon Offset Limited  
Level 1, 412 Newcastle Street  
West Perth, WA 6005  
Australia  
Telephone: (61 8) 9227 6300  
E-mail:kpadmin@kiripark.com.au