

Explanatory Statement to the Notice of Annual General Meeting Dated 28 November 2011

Introduction

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the Annual General Meeting to be held at, AustAsia House, 412 Newcastle Street, West Perth, Western Australia on 28 November 2011 at 3.00pm (WST).

This Explanatory Statement forms part of and should be read in conjunction with the accompanying Notice of annual general meeting.

FINANCIAL REPORT

As required by section 317 of the Corporations Act, the financial statements for the year ended 30 June 2011 and the reports of the Directors and auditors thereon will be laid before the meeting. There is no requirement for a formal resolution on this item.

In accordance with the Corporations Act, a reasonable opportunity will be given to Shareholders to ask questions and/or make comments on the management of the Company at the meeting.

As a Shareholder you are entitled to submit one written question to the auditor prior to the Annual General Meeting provided that the question relates to:

- The content of the auditor's report; or
- The conduct of the audit in relation to the financial report.

All written questions must be sent to the Company and may not be sent direct to the auditor. The Company will then forward all questions to the auditor. Questions must be received by the Company no later than 5 business days before the date of the Annual General Meeting.

The auditor will be attending the Annual General Meeting and will be available to answer questions from Shareholders relevant to:

- The conduct of the audit;
- The preparation and content of the auditor's report;
- The accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- The independence of the auditor in relation to the conduct of the audit.

The auditor will also answer written questions submitted prior to the Annual General Meeting.

Resolution 1 - Election of Director – Mr Simon Chesson

In accordance with Rule 53.1 of the Company's Constitution, a Director appointed either to fill a casual vacancy or as an additional Director holds office only until the conclusion of the next General Meeting of the Company and is eligible for election. Mr Simon Chesson was appointed a Director of the Company on 14 February 2011.

Accordingly, Mr Chesson ceases to be a Director and offers himself for election at the Meeting.

Details of Mr Chesson are contained in the EFF 2011 Annual Report.

Resolution 2 – Election of Director – Mr Thomas Henn

In accordance with Rule 53.1 of the Company's Constitution, a Director appointed either to fill a casual vacancy or as an additional Director holds office only until the conclusion of the next General Meeting of the Company and is eligible for election. Mr Thomas Henn as appointed a Director of the Company on 21 January 2011.

Accordingly, Mr Henn ceases to be a Director and offers himself for election at the Meeting.

Details of Mr Henn are contained in the EFF 2011 Annual Report.

Resolution 3 – Change of Company Name

“That the name of the Company be and is hereby changed to Environmental Carbon Offset Ltd”.

Pursuant to Section 157 of Corporation Act, a special resolution is required to change the name of the Company.

The change of name represents a change in direction of the Company.

The Directors of EFF Ltd have been monitoring the long term situation for manufacturing in Australia. Competition is difficult, with the end product currently being imported into Australia, combined with the high Australian currency, for values of 1/3 of the cost of manufacture of the Group’s products.

There are a number of recent examples which have received media attention for the manufacturing industries, including:

- steel fabrication
- clothing manufacture
- furniture manufacture

The Group is unable to sustain the manufacturing business any longer, and has commenced steps to:

- a) Close its manufacturing and timber production facility at Rockingham effective immediately.
- b) Divest of various assets, including the property assets and equipment, which are related to manufacturing in order to pay down debt.
- c) Takeover all of the managed investment schemes to reduce overheads and ongoing costs of the business.

The Company will be required to raise capital in the coming months in order to pay down debt, including:

- Debenture Stock which is due to be repaid on 30 June 2012. A number of the debenture holders are also growers that have fees outstanding, so the Board may be able to negotiate with some of those parties, and reduce the requirement for the capital raising.
- Retire debt to related parties, including the AREIT Agricultural Mortgage Trust.
- Provide ongoing operating costs, albeit on a smaller scale, to provide funds for the ongoing maintenance of trees and the plantation for the future.

Separate documentation relating to the closure of managed investment schemes, and the capital raising will be provided in due course before the holding of the AGM.

The new direction of the Company is designed to utilise the largest assets of the Group, being the experience, expertise and research in tree farming. We are undertaking research into carbon offset and emissions trading schemes. The announcements made recently by the Australian Federal Government may provide an opportunity to be able to sell any carbon credits into a scheme. The carbon trading industry is in its infancy in Australia, so there are some uncertainties that lie ahead. The Company believes it is in a position to compete with other companies currently providing tree planting services for carbon offsets and credits.

Further information relating to the Carbon Tax, Schemes and Carbon Farm Initiative can be found at: <http://www.climatechange.gov.au/cfi>