

UPDATE:

17th November 2009

Carbon Conscious Limited (CCF)

Price: \$0.42

Speculative Out Perform

Mkt Cap: \$16.5m

Summary Information:

Capital Structure:

Share Price	\$0.42
Ord Shares	37.4m
Market Capitalisation	\$15.7m
Options	9.6m
Market Capitalisation (dil)	\$19.7m
Cash (Sep 2009)	\$2.9m
Enterprise Value	\$16.8m
52 week Low/High	7.0¢ / 49.5¢

Directors:

Non-Exec Chairman	Matthew Birney
Chief Executive	Peter Balsarini
Non-Exec Director	Nadisan Logaraj
Non-Exec Director	Michael Shields
Non-Exec Director	Stephen Lowe
Non-Exec Director	Andrew McBain

Major Shareholders:

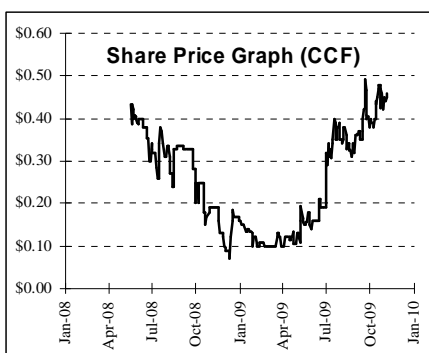
Broadacre Asset Management	38.3%
Macro Fund Services	5.0%
Trojan Equity Limited	3.5%
Gurrambim Investments	3.3%

Top 20 Shareholders hold 70.9% of the issued stock

Recent Contracts

Oct 2009, signed contract with BP for the plantation of up to 10 million Mallee Eucalypt trees to absorb carbon from the atmosphere

Jul 2009, signed contract with Origin Energy to plant millions of Mallee Eucalypt trees, stage one value \$26m, with Origin having options to increase the contract by a further \$143m.



Company Description:

Carbon Conscious Limited (CCF) is an Australian company producing accredited carbon offsets by establishing Mallee Eucalypt Tree Carbon Sinks across various regions of Western Australia and other Australian wheatbelt areas.

This is achieved through the Carbon Capture Program™ which involves partnering with landholders, carbon emitters and businesses under a form of carbon share farming to deliver benefits for each stakeholder. Carbon is captured via Bio-Sequestration which is the process where the carbon in the atmosphere is sequestered during photosynthesis by trees in their stems, leaves, twigs and roots

CCF's Carbon Capture Program™ provides a 'complete package' including land identification, carbon credit generation, ongoing monitoring and carbon inventory auditing. The program is designed for businesses seeking to own their own carbon estate asset, delivering a future stream of carbon credits whilst enabling them to focus on their core business.

As of October 2009 CCF has announced two large scale Australian bio-sequestration projects: 1) 16 Jul 2009, signed contract with Origin Energy for the "planting of millions of native Mallee Eucalypt trees" on 30,000 – 40,000 hectares, and 2) 14 Oct 2009, signed contract with BP for the planting of up to 10m trees.

Investment Highlights:

- Ideally positioned in the fast growing carbon offset, carbon trading sector, which is forecast to experience phenomenal growth over the coming decade.
- Carbon Conscious' business model is very straight forward, i.e. to produce carbon offsetting options (carbon credits) at a lower price than are available on the open market.
- Have signed two significant contracts during the last six months with major energy companies, Origin Energy, and BP. The calibre of these 2 companies should provide investors with confidence in the Carbon Conscious product and business model.
- The carbon offset market is forecast to reach \$4.0 - \$10.0 billion per annum by 2020, providing ample opportunity to grow the business.
- The Australian Senate is due to vote on the Governments "Carbon Pollution Reduction Scheme" (CPRS) within the next three weeks, and the UNs Climate Change conference in Copenhagen is less than five weeks away, which should generate increased awareness of the groups business.
- The group's largest shareholder, AACL (Australian Agricultural Contracts Ltd), provides the company with unique access to vast tracts of land and farmers. AACL operates the largest grain production business in Australia, with contracts with approx. 200 farmers to produce wheat, barley and canola on over 250,000 hectares of land in Australia.
- CCF is trading at a large discount compared to the only other comparable ASX listed company, CO2 Group, which has a market capitalisation in excess of \$100m, compared to CCF's market capitalisation of less than \$20m.

Brief History:

Formed in Jan 2008	Carbon Conscious was incorporated in January 2008 to take advantage of opportunities in the domestic and international carbon credit or carbon offset markets. CCF lodged a prospectus in March 2008 to raise up to A\$8m (A\$10m with over subscriptions) via the issue of up to 20m shares at an issue price of 40¢ per share.
Raised \$7.25m at 40¢ via IPO in mid 2008	The group successfully commenced trading on the Australian Stock Exchange (ASX) on the 16 May 2008 after raising A\$7.25m via the issue of 18.1m shares at 40¢ per share. Signs its first carbon forest sink deal in May 2009 with leading Australian energy company Origin Energy, with a value of up to A\$169m (if all options exercised) over the 15 year life of the project. Fully executed the parties believe the deal is the largest bio sequestration deal in Australia to date.
Sep quarter sees first free cashflow	Following first payments from the Origin Energy deal, the group reports its first positive cashflow quarter for the September 2009 period. Signs a strategic "Tree Planting Carbon Offset Deal" during Oct 2009 with BP that involves the planting of up to 10m trees to absorb carbon from the atmosphere. BP's initial investment of A\$2.5m is considered a pilot stage of what could become a very significant part of BP's carbon management program in Australia.

Business Model

Business model to produce carbon credits cheaper than open market prices

Carbon Conscious' business model is to produce carbon offsetting options (carbon credits) at a lower price than are available on the open market.

CCF aims to produce these carbon credits through "carbon farming", via the planting of Mallee Eucalypt trees in Australia's wheatbelt regions. Carbon farming has a unique role in the proposed Australian Government CPRS (Carbon Pollution Reduction Scheme) as they offer the only current domestic opportunity for large emitters of carbon to offset their emissions other than through the Government's auction system.

Operates three main business segments

Three main business segments

- 1) Complete Package Option, which includes land identification, carbon credit generation, ongoing monitoring and carbon inventory auditing. This option is designed for businesses seeking to own their own carbon estate asset, delivering a future stream of carbon credits. CCF generates income via initial project development fee, plantation fee, maintenance fee, and ongoing management fees. This option is target at clients who will have a liability under the emissions trading scheme and are looking to hedge the carbon price by investing upfront to gain access to a stream of carbon credits.
- 2) Carbon Bank, which involves CCF investing its own capital to generate carbon credits that can be either sold on the open market or held until such time as carbon prices warrant their sale. CCF generates income by speculating that carbon prices will be higher than the cost to generate a carbon offset.
- 3) Voluntary System, enables individuals and commercial entities to offset their carbon emission footprint in the voluntary market. Entities pay Carbon Conscious a fixed price per tonne of carbon they wish to offset (currently A\$25/t), which carbon Conscious then uses to plant mallee trees to offset the required carbon amount.

Key assumptions for business success

- 1) There will be a market through which to sell carbon credits
- 2) Able to produce carbon credits at a competitive price to the open market
- 3) Access to suitable land to enable the establishment of "carbon farming", and

Major shareholder provides access to large tracts of land and farmers.

The group's largest shareholder, AACL (Australian Agricultural Contracts Ltd), provides the company with unique access to vast tracts of land and farmers. AACL operates the largest grain production business in Australia with contracts with approx. 200 farmers to produce wheat, barley and canola on over 250,000 hectares of land in Australia.

Major Economic Assumptions

Figures used below should be used as a rough guide only, and are designed to give a broad indication of the economics of the industry.

Financial modelling assumptions used by Carbon Conscious (which are similar to assumptions used by other companies in the industry) show that:

Costs per hectare

Planting and land are major expenses	- Land cost (purchased);	\$650 – \$1,100	avg \$875
	- Planting costs	\$750 – \$1,100	avg \$925
	- Maintenance cost (p.a.)	\$20.00 – \$40.00	avg \$30

Therefore total cost per hectare varies between \$1,700 and \$2,800 (average \$2,250), or between \$115 and \$190 per annum (assuming 15 year period of carbon credit generation).

Value created per hectare (per annum)

Carbon valued at \$23 to \$30 per tonne	- Carbon credit value	\$20/t – \$30/t	avg \$25
	- Carbon generated	10t – 15t p.a.	avg 12.5t
	- Total value created	\$200 – \$450	avg \$312

1 hectare generates between 10 and 15 tonnes of carbon offset.

Therefore carbon credits valued at between \$200 and \$450 (average \$312) is generated per hectare per annum for a cost of between \$115 and \$190/t per hectare per annum.

Operating value per hectare per annum of \$135 – \$300, so a 1,000 hectare plantation theoretically produces between \$130,000 and \$300,000 operating profit per annum.

However as always there is a hitch, which in this case is that the cost of the land and planting occurs in the first year so the time value must be taken into account (depreciation), similar to building an office block and then leasing it out for next 15 years.

The likelihood of an increasing carbon price over time is likely to offset the time value of money alluded to above, with Macquarie Bank forecast a price of at least A\$50/t required to achieve the Governments carbon reduction plans, and treasury modelling forecasting a price of \$50/t by 2020 (2005 dollars).

40 – 50% of contract value received in first year

It is for this reason that Carbon Conscious charge a project development and plantation fee that ranges from 40% - 50% of the contract value signed under the complete package option.

Rough Financial model

Our rough financial models generate the following operating outcomes, which can be used to forecast potential profitability of the group at the operational level.

1,000 trees = 1ha

Simple rule of thumb: 1,000 trees = 1ha, or 1 million trees = 1,000ha

Operating costs and profitability are based on the average costs mentioned above and a carbon price of A\$23/t.

Per hectare basis

\$800 gross profit per hectare planted in the first year (design and plantation fees, excludes land cost)

\$15 gross profit per hectare per year for 15 years (management fee, includes land cost)

Simple financial model to determine rough value of contracts to CCF

Per tree basis

\$800,000 gross profit per 1million trees planted in first year (design and plantation fees excludes land cost)

\$15,000 gross profit per 1 million trees per year for 15 years (ongoing management fee, includes land cost)

Management expenses running approx. \$2.0p.a.

Management expenses (salaries, office lease, consumables, etc) have averaged approx. \$2.0 million per annum over the last 12 months, however these expenses are expect to increase going forward as the company grows.

A few final thoughts

Carbon market set to grow at phenomenal rate over next decade	Carbon Conscious has positioned itself in what is forecast to be a major growth area over the next decade as carbon emitters source carbon credits to offset their emissions. The carbon offset market is forecast to reach \$4.0 - \$10.0 billion per annum by 2020 (depending on whether 5% or 25% offset target is used), providing ample opportunity to grow the business.
CCF trades at a large discount to ASX listed competitor	Positioning itself in the environmental (Green) sector enables the group to access funds and investment from specialist green and socially responsible funds (one of the fastest growing sectors of the investment universe). Carbon reduction, carbon trading and environmentally friendly investments are forecast to be the next boom industry, with Carbon Conscious positioned amongst the first movers.
Management capability	CCF trades at a large discount compared to the only other comparable ASX listed company, CO2 Group, which has a market capitalisation in excess of \$100m, compared to CCF's market capitalisation of less than \$20m. In a relatively short time period management of CCF have shown an ability to deliver on its prelisting ambitions of: 1) gaining Australian Greenhouse Office accreditation, 2) finalising deals with strong counter parties Origin Energy and BP, and 3) producing positive free cashflows for the September 2009 quarter. This progress is all the more impressive when considered it was accomplished amidst the global financial crisis and continued uncertainty around the implementation of the Australian CPRS.

Deals signed to Date

Origin Energy Deal

First major deal for CCF signed with Origin Energy	On the 16 July 2009, Carbon Conscious Limited and Origin Energy Limited successfully completed due diligence and signed contracts for what both parties believe will be the largest carbon bio sequestration project in Australia to date, if fully exercised. The contract involves Origin paying Carbon Conscious to plant millions of native Mallee Eucalypt trees on less viable agricultural land in the wheatbelt regions of Australia for the production of Carbon Permits tradable under the Commonwealth Government's Carbon Pollution Reduction Scheme (CPRS).
\$26m initial face value	Origin has engaged Carbon Conscious to establish environmental carbon offset plantings over the first 3 seasons (2009, 2010 and 2011). These plantings will have a face value of approximately \$26 million and comprise both upfront planting and ongoing licence and management fees payable over the 15-year term of the arrangement.
Potential value of \$169m if Origin exercise all its options	Carbon Conscious has also provided options for Origin to take up further environmental plantings between 2010 and 2014. The face value of these additional plantings is up to \$143 million and would be paid in a combination of upfront planting and ongoing licence and management fees. If the options are exercised by Origin in full, the deal would represent what the parties believe will be the largest carbon forest sink development program in Australia to date with a value of up to \$169 million to be paid over the 15-year life of the project.

BP Deal

Second deal signed within 6 months	On the 14 October 2009 Carbon Conscious Limited and BP have signed contracts for a large scale Australian bio sequestration project involving the planting of up to 10 million trees to absorb carbon from the atmosphere. The deal signals an important move by BP to secure capacity in the Australian carbon forest sink industry. The contract involves BP paying CCF to create large scale commercial plantings of Mallee Eucalypt trees on less viable agricultural land in the wheatbelt regions of Australia. While large scale tree planting will substantially reduce land salinity and erosion problems, the deal is driven by the production of Australian Emission Units (AEU's) tradable under the Australian Government's proposed Carbon Pollution Reduction Scheme (CPRS). BP has engaged Carbon Conscious to establish plantings in 2010, with an investment of over A\$2.5 million, plus ongoing licensing fees. In return, both companies will share in the value of the resulting carbon offsets over a 15-year period. In addition, BP has acquired the option to invest further funds with Carbon Conscious for plantings in 2011 and 2012, once regulatory certainty surrounding the CPRS has been established.
BP treating as a pilot program that may lead to significant increases over time	BP's regional director of emissions offsets, Mr Rajeev Suri said: <i>"Our agreement with Carbon Conscious is an important step for BP in this region. We see this contract as potentially the initial stage or pilot of what could be a very significant part of BP's carbon management in Australia. This deal offers BP an investment structure and additional environmental benefits and it provides the foundation for an ongoing and mutually beneficial relationship with Carbon Conscious."</i>

Government Legislation (CRPS)

CPRS goes before the Senate in less than 3 weeks

The Australian Senate is due to vote on the Governments "Carbon Pollution Reduction Scheme" (CPRS) within the next couple of weeks, and UNs Climate Change conference in Copenhagen is less than three weeks away. Below we have summarised the major points of the CRPS.

Carbon Production Reduction Scheme

CPRS applies to emitters of 25,000t or more of CO2 p.a.

The CPRS requires any company that owns an industrial facility that emits more than 25,000 tonnes of greenhouse gases per year, to obtain permits for all of the greenhouse gases it emits. The available number of emissions permits will be strictly controlled. It is through controlling the number of permits that Australia will cap its greenhouse gas emissions. Each year the liable business must surrender sufficient permits to cover their emissions. If they do not have enough permits to cover their emissions, they will be subject to penalties. As the Scheme rolls forward, fewer and fewer permits will be made available.

The size of the CPRS market

By 2020 CO2 market potentially worth \$5.0 - \$10.0 per annum.

Through the CPRS the Government intends to reduce Australia's carbon pollution to between 5% and 15% below 2000 levels (553 Mt CO2-e) by 2020. In 2020, emissions are projected to be 664 Mt CO2-e or 120% of 2000 levels.

The 'abatement challenge' is 130 Mt CO2 under a 5% target option and 249 Mt CO2 under a 25% target option. Using a \$40t CO2 carbon price the size of the abatement challenge is \$5.2B - \$9.9B.

Discharging a liability under CPRS

In managing an organisation's liability under the CPRS it is likely that several options will be utilised. The first will be to reduce the organisation's own emissions where possible, thus reducing the required number of carbon permits. Beyond reducing emissions, Australian Emission Units (AEUs) will be tradable under Australia's pending CPRS to offset an organisations liability.

Australian Emission Units (AEUs)

Reforestation in the only activity that can create AEU's

AEUs are government-issued permits that companies with a liability under Australia's CPRS can surrender to comply with the Scheme. AEUs can only be bought through government auctions, purchased on the secondary market, or created through investments in reforestation. The number of AEUs released will be reduced by the Government to meet its greenhouse gas reduction targets.

Reforestation is the only activity under the CPRS that can create AEUs. AEUs created through reforestation are to be saleable, tradable, bankable and can be surrendered in the same way as any other AEU. Alternatively, carbon sequestered by the trees can be netted of total emissions under the National Greenhouse and Energy Reporting Act.

Directors

Mr. Matthew Birney
Non-Exec Chairman

Mr Birney is the former Leader of the Opposition in Western Australia, during his political career he held the positions of Shadow State Treasurer, Shadow Minister for Commerce, International Trade and Communications and Shadow Minister for Police. In addition to his political career Mr Birney is also a successful businessman and the recipient of a number of business awards from industry peak bodies and other notable organizations.

Mr. Peter Balsarini
Chief Executive Officer

Mr Balsarini holds a Bachelor of Economics and a Masters Degree in Business. He has over 17 years experience in the financial services industry having spent considerable time both as a public accountant and CFO of a Funds Management business. His experience spans project feasibility, investment analysis, staff management, product development and distribution amongst others. He has significant experience in the development and operation of Managed Investment Schemes, including regulatory and compliance requirements.

Mr. Nadaisan Logaraj
Non-Exec Director

Mr Logaraj's career spans law and investment banking. He was previously an International Partner of a global law firm, where he was Head of the Corporate & Commercial Group of the Australian offices and Chair of its Business Development Committee. He subsequently took up a position as Board Director, President of Financial Solutions Group and Chair of the Risk Management Committee of a leading stockbroking firm in Singapore. He holds a Master of Laws degree in International Tax and Public Company Finance from the University of Sydney.

Mr. Stephen Lowe
Non-Exec Director

Mr Lowe has 27 years' experience in capital and financial markets, with a focus on energy commodities. He previously held the role of General Manager Trading with Integral Energy, a government owned electricity, distribution and retailing company, for over five years. Mr Lowe is the COO of a renewable energy company that will be converting waste to energy. He brings to Carbon Conscious senior relationships with major energy and mining companies, investment banks and fund managers in national and international markets.

Mr. Michael Shields
Non-Exec Director

Mr Shields is a leading Western Australian farmer with 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.

Mr. Andrew McBain
Non-Exec Director

Mr McBain is the Managing Director of leading agri-investment manager AACL, which operates the largest broad acre cropping operation in Australia. He is the key concept developer, driver and promoter of the AACL model and was instrumental in the early development of the Carbon Conscious business.

The author of this report currently owns shares (personally or by related parties) in ALG, CEU, DMG, NQM, PMX, RSG, TAH, and TBR.

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