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Dear Sir or Madam

Dairy Lease Agreement Executed & Commencement of Milk Production

Highlights:

- Non-binding MoU relating to the lease of dairy farm and infrastructure converted into a binding agreement
- Non-binding MoU relating to the purchase of a dairy cow herd converted into a binding agreement
- Carbon Conscious has appointed key managers and taken over operational control and management of the “Capel Farm”
- First milk produced and delivered to local dairy processor
- Work commenced on expansion strategy of farm under U.S. style “System 5” farming
- Targeted production expansion under “System 5” to 2,500 milking cows for 25 million litres of milk per annum
- Work ongoing to finalise conversion of the Green Lake MoU into a binding contract with expectation of sign-off within first quarter 2016

Carbon Conscious Limited (ASX: CCF) (“Carbon Conscious” or the “Company”) is pleased to provide the following update on its recently announced plans to enter the Western Australian dairy market (see ASX announcement 300 released on 9 December 2015), an expansion which is consistent with the Company's existing business of agricultural project development and management.

Substantial progress has been achieved in converting the exclusive memorandum of understanding (MoU) with Australian and Chinese-backed business Green Lake Pty Ltd into a binding agreement for the long-term supply of fresh milk from WA into China.

Execution of Dairy Property Lease Agreement

Carbon Conscious has executed a lease agreement over a dairy property located in the South West region of Western Australia. The dairy property “Capel Farm” is owned by Chinese interests associated with Green Lake, with those parties having invested in excess of \$10 million into dairy production assets in Western Australia to date, in order to secure long term supply.

Terms of the lease agreement include an initial lease period of 12 months (on rent free terms), with Carbon Conscious holding an option to extend the lease to up to 20 years based on completion of its engineering designs and approvals on the site in order to rapidly expand production under a System 5 farming model.

The 330 hectare property comes equipped with a near new 60 stand rotary dairy, 600 ML water license and 2 pivot irrigation areas to support winter and summer production of silage. The 60 stand rotary has the capacity to support milking of up to 2,500 cows three times daily, 365 days per year.

The property provides Carbon Conscious with the ability to rapidly expand milk production without a substantial capital investment tied up in land and infrastructure, thereby lowering production expansion risk and improving returns on capital. The Company continues to look at other long-term lease opportunities for land and infrastructure to help facilitate an increase in milk supply to match demand over time.



Capel Farm aerial view including rotary dairy shed



60 stand rotary dairy facilities on Capel Farm

Purchase of Cattle & Commencement of Milk Production

Under the terms of the Non-binding MoU the Company had the right to purchase the existing herd of dairy cattle from an entity associated with Green Lake. After inspection and review of the existing dairy herd, 418 cows have been retained and purchased outright by Carbon Conscious, with plans to add to the herd throughout 2016.

The Company has retained the current dairy management team in order to immediately commence milk production from the dairy property. In addition the Company has appointed Mr Peter Evans as a consultant to oversee farm operations, assist farm management decisions and report back to the Company. Mr Evans is a highly regarded and successful Western Australian dairy farmer, having successfully operated his own dairy business for over 45 years. Mr Evans is formerly a director and chairman of Western Dairy (2004 – 2007), President of WA Farmers dairy section (2007 – 2012), director of Australia Dairy Farmers (2007 – 2014) and director of the Australia Dairy Industry Council (2011 – 2014).

The Company plans to increase the cow herd at the Capel Farm under the current operating system throughout 2016 with a planned rapid expansion (subject to completion of engineering design and approvals) under a System 5 farming model in 2017 – in time targeting 2,500 cows to produce 25 million litres per annum. The System 5 farming model was pioneered in the USA over a number of decades and operates as the “gold standard” for animal welfare and production efficiency across the globe including North America, Europe, Asia, Middle East and in Eastern Australia. System 5 farming is ideally suited to support large scale efficient production i.e. 30 million to 100 million litre per annum operations.

Carbon Conscious Executive Director Andrew McBain commented:

“The execution of the lease and cattle purchase agreements is a first step in cementing a long term relationship with Green Lake whereby we play to each of our strengths; Green Lake in the import, cold chain management, marketing, sales and distribution of product into China and Carbon Conscious in the management, production and procurement of long term supply from Australia.”

“The commencement of milk production is a milestone achievement and is a modest confirmation of our commitment to developing a large, best practice dairy production business. We aim to be the “go to” company in WA to support the expansion of dairy products including fresh milk into Asia whether that is from Green Lake, processors or other potential distribution parties. Our intentions are to participate in the returns beyond the farm gate via strategic partnerships.”

Green Lake MoU – Profit Share Arrangement

The MoU with Green Lake enables Carbon Conscious to have low risk exposure to the substantial export upside in China, whilst maintaining cash-flow certainty in the base business.

Under the proposed strategy, the Company plans to execute long-term offtake agreements with local milk processors that will pay a farm gate price to Carbon Conscious for milk supplied. This is expected to lock in an attractive and consistent return.

Green Lake will then purchase milk from the processor for export to China (as they do now), and rebate a profit share back to Carbon Conscious on all exported milk (in return for the long term back to back supply arrangement to secure supply and underwrite their business expansion). Terms of the profit share are part of the ongoing due diligence process and a binding agreement is expected to be completed within Q1 CY2016.

Green Lake has already attained the necessary import license and credentials to import fresh milk into China and has successfully commenced shipments under the “Brownes” label. It will manage the distribution of milk into 150 minimarts as well as its planned chain of “Capel Farm” stores in China, with Carbon Conscious to focus on matching supply of milk in line with demand.



Contacts:

Investor queries

Andrew McBain

Executive Director

E: amcbain@carbonconscious.com.au

P: +61 417 456 895

Media queries

Melissa Mack

Media and Capital Partners

E: melissa.mack@mcpartners.com.au

P: + 61 430 119 951

Yours faithfully



Andrew McBain

Executive Director