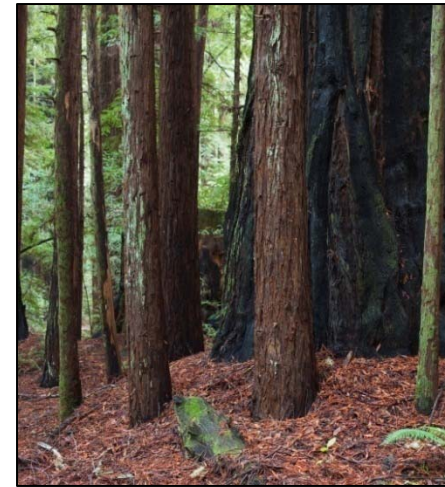




EQUATOR, LLC

PEOPLE • FORESTS • CARBON • WATER



Sierra Cascade Logging Conference – Forest Carbon Panel

February 12, 2010

Wolfgang Ortloff
EQUATOR LLC | 901.351.3854
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PRESENTATION OUTLINE

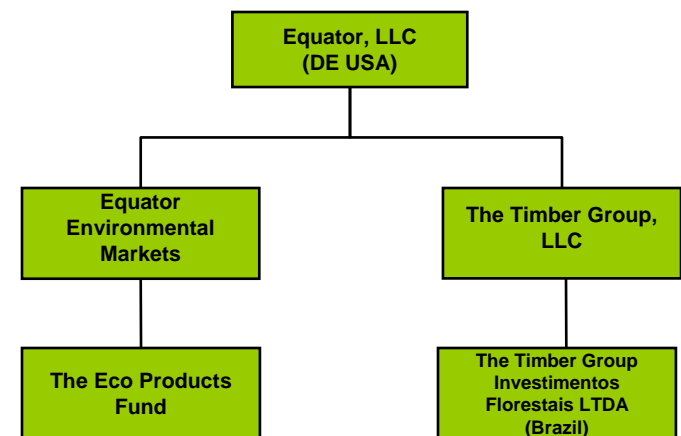


1. CARBON MARKET STATUS
2. POLICY FRAMEWORK
3. ROLE OF TERRESTRIAL OFFSETS



EQUATOR, LLC

- Established in 2007 by several of the principals of Chatham Energy Partners, LLC, one of the largest natural gas brokerage firms in North America, now a subsidiary of InterContinental Exchange, Inc. (NYSE ticker: ICE)
- Integrated **timberland** and **environmental asset management** company focused on the convergence between timberland investments and environmental markets
 - US\$ 500M+ committed capital for timberland investments in Brazil;
 - Co-manager of US\$ 100m **The Eco Products Fund** for investment in carbon, wetlands and biodiversity mitigation
- Focus on US regulated and un-regulated markets
- Transacted in **terrestrial carbon, biodiversity offsets, and wetland mitigation**
- 20 professional staff, 5 administrative staff
- Headquartered in New York, NY, with offices in Seattle, WA, Sao Paulo (Brazil), and Minas Gerais (Brazil)





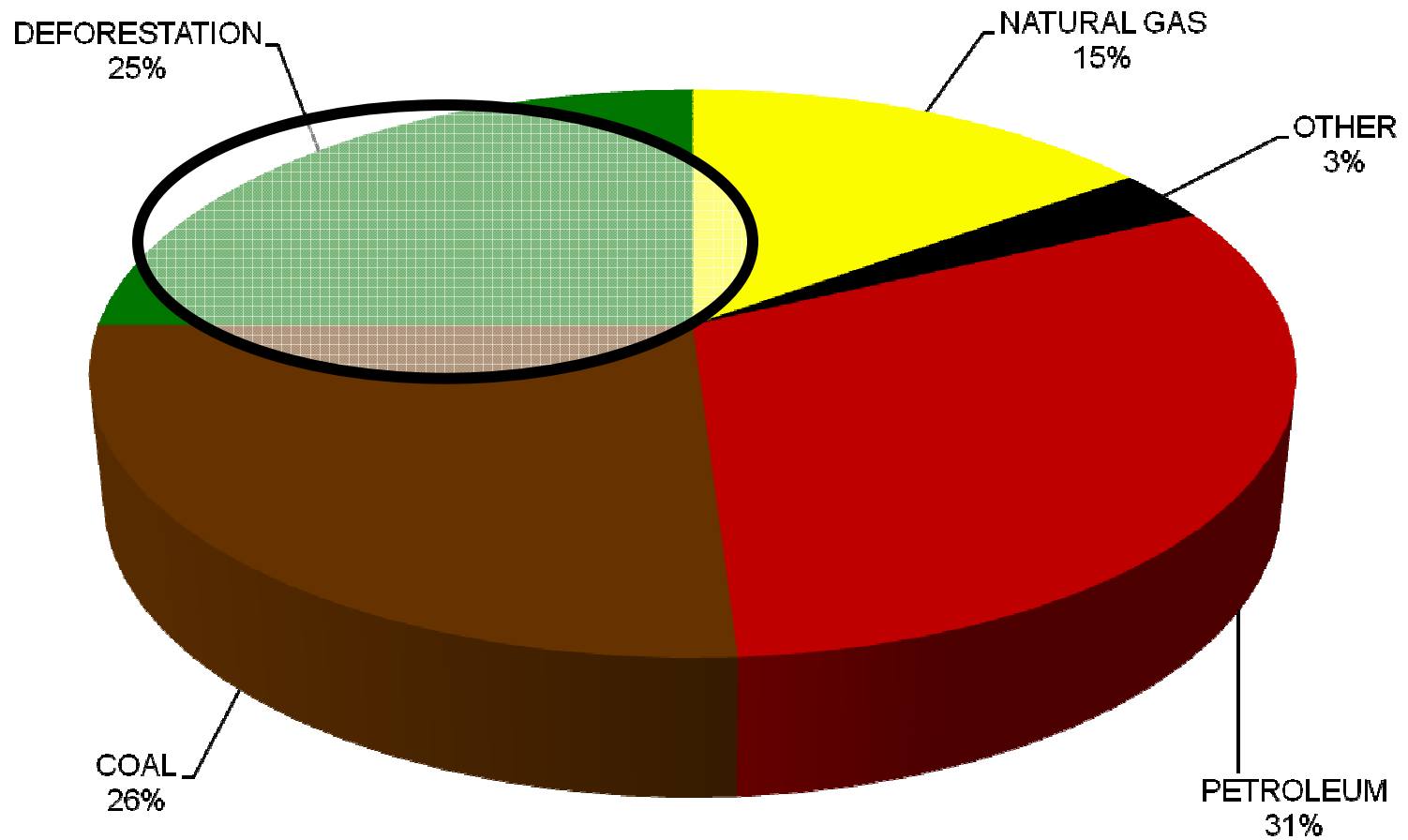
THE ECO PRODUCTS FUND (EPF)



- Co-managed by Equator, LLC and New Forests Inc., a Sydney-based timberland asset management firm
- US\$ 100m private equity fund, launched in 2008
- Premised on long-term growth prospects for ecosystem service markets
- Investing in suite of environmental credit positions associated with carbon, biodiversity and water
- No interest in owning the underlying land asset



ANNUAL GLOBAL CO₂ EMISSIONS CAUSED BY HUMANS



SOURCES OF CO₂ EMISSIONS

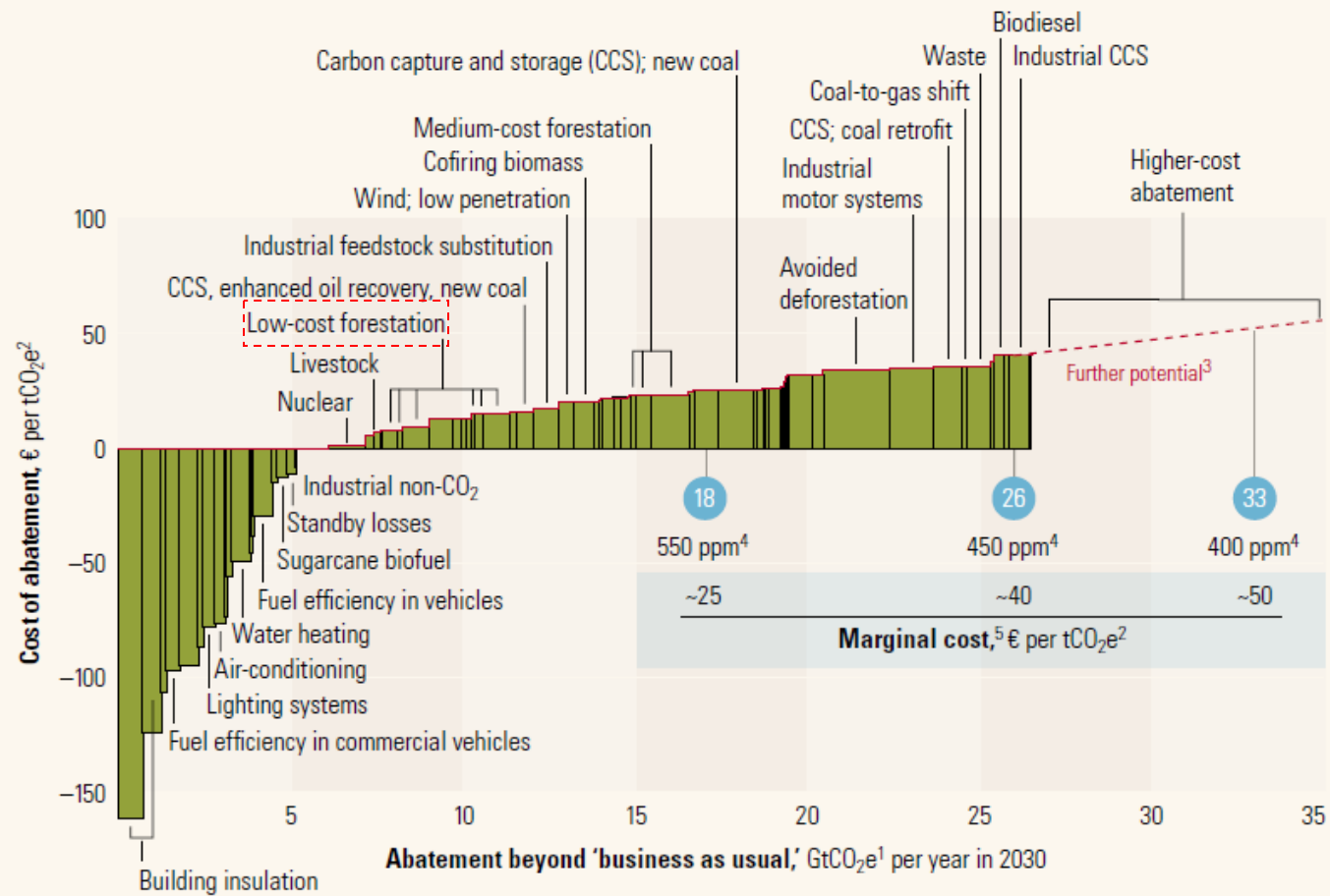


FORESTRY – ONE OF THE CHEAPER OPTIONS

What might it cost?

Global cost curve for greenhouse gas abatement measures beyond 'business as usual'; greenhouse gases measured in GtCO₂e¹

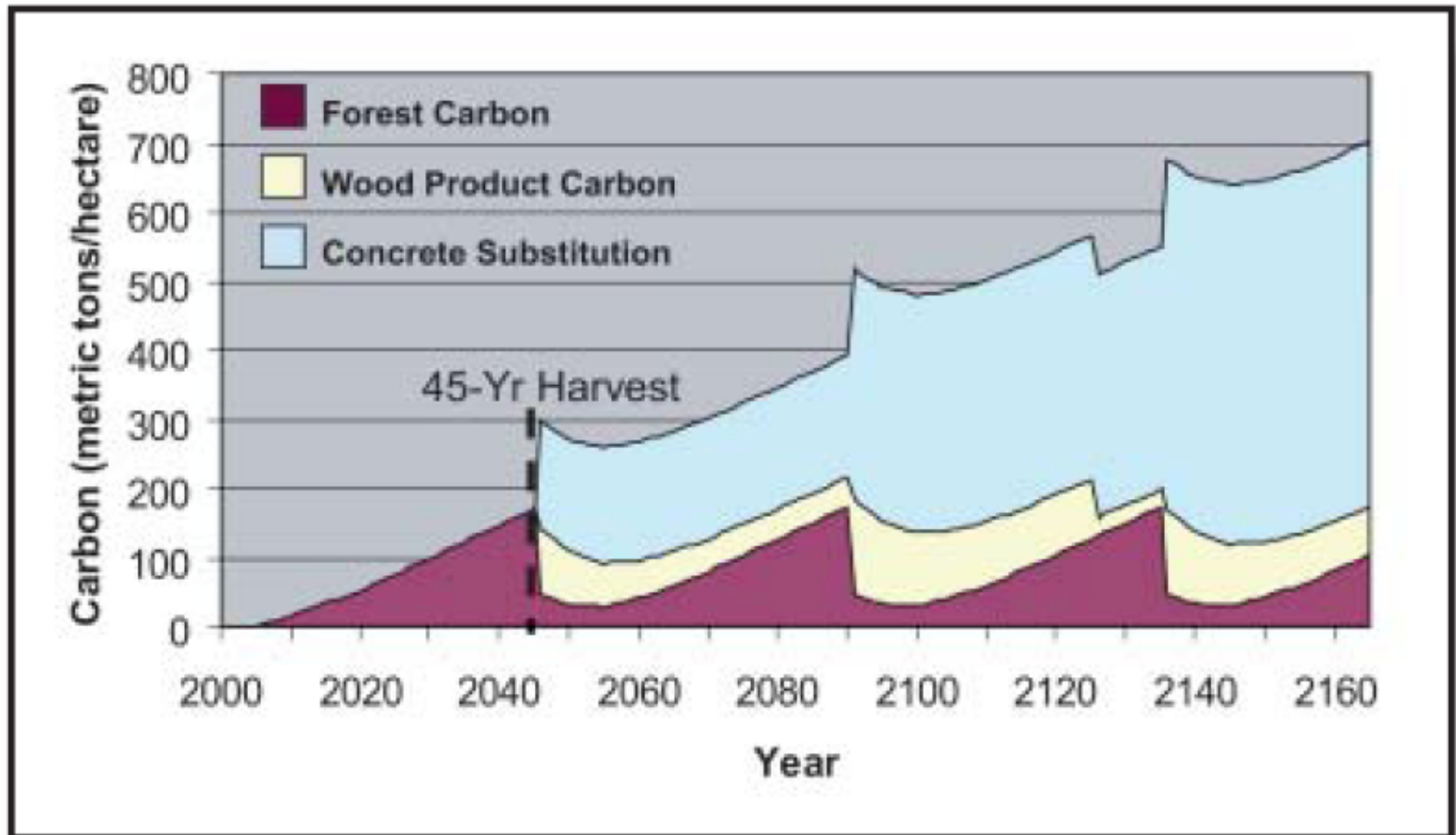
● Approximate abatement required beyond 'business as usual,' 2030



Source: McKinsey

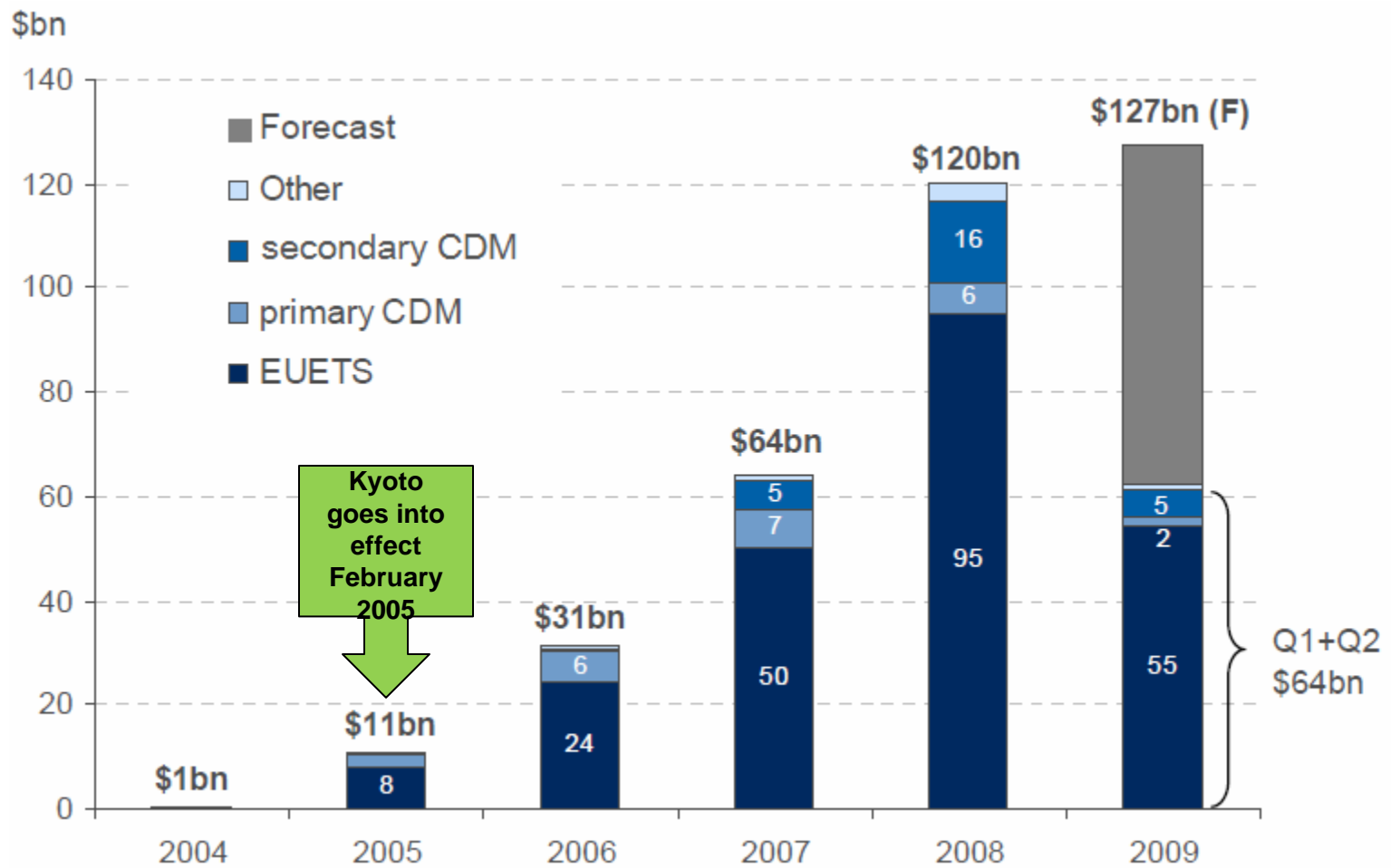


FORESTRY CARBON ONLY PARTIALLY RECOGNIZED





Global Carbon Market Size 2004-2009



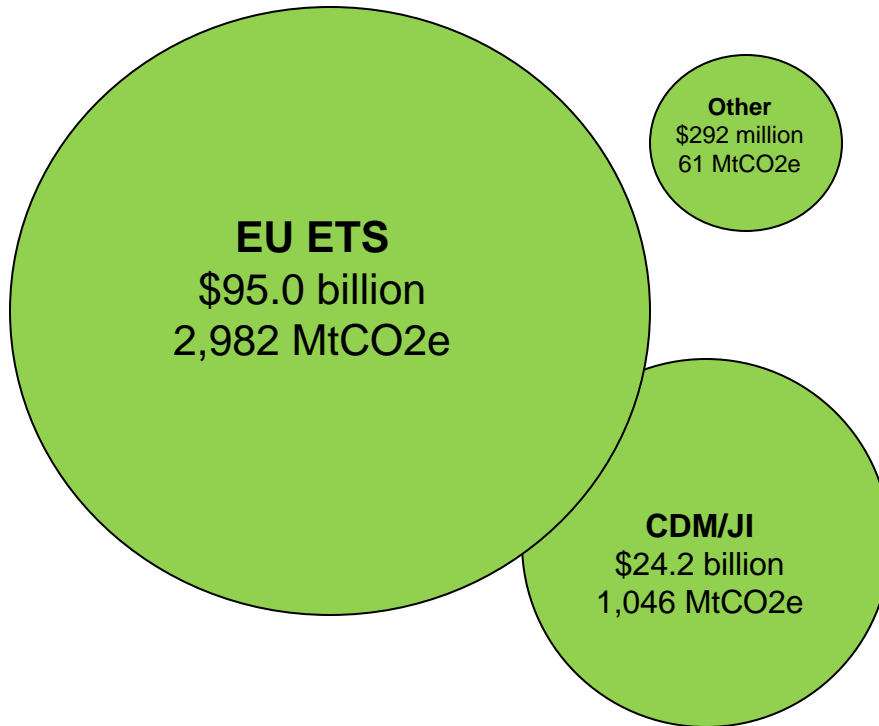
Source: "Global Carbon Quarterly Q2 2009," New Energy Finance



Global Carbon Markets Breakdown

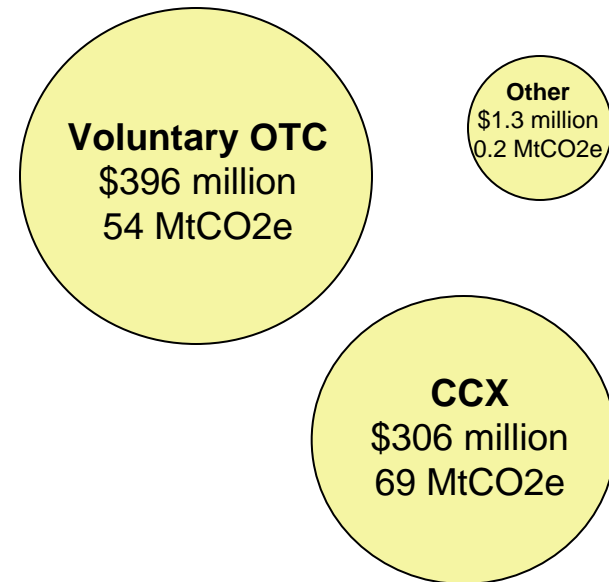
Compliance Markets

\$119.5 billion
4,090 MtCO₂e



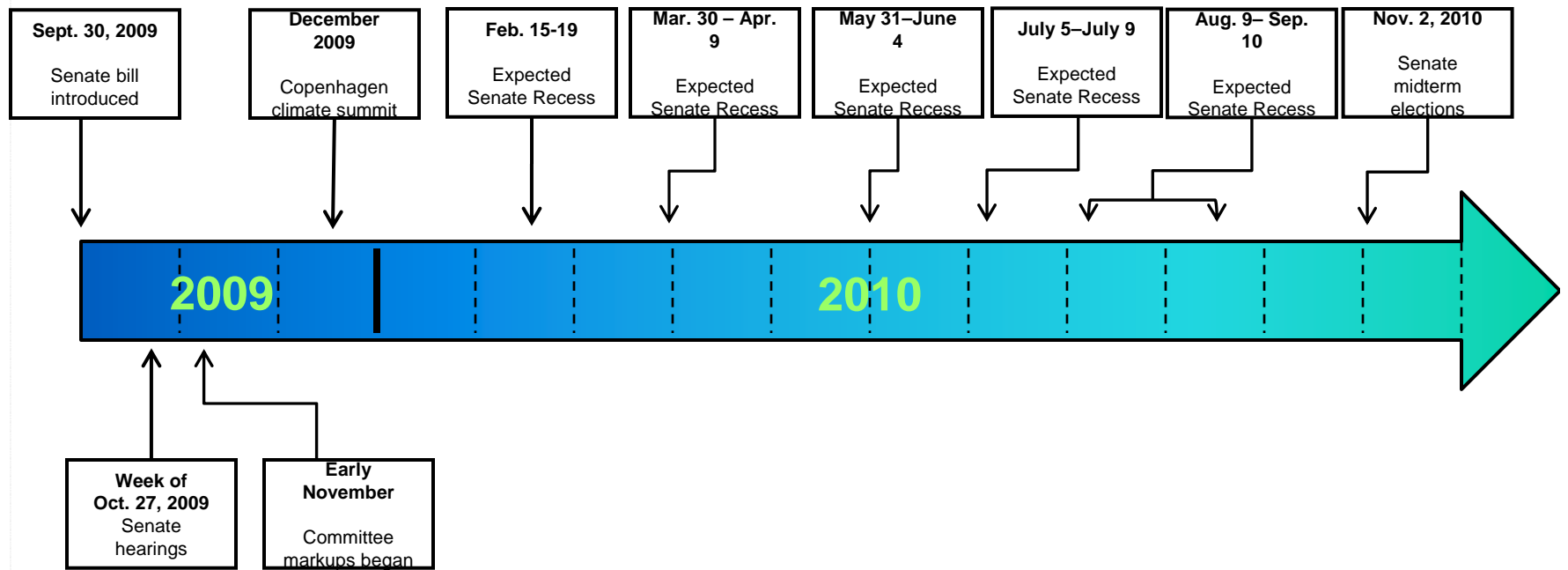
Voluntary Markets

\$704.8 million
123 MtCO₂e





SENATE TIMELINE & POLICY UPDATES



Key Committees	Chairperson
EPW	Barbara Boxer
Foreign Relations	John Kerry
Energy	Jeff Bingaman
Commerce	Jay Rockefeller
Finance	Max Baucus
Agriculture	Blanche Lincoln

Latest Policy News:

- Nov. 4: Sen. Stabenow (D-MI) introduced the Clean Energy Partnership Act (S. 2729), which would create a domestic offsets program within a cap-and-trade bill
- Nov. 5: Senator Barbara Boxer (D-CA) pushed the climate bill through the Senate Environment and Public Works Committee.
- Dec. 7: EPA announced Endangerment Finding, which stated that GHG emissions threaten public threat. This finding obligates the EPA to regulate emissions under the Clean Air Act.
- Jan 21: Senator Lisa Murkowski (R-AK) introduced a joint “resolution of disapproval” of EPA’s Endangerment Finding
- Compromise committee is awaiting Senate bill.

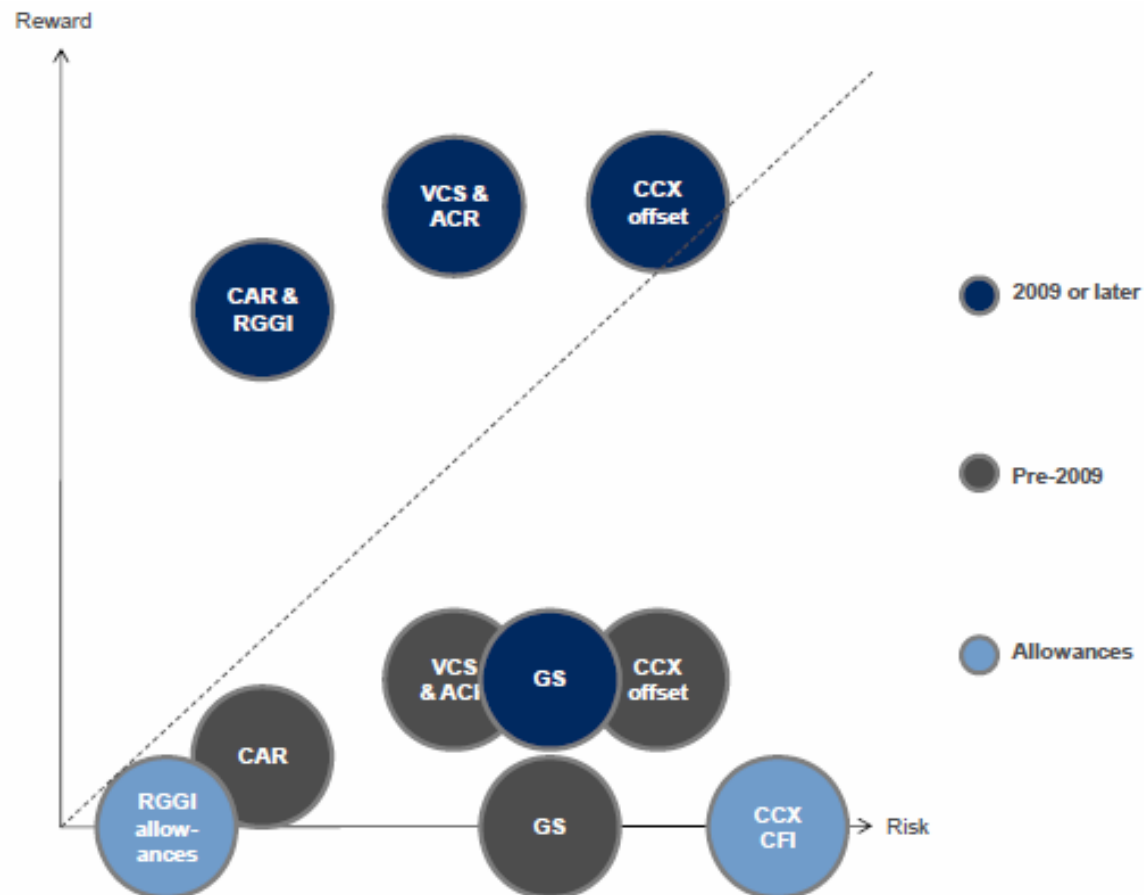
Note: Dates are subject to change



Risk Versus Reward for Early Offset Credits

Credits

Post-2008 vintages have speculative value with CAR maintaining the lead from a risk-reward standpoint. Pre-2009 vintages have limited upside potential given restrictions on these older offsets.



Source: "Pre-compliance update for Waxman-Markey," New Energy Finance



GHG CAP-AND-TRADE DESIGN?



1. **Regulated Sectors** - who is covered?
2. **Cap coverage** - what are the limits?
3. **Baseline** - base year, level & rate of decline
4. **Allowance distribution**: auction or allocation?
5. **Permanence and Leakage controls** - how to ensure cap integrity?
6. **Flexibility mechanisms**: number of offsets allowed & banking
7. **Trading rules**: early action & grandfathering



Carbon Offset Standard Requirements

- **Chicago Climate Exchange (CCX)**
 - Sustainable Certification Requirement
 - Stock change based on look-up tables
 - Loose commitment with short term letter of intent
 - Cost/benefit comparatively easy

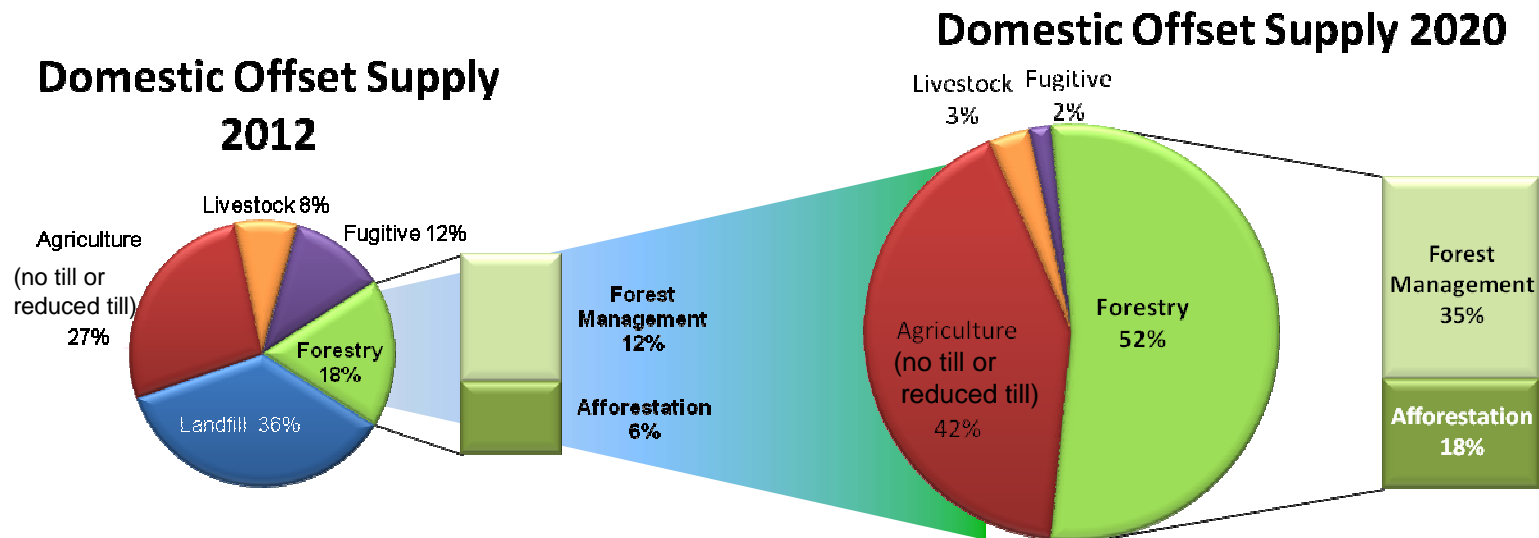
- **Climate Action Reserve (CAR)**
 - Performance Standard - Increase Carbon Stocks
 - 200 year affirmative commitment
 - 100 years after last CRT issuance
 - Project Implementation Agreement
 - Ideal for conservation organizations

- **Voluntary Carbon Standard (VCS)**
 - 2 Forestry Projects
 - Clear change in management on to define project
 - 20 year minimum crediting period more amenable to landowners.

- **American Carbon Registry (ACR) - Winrock**
 - Currently no forestry projects
 - Forestry standard out soon
 - 50 year commitment with project proponent (not necessarily landowner)



Forestry Offset Projections

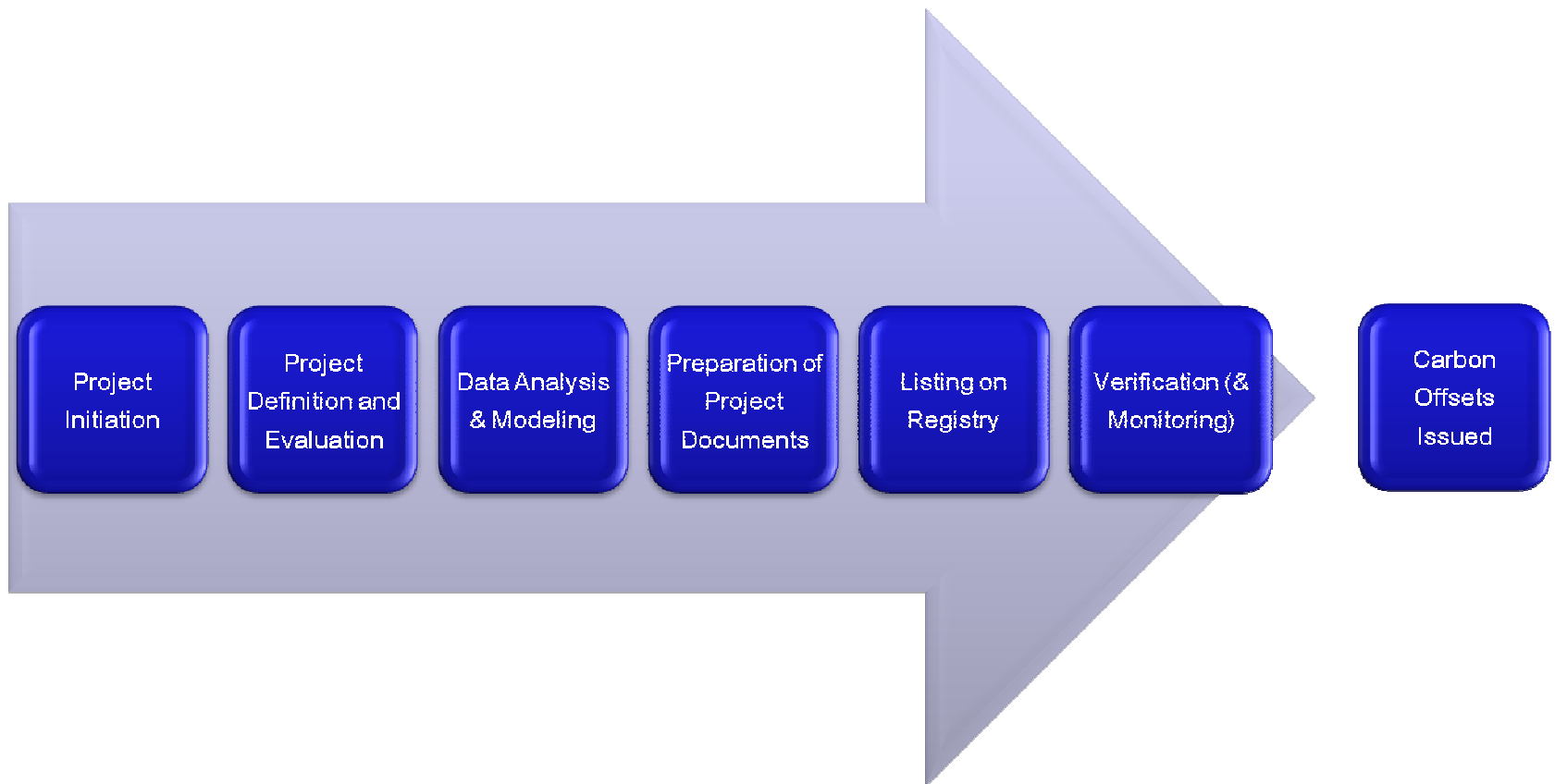


- Forestry offsets account for 18% of total U.S. supply at the start of Federal compliance and grow to 52% by the year 2020
- Predicted growth in the market share of forestry offsets is supported by federal climate change legislation excluding natural gas and developing national landfill and coal mine methane performance standards, eliminating these sectors as eligible offset project types



Offsets: Typical Project Development Cycle

Project development cycles for offsets depend heavily on the requirements of each cap and trade framework, but typically involve the following steps:





WHY PARTNER WITH EQUATOR



- We are not a broker but principal investor
- Our deal structures ensure alignment of interest
- Through deep involvement in carbon and energy markets we maximize value of carbon assets
- We manage and finance entire process of carbon asset creation
- We offer full carbon cycle development
- We already work with some of the largest landowners in the US
- We have investment capital



Conclusion



- Global carbon markets will continue to experience robust growth, augmented by materialization of a U.S. cap and trade system
- Forestry offsets projects are an effective and economical way of mitigating GHG emissions, making them vital in lowering the cost of abatement
- Forestry is expected to be the fastest growth sector in the offset industry, outstripping the combined growth of other offset types



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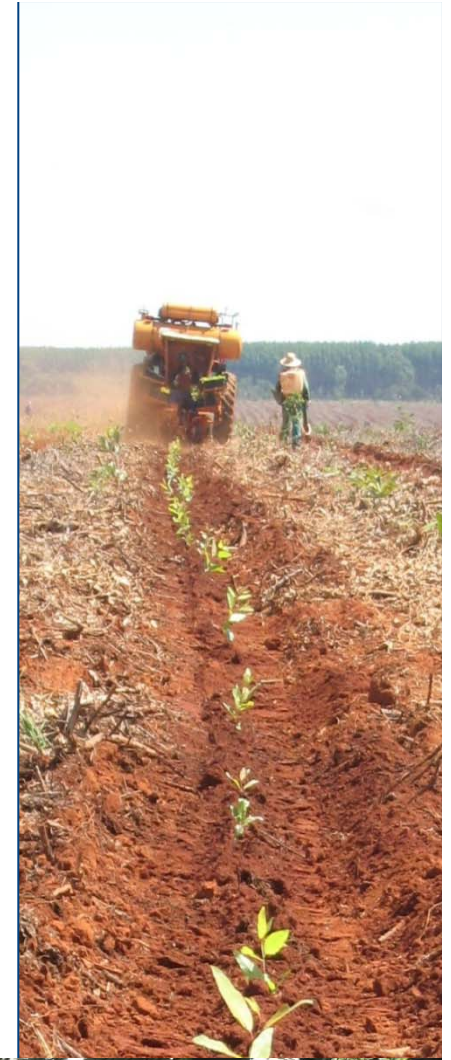
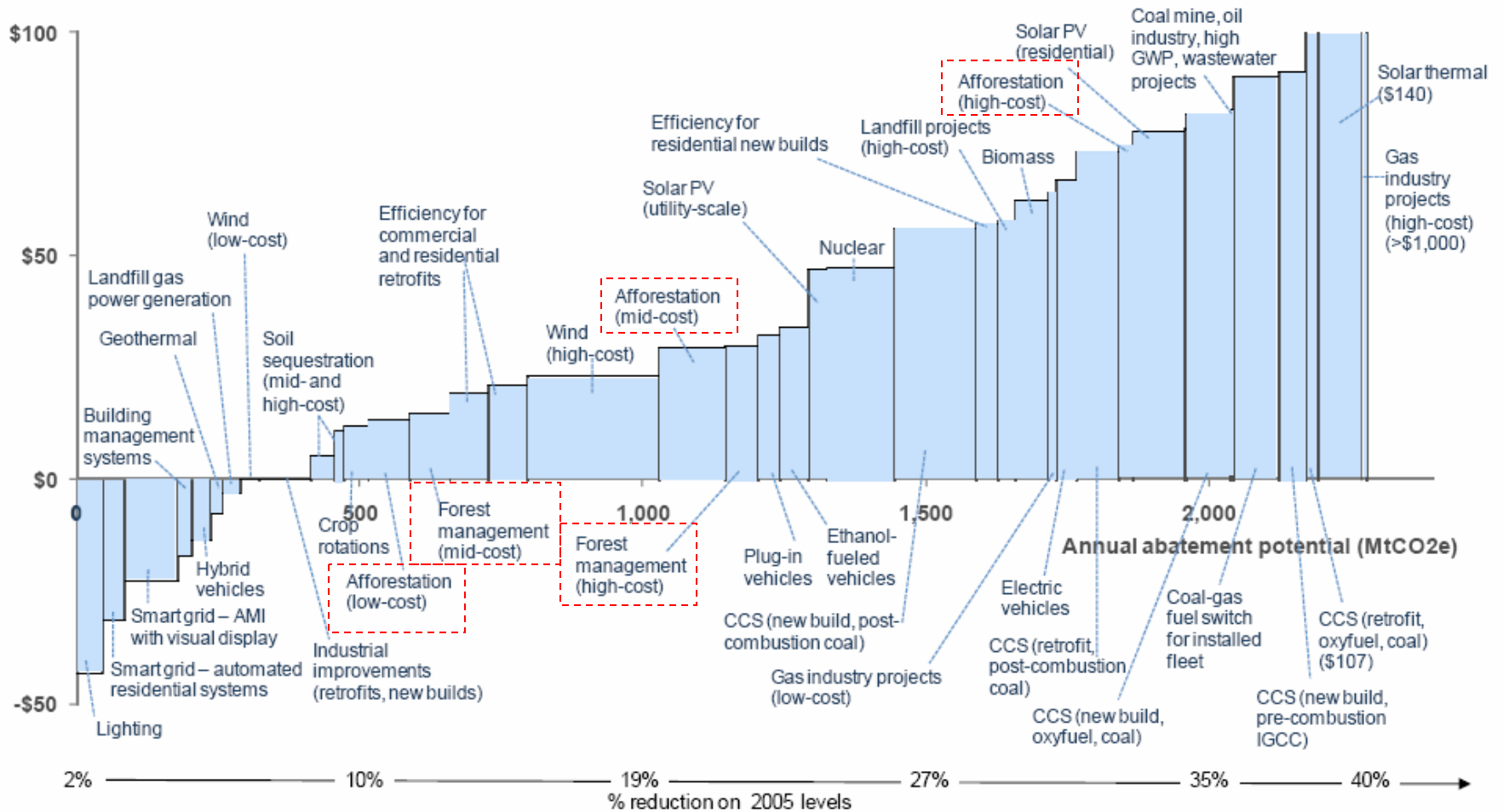


Figure 1: 2030 US MAC curve (accounting for improving carbon intensity, key recent policies, and sector-specific discount rates)

2009 \$ / tCO₂e



Source: Bloomberg New Energy Finance



TERRESTRIAL OFFSETS: POTENTIAL

Terrestrial Offset Projects Have High Sequestration Rates And Are Among The Lowest Cost Offset

Opportunities

Representative Carbon Sequestration
Rate in U.S.
(Metric tons of CO₂ per acre per year)

Activity	Representative Carbon Sequestration Rate in U.S. (Metric tons of CO ₂ per acre per year)
Afforestation	2.2 – 9.5
Reforestation	1.1 – 7.7
Avoided Deforestation	83.7 – 172.1
Changes in Forest Management	2.1 – 3.1
Reduced Tillage on Croplands	0.6 – 1.1
Changes in Grazing Management	0.07 – 1.9
Cropland Conversion to Grassland	0.9 – 1.9
Conservation of Riparian Buffers	0.4 – 1.0
Wetlands	0.5 – 2.5
Avoided Grassland Conversion	0.9 – 1.9



Forests as a Sink of Emissions

- **Forestry Carbon Sequestration:**

Trees act as natural “carbon sinks” by removing CO₂ from the atmosphere via photosynthesis

Over time, 1 acre of new forestland can sequester 200 tons of CO₂ depending on species and location^{1,2}

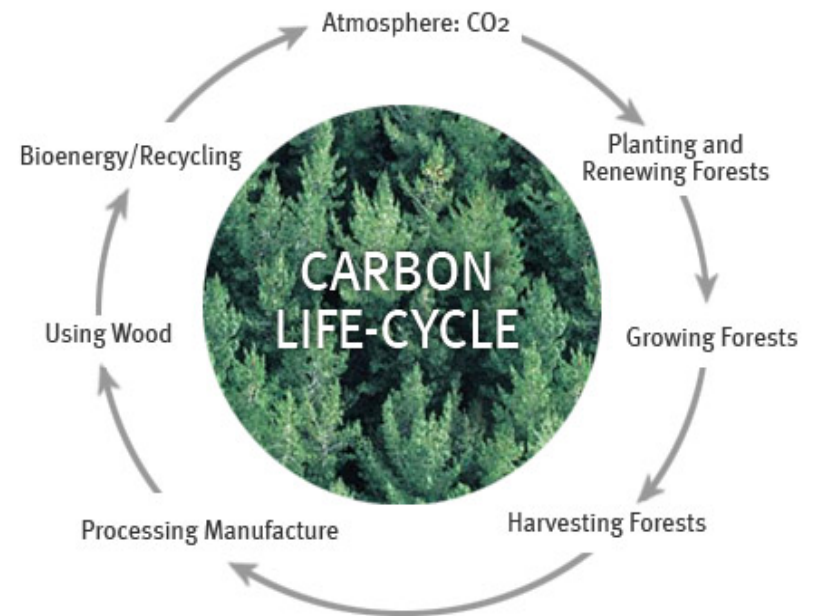
- **Forestry Offset Project Types:**

- **Improved Forest Management (IFM):**

Activities that increase forest-based sequestration and/or decrease emissions (e.g., increasing harvest rotations)

Avoided Conversion: Activities that prevent or reduce the rate of deforestation below a predetermined “baseline”

Afforestation/Reforestation: The conversion of bare or previously forested land into forest

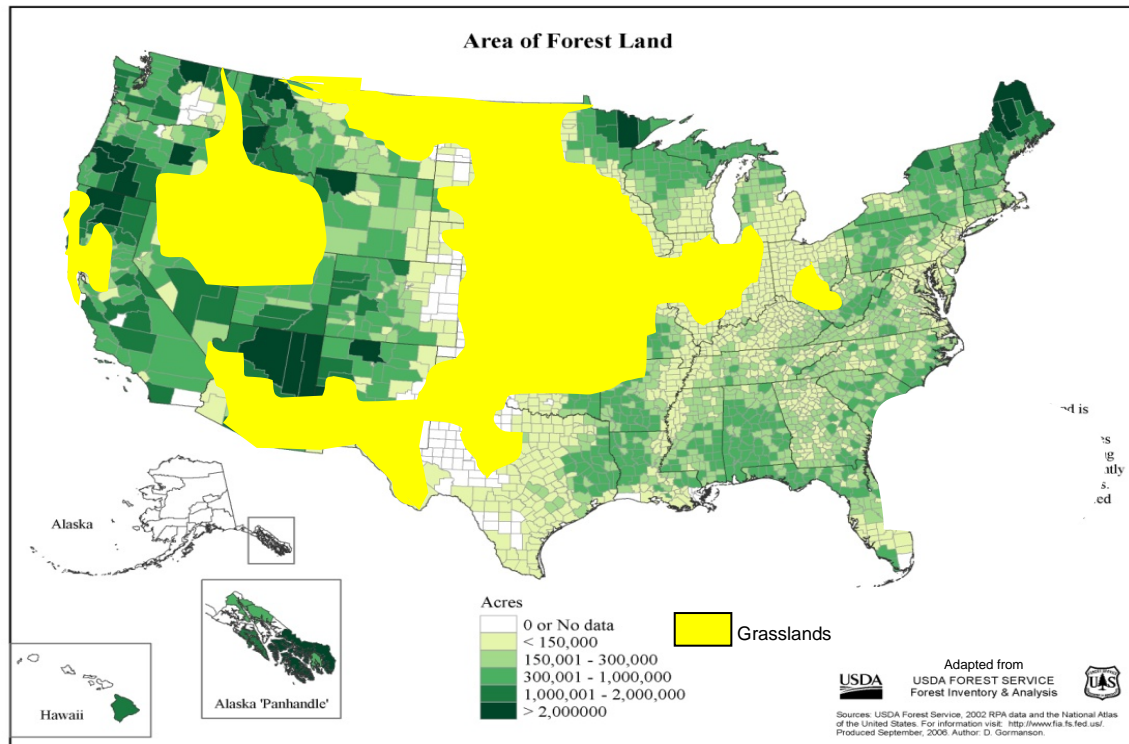


¹ Pew Center on Global Climate Change, “The cost of U.S. forest-based carbon sequestration,” January 2005

² Center for Clean Air Policy, “Activities and Policies to Enhance Forest and Agricultural Carbon Sinks in California,” October 2005



TERRESTRIAL OFFSETS: OPPC



- Approx. 750 million acres of forested lands in the U.S.
 - Eastern Forests- 83% Private
 - Western Forests- 43% Private
- Approx. 525 million acres of grasslands in the U.S.