01/12/2023 BCarbon Stakeholder Meeting Notes

Initial remarks

- Jim Blackburn (JB): should be a quick meeting headed into the new year. As we get more into the year, the meetings will get longer – we are encountering new, important issues and questions all the time, particularly concerning how the post-2025 (2025-2030) period will develop. 2025-2030 will be a super important period for nature-based carbon and this period is a great ramp up to that.
- Robin Rather (RR): please use the chat, or speak by voice by raising hand or unmuting. But if not talking, please mute. Introducing Joni Carswell: she is the guru of Texan by Nature, one of the country's pre-eminent conservation groups. Joni has a dual masters' degree – MBA + masters in engineering. BCarbon really listened to the need expressed by stakeholders last year to focus less intensely on the science/conservation/project side and equalize a bit more by listening to the market and buyer side. Today's two speakers will help us orient ourselves to what is going on with the buyers' and market side, so we get a better sense of that.

Joni Carswell, CEO of Texan by Nature

- See slide deck attached
- **Question** from RR: BCarbon and TxN have both done work with Eco Metrics on the data side of things. Is there a lot of focus on the buyer side on the metrics?
  - **Answer** from Joni Carswell: there certainly is, and we are really only seeing the lead companies plotting the course with companies like Eco Metrics, since it's another budget item. When you look at Eco Metrics, with the data sets clearly outlined, buyers are really keen – they say that this is what they have been looking for and what will stand up in a court of law or public opinion. TxN is doing a lot of work trying to chart the data of these projects around the SDGs.
- **Q** from Randall: do you keep track of big buys in Texas? If so, what are some of the examples of the big buyers and how much they put in in any one year?
  - **A** from Joni Carswell: most closely tracking the water space right now. On the water side, over the last 18 months, seen $2.5M put into water projects – reforestation East Texas project closing right now ($1M) and constructed wetlands in upper trinity (mil dol) – braided corporate funders involved in that. For all projects, they are claiming water quantity, water quality, and biodiversity as the secondary claim. None of them are claiming carbon yet, but it is expected that on the reforestation project, carbon will enter the mix this year. Most corporate buyers are playing at the quarter mil and up level – then there are some smaller projects with $10k or $20k each, but they then pool together

- **Q** from Elliott Bouillion: is BCarbon working on water nutrient offsets to help with water quality via TMDL here in Texas?
    - **A** from Joni Carswell: not specifically, but a project could come in looking at Waterkeeper and some methodologies there that would be used to validate their results. But she hasn't seen the corporate groups ask specifically on that yet.
- [**Q** in chat/ James Nieset: is there actual screening of carbon credit purchasers?]
    - **A** from Joni Carswell: this hasn't been seen to date on the screening of underwriting. You do see the partnership agreements and funding agreements, and that's a 2 way kind of street, but there's not necessarily screening of purchases
    - RR: we've seen platforms like Xpansiv have a fairly extensive account screening. One of the questions we're working on at the staff level is "should we do a financial/ethical screening?"- where would this happen in the process, and how do buyers feel about getting screened? Corporate 50 or 100 buyers probably wouldn't have an issue, but private buyers or investors might.
    - Joni Carswell: yes, and we have certainly seen some oversight (screening) on the carbon side with certain standards where if you're working in a certain industry, you're not available to buy carbon credits etc. TxN hasn't set up much of their matching in that way – she is seeing that with carbon, not with water or biodiversity.
    - Ian Burgess: we've seen some of this know-your-buyer screenings that different people do and don't do. I generally se it divided to two groups/questions:
        - (1) narrow legal question: money laundering buyers are a specific type of danger – buying credits and selling at a discount so that you've 'greenwashed' in a different sense – this is worth being aware of, and
        - (2) do you want to have everything from high emitting sectors being able to invest to the more extreme, things like Jeffrey Epstein or another controversial figure wanting to restore wetlands – how much are we consequentialists, how much are we puritans?
        - Everyone has their own opinion on this, and not necessarily a right or wrong answer, but in terms of the first category, those actors certainly exist, and have been seen by Validere in various sectors.
- [**Q** in chat/ Anthony Colin: is there typica Is there typically willingness on the part of project managers to be flexible/collaborative with their projects and monitoring protocols to make things easier to frame from an ESG perspective for buyers?]
    - **A** from Joni Carswell: yes, we are in a learning phase and a cooperative phase. We have facilitated a lot of conversations about this – if there are standards that are needed from either side, it is helpful to know them, and it is also helpful for each actor to know what sorts of standards are required from the other side to adapt for future projects.
- [**Q** in chat/ Aldyen Donnelly: Many existing credit buyers do not immediately use or "retire" the credits they buy. They intend to resell them in different forms of transaction, including options, puts, futures, swaps, etc. In this context, it is not if--it is when--the SEC

and CFTC will intervene with some KYC rules. It might be a good idea to to get ahead of the regulators on this one--rather than wait for a scandal and SEC/CFTC intervention after that.]

  - **A** from Joni Carswell: this is what Ian was sort of just talking about – the greenwashing/laundering that is going on in terms of buying and selling. Candidly, I haven't thought about this deeply. A lot of the work with water and carbon TxN is doing right now is immediate – we are mostly thinking about MRV and making sure everyone is on the same page and there is no double counting. But this could be something for BCarbon to dive into in the future as well. But us from a developer point of view, not as focused on it.
  - RR: yes, this is under advisement for us. We've had speakers who have been provocative in their guidance in terms of what the SEC might or might not do, and what's generally prudent for everyone to set up.
  - [chat/ Marin Katusa: platforms like Xpansiv already require full KYC for all accts]
- **Q** from Miguel: are you seeing any interesting risks mitigation features built into these projects that are novel to the crediting space? Insurance, or other projects?
  - **A** from Joni Carswell: not yet. There's definitely opportunity there. We're seeing more written into contract the ability to pull out or get money back. It's more of a punitive risk mitigation than a unique model of using insurance or having backup. BCarbon is a bit ahead of the curve in terms of the security processes.
  - Miguel: yes, we're actively looking into this sort of thing, so from a buyer perspective, was just interested.
  - Joni Carswell: it's mostly just being handled through legal contracts for us right now.
- **Q** from RR: are you seeing actual pure buyers out there, or are you seeing companies that want to do projects and are really seeing this (in addition to PR) as a business development opportunity as opposed to "buying to mitigate footprint"?
  - A **from** Joni Carswell: sort of in the middle. With TxN, it could be a result of where she sits in this realm. Seeing folks want to do local projects, not for business dev purposes, but more for community and employee engagement aspects, so employees better understand their roles and how they're achieving targets (project-based claims). In the OG industry, seeing willingness to pay a premium to fund projects where thy can make claims on those local projects whereas in an open market it might not be as facile. They're engaging local NGOs through landowners or communities to make those claims or do a credit exchange.
- **Q** from Randall: do you have any marketing advice for BCarbon, how do identify and call on top quality buyers?
  - **A** from Joni Carswell: through the industry associations would be the best route currently. Doing workshops with the industry associations about what BCarbon is and how to partner, how to bring folks to the table. That's where we see the most interaction, where we get towards the sustainability, safety, external relations crowd all in one go.

- RR: JB and I nominated Joni to the board, and the board unanimously agreed. She will be coming on in this top level, and we are really excited that she will be joining.

Ian Burgess, President of Validere

- See slide deck attached
- RR: one interesting thing about building this community of practice is we have a lot of environmentalists and conservationists that really want to talk about the environmental science – how is the soil, regeneration, biodiversity doing? It is hard to come over here and listen to the fintech perspectives from that science perspective. The important thing here is that we're trying to meld both these points of view together. JB and I are trying to share what we are learning and sharing. So appreciate everyone learning this stuff with us.
- Peter Williams: what you were saying, the idea that sometimes it's not about he carbon it's about the other things as well. I work in the field of disaster resilience, and when trying to get people invested we have a framework where we talk about dividends. An "outbound dividend" is when you in vest in disaster resilience but also get some other benefit (set aside land as a floodplain, but also get public park). An "inbound dividend" is when someone is doing something that was going to happen anyway, but incorporate some resilience aspect to it as well (i.e cutting down trees, but turn that land into a trail after). Thinking about these terms, the "outbound" help you improve the business case, the "inbound" reduce the cost of becoming resilient because someone else is doing some of the work for you.
- Aldyen Donnelly: appreciated the idea of "luxury goods." Working on the supply side of carbon markets for the last 6-7 years, and a while back, represented a buyers group that was for a while the largest buyer of speculative carbon credits. Lessons learned:
    - Highest price a company has ever paid for carbon credits, emission credits, water credits are the ones they pay a few years in advance of the intensely regulated market and in the first few years of that regulated market, then the prices go way down. Learned the hard way that when working with buyers and working with a budget that's administered by the VP sustainable development/government relations, the budget is smaller and the price per ton is larger. When that file shifts over to the CFO and we're in asset value preservation mode – then, we see the price drop. When the companies shift from govt relations/community relations to asset value preservation, it costs less to write off existing assets and change definition of core business per ton than to buy credits to continue to operate your old core business. You see that trend in markets like this back to 1960. No way to anticipate when that's going to happen, but you need to understand the buyer and know their criteria – then the framework shifts and you start at ground zero – I didn't anticipate that as well as I should have back in the day.
- RR: want to just clarify that this group of stakeholders has really pushed us in terms of what we're talking about in the markets. We've tried to be judicious and be clear that we don't want to compete with our project developer stakeholders. For the first two years,

we didn't really market, we didn't have our own emphasis on buyer outreach. But meeting after meeting last year, you all were saying that "we don't have to compete with stakeholders, but need a better handle on what's going on with buyers, what they're thinking, what their view of different registries are, etc." this is what we're trying to do. Once we get through board strategic planning, at the next few meetings, you'll hear us talking about what our strategy will actually be – you'll hear about collaborations with TxN, groups Joni recommended, as well as many of the stakeholders, and others.

<u>Miguel's discussion of soil carbon</u>

- Miguel: showing latest tracker of companies in review or under consultation. Overall looking at 500,000 acres + of pretty serious applications. We have anticipated 3 other contracts out for final execution. A big lesson from last year was making sure contracts are executed to become formal applications, we have made progress on that, and expecting more coming in this quarter. We've got a lot of interest in the country and abroad. We're making traction in soil carbon, contracts are being signed and formal reviews are now happening.

<u>Jim on BCarbon entering 2023</u>

- JB: 2023 we expect to be a very positive year. We've learned a lot, we're all learning a lot as things go on about the market and the ins and outs of processing projects and understanding projects. We have a very exciting, positive future ahead of us. The distinction between the voluntary and "regulatory" market – the nature-based community as a whole has failed to capitalize on this opportunity in the hybrid space between the voluntary and regulatory markets, which is a type of space to explore more and more. Q45 intentionally leaves out nature-based credits; this is from the beginning, that nature-based credits do not qualify for Q45 subsidies. We might think more preemptively as a nature-based community about getting our thoughts organized and beginning to think about how to make a transition between pure voluntary and regulatory, in the context of Ian's use of it (govt oversight and accountability).
- JB: we anticipate in 2023 that Blue Carbon will become a major element for BCarbon and beyond. Blue carbon protocol for coastal wetland protection is currently under review, in the process of being edited, so that hopefully in a few months we will have a finalized protocol and will begin processing blue carbon applications, first along the TX Coast.
- JB: a methane mitigation protocol has been submitted to us on the issuance of credits for the capping of wells. It's a market with a lot more impetus behind it compared to other carbon markets. There will likely be a lot of interest in these types of credits, and we will bring a methane mitigation protocol proposal back to the stakeholder group in the future.
- JB: in soil carbon, we anticipated a lot of the applications coming in this year to have come in in 2022 – we're seeing it now, and are excited about the many areas of major interest/applications – some have the potential to be very large and at a scale that we haven't yet seen in soil carbon

- JB: forest carbon protocol is approved, and we are moving forward with our first application soon, so that hopefully we will have a forest carbon projects certified and ready with credits for the end of the year
- JB: this year we want to really focus on understanding the buyer side of things – we're working very hard on what Joni discussed – there's a big market for credits with multiple benefits. Thinking about "inbound" and "outbound" is definitely interesting – the regional/local nature of some of these multi-attribute credits is interesting. We hope/think that blue carbon credits will offer a lot of co-benefits (resilience, biodiversity) in addition to pure carbon. Trying to take a more active and creative role with respect to buyers, in terms of understanding their perspective. We want to come up with a credit process that responds to what buyers need.
- JB: also looking at a project on forest/soil/water/endangered species project in the Texas Hill Country.