

CarbonCrop

Explaining our model –
How does it work?

Native CarbonCrop Units

Thank you for your efforts to restore forest, sequester carbon and support biodiversity in New Zealand.

We're happy you chose CarbonCrop to help assess the potential of your land.

If you'd like to proceed with the registration process, no doubt you'll want to understand more about how our model works and what your commitments will be.

This summary aims to capture the key takeaways and answer the questions that come up most frequently. It isn't intended to replace our **Alternative Carbon Management Agreement**, which is the contract you sign with CarbonCrop.



What are Native CarbonCrop Units?

CarbonCrop Units (CCU) are an alternative to ETS carbon credits. They're only available for regenerating native forest that isn't eligible for ETS credits.

By signing our Alternative Carbon Management Agreement, you agree to register areas of your land with CarbonCrop, to receive CCUs based on the changes in carbon stocks of forest on your land, and to meet your obligations as a landowner regarding said forest. Each CarbonCrop Unit equates to one tonne of carbon sequestered for one hundred years, as assessed using CarbonCrop's Alternative methodology.

CarbonCrop Units can be

- Traded and sold on an approved marketplace, such as the new Carbonz marketplace.
- Used to directly offset your organisation's emissions associated with your products, and to support reduced emission and zero emission claims for your activities and your products, based on your emissions footprint.
- Stored in your account on the CarbonCrop registry, for future use.

Our expectation is that a hectare of regenerating native bush will yield a return of between **\$50** and **\$500** per ha per year. This large possible range highlights the importance of precise measurement and verification: *it ensures your efforts are recognised while preserving market integrity.*

The CarbonCrop Native program is new - you'll be joining us at an early stage. A substantial amount of CCUs have already been sold via Carbonz, but like any marketplace, it requires both buyers and sellers, and selling offsets is not instant. For this reason you might not be able to sell your CCUs right away. We're continuing to develop partnerships and educating the market, and while we foresee significant demand in the near future, there are no guarantees. As with any product traded on a



market the price of a Native CCU will fluctuate, influenced by e.g. demand and supply. You might choose to sell your credits for less, or more, than the launch price of \$50 per credit.

This being said, let's go through four dimensions:

- CarbonCrop's services - what we provide to make the system work
- Your obligations - what you need to do as the landowner of the registered area
- Payment model - the fees and charges involved
- Change - what happens if things change and you wish to exit the agreement

CarbonCrop's Services

Our process starts with a *Land Assessment*, to help you assess your options under both the ETS and Native CCU schemes, so you can decide the best route for your forest. Once you decide to move ahead with CarbonCrop, we work with you to fine-tune your *Land Strategy* and deliver the following services.

Land Registration

This is where your land is enrolled for CarbonCrop credits.

It includes:

- Finalising the boundaries of the areas for registration, and generation of unique identifiers for each block. These boundaries and identifiers ensure the integrity and traceability of your carbon credits.
- Data collection, analysis, mapping, and modelling to determine the initial carbon stocks and sequestration rates for each block.
- Verification of your ownership rights to the affected land areas, and that there are no conflicting claims to the carbon sequestration for the relevant forest.

It is important to note that as part of the land registration, your registered Carbon Tracking Regions (and some related data) will become publicly visible



to support marketplace integrity and enable double registration checks, to be performed by other marketplace entities.

Measurement and Verification

This is an ongoing process where the changes in carbon stock for each of your blocks are tracked to determine credit entitlements or obligations.

It includes:

- Ongoing data collection, measurement and validation to ensure changes in assessed carbon stocks accurately reflect the situation on the ground.
- Coordination and management of any external monitoring activities or resources.
- Measurement calibration and verification may include periodic on-site measurements and 3rd party audit as part of the CarbonCrop methodology.

CarbonCrop Unit Award/Recovery

CarbonCrop Units are issued annually by CarbonCrop, based on CarbonCrop's assessment of the changes in carbon sequestration for every square metre of forest across all registered Carbon Tracking Regions.

It includes:

- Verification and publication of the changes in net carbon stock for each block.
- Where the carbon stock of a block has increased, CarbonCrop issues authenticated CarbonCropUnits to reflect the increase.
- If the carbon stock of a block has reduced, CarbonCrop will engage with you to identify the cause of the reduction, and ensure that any obligations in connection with already issued units are settled. If the forest is still regenerating but is either regenerating more slowly than



prior assessments suggested, or has had an accidental reversal, the issuance of CCUs will be paused to allow the forest to 'catch up'. However, if you have taken a deliberate action that has led to a loss of carbon - such as clearing forest - you will be required to buy or otherwise source replacement CCU to make up for the shortfall.

Market Integration

At your request, CarbonCrop will upload your CarbonCrop credits to an approved marketplace.

The marketplace will:

- Allow users of the marketplace to verify the provenance and history of every CCU, using unique identifying information on each unit.
- Allow CarbonCrop to recall/cancel units where necessary, in the event that the recognised carbon sequestration is disrupted by e.g. fire/storm/clearance.
- Allow you to sell your CCUs to other marketplace participants, for their purposes including potentially carbon emissions offsetting activities.

The marketplace will provide authenticated access to your account so you can access market information, trade your credits, and receive payment - these services will be provided through your agreement with the Marketplace Operator, and are not part of the CarbonCrop solution offering.

Monitoring and Assurance

CarbonCrop provides ongoing monitoring of your forest to assure the integrity of issued credits and providing confidence to marketplace participants that they're paying for something real and durable.



Landowner obligations

Protect and restore your forest

By registering, you agree to protect your forest and support regeneration. CarbonCrop Units are issued only for carbon that is deemed to have been sequestered – the better your forest grows, the more credits you receive.

As the landowner, you are responsible for any associated land management costs, such as tree planting, pest control, weed control, fencing, labour and forestry consultancy etc.

Native First

CarbonCrop credits are issued only for carbon sequestration associated with the restoration of native forest species. As the landowner, you commit to acting as a good steward for this transition and restoration.

Pay tax

You are responsible for paying tax on any carbon credit income you receive, if you decide to sell or lease your carbon credits. No income tax is generally due on initial receipt of the credits – proceeds on sale are generally taxed as income.

You are responsible for paying GST on the share of credits provided to CarbonCrop for services. CarbonCrop will provide invoices to allow this GST to be reclaimed where suitable.

Support registration

During the registration process, you may be asked to support registration by providing CarbonCrop with additional information and necessary documents,



such as proof of identification, information around your land and vegetation status and history, etc.

Address reversals

Each CarbonCrop credit represents the sequestration of a tonne of carbon dioxide for a period of 100 years. If anything happens to the vegetation on one of your blocks such that the sequestration is reversed before the 100 year period of sequestration is completed, you are responsible for securing an equivalent volume of credits.

Sell your credits

CarbonCrop will upload your CarbonCrop units to an approved marketplace platform at your request. You are responsible for setting any specifics of transactions on the platform, and for compliance with the platform's terms and conditions. This includes setting the sale price on your credits and executing the trades - the platform will make this easy for you.

Payment for your credits will come from the market platform operator to you directly; CarbonCrop is not involved in the payment process.



Common question: What happens if you lose trees?

Generally, the carbon stocks of a well managed regenerating forest will increase year to year until they plateau.

Carbon loss for any reason is called a 'reversal' - the sequestration is being reversed. This requires careful management, as the buyers of these credits are counting on them being durable for 100 years!

If carbon is lost due to an adverse event such as forest fire, storm damage, or insect activity, you will not need to repay the credits provided that the forest is reestablished, however your credits will be paused until the trees have regrown and the forest is storing as much carbon as it did at the time of loss. The shortfall in credits while the forest regenerates is met from the shared buffer pool of credits held in reserve, which every project contributes to from its carbon yield.

If carbon is lost for another reason (such as trees being sprayed, cleared, harvested, subject to animal browsing following stock access or a curtailed pest control program) then - as the owner of the forest and the person who has been paid for sequestration - you must source alternative credits to replace those that have been reversed. In many cases these replacement credits may come from another block within your own land - otherwise you will need to source equivalent replacement credits from the market.



Payment model

There are three areas of fees within our payment model:

CarbonCrop Service fee

CarbonCrop charges a flat fee of 10% of your carbon credits to cover all of our services. As this fee is based on your carbon payouts, we only earn when you do. This fee attracts GST.

In the case that we incur 3rd party costs in the provision of services, in particular for field data collection, these costs are recovered from project carbon proceeds before the landowner/CarbonCrop split. This reduces CarbonCrop's share as well as yours, so we're both incentivised to keep external costs as low as possible while ensuring integrity.

Other than this, there is no fee for registration of your land with CarbonCrop. You won't pay anything until *after* you start receiving credits.

Market Platform fee

Credits for your property are issued to you as the registration holder, however to receive payment for those credits you will need to find a buyer.

CarbonCrop has a relationship with the Carbonz Marketplace, on which your credits can be traded.

Carbonz charges a fee for use of the Marketplace platform - this is generally 10% of the credits uploaded.

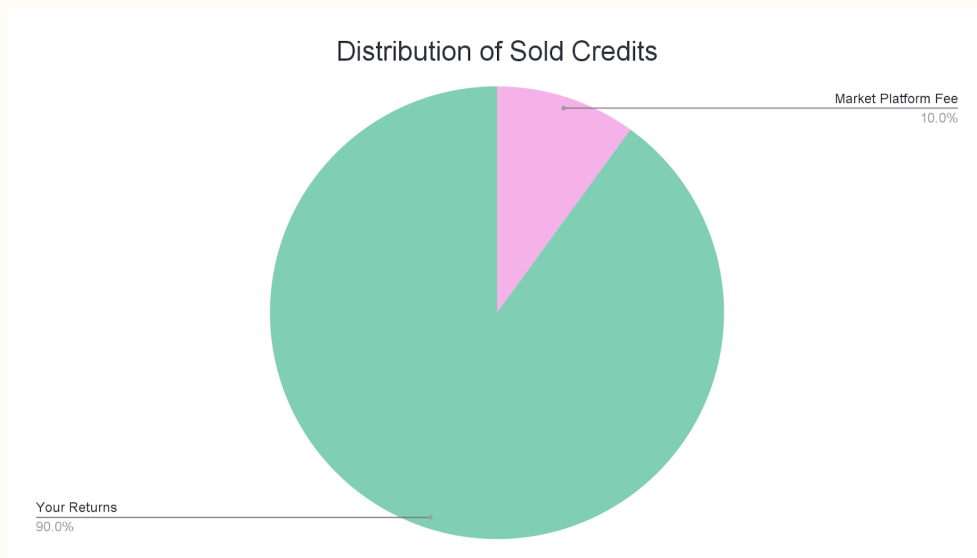
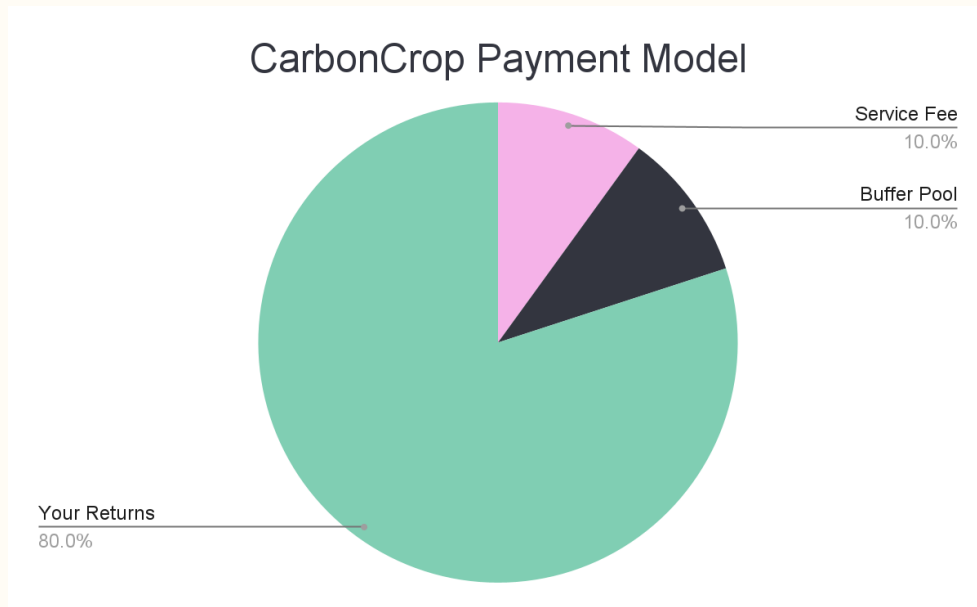
Buffer pool

On top of the Service Fee, CarbonCrop holds an *additional* 10% of credits in reserve in a collective 'Reversal insurance' buffer pool that provides a reserve of credits for your forest in the case of a temporary adverse event such as fire,



storm damage, landslide etc. This allocation may be adjusted over time based on the assessed reversal risk profile for specific projects.

In the event that the buffer pool is not utilised over a significant term and grows to the point that it is assessed as having a surplus compared to the assessed risk profile, some fraction of the buffer allocation may be redistributed to historic contributing projects.



What happens if things change?

Carbon contracts have long timescales, so we understand that things may change.

If you want to sell the land

On the sale or establishment of a forestry lease for a forest area, the CarbonCrop obligations and CarbonCrop contract for that forest area will transfer to the new owner. This is to ensure that CarbonCrop credits issued and purchased remain protected.

If you wish to deregister your land

You can deregister any area of forest from CarbonCrop's Alternative scheme.

On deregistration, you are *not* required to surrender historical CarbonCrop credits issued for the area of forest.

After deregistration, you *remain* obliged to maintain carbon stocks for each block equivalent to those for which Alternative Carbon units have been issued. This obligation persists for any remaining sequestration period for those units, and survives land transfer in the same way as if your land was still registered. This is to ensure your permanence and durability guarantees for the CarbonCrop credits you have sold are met.

After deregistration, you are prohibited from having additional units issued in connection with the same sequestration already recognised by CarbonCrop credits. This is to ensure your obligations to avoid double counting of any sequestration are met. CarbonCrop will continue to maintain records of the registered areas, registration period, assessed Carbon Stocks, and CarbonCrop Unit issuances.

If you deregister before the completion of the contract period you may be required to pay a break fee to CarbonCrop. The break fee equates to a share



of the CCU payments that would have been due to CarbonCrop for the services fees over the remainder of the contract, based on the CCU price at the time of the break.

If you want to exit all contractual obligations

If you wish to be relieved from the obligation to maintain a carbon stock equivalent to all units issued for a given block before the 100 year sequestration term is completed, you must source equivalent credits from the market to cover your remaining sequestration obligations. Essentially, you will buy back equivalent credits at the current market price (or just return the units issued, if you've not sold them), and zero your balance. Once this is done, CarbonCrop will deregister your Carbon Tracking Regions (CTRs), and indicate the historical registered areas as having their obligations covered in full, meaning they are potentially available for recognition under alternative programs again.

If you have further questions or any concerns, please don't hesitate to ask. We value your feedback and it's important that we're all on the same page.

You can always email the team at: hello@carboncrop.nz



Frequently asked questions

Is this like the NZ ETS?

Yes – but it’s not the same, and there is a good reason we’re creating something different! The NZ ETS is a robust system, but registration and compliance can be very difficult especially for regenerating indigenous forest.

CarbonCrop credits have different eligibility criteria to the ETS, and also different registration and monitoring systems, while still ensuring additionality of sequestration. These make it much more practical to manage the registration and sequestration measurement of all sizes of areas of mixed regenerating native forest.

The other key point is that CarbonCrop credits are *only* issued for permanent indigenous forest – hence they can command a premium in the voluntary carbon offset market.

CarbonCrop credits *cannot* be used to meet compliance obligations under the NZ ETS, and a given area of forest *cannot* be registered under both CarbonCrop Alternative Scheme and the NZ ETS.

How does this help create forest and sequester carbon?

A CarbonCrop Alternative registration creates a revenue stream for regenerating forest. This can be used to cover the opportunity costs of retiring land, pest and weed control measures, planting costs, fencing costs, etc. Restoring indigenous forest is definitely not ‘free’, and by creating a commercial lever we allow buyers of CarbonCrop credits to support restoration and preservation. Part of our vision is to reward all ongoing carbon sequestration, and aligning this outcome with incentives means that we’re enabling more carbon to be sequestered: exactly what the environment needs right now.



Does a CarbonCrop Alternative registration protect the forest on my land?

Yes. CarbonCrop Alternative registration is not the same as a QEII covenant or similar, however it *is* compatible with such a covenant. Whether or not you have a covenant, a CarbonCrop registration will protect your forest by creating a significant commercial disincentive to forest loss. If any future landowner were to clear the forest, they would be liable for the loss of carbon - effectively a heavy fine!

Do CarbonCrop credits provide any other benefits?

Yes - the units recognise tons of carbon dioxide sequestered, but the emphasis on natural regeneration of native forest means the units also support improved biodiversity, improved water quality, and improved environmental resilience to drought, fire, storms, and floods. This supports many UN development targets and boosts climate change resilience as well as reducing CO2 in the atmosphere.

Can I end up losing more credits than I've been issued if my forest goes backwards?

No. The CarbonCrop monitoring methodology caps the losses for any given block of land to the credits issued for that block. If you sell the credits as you earn them, and then have a loss event that's not covered by the reserve pool, you may have an obligation to buy back credits, and this may be at a different price, but you will never have to repay more credits than you were issued in the first place.

Will I keep earning credits after the end of the contract?

CarbonCrop's standard contract initial term is 10 years, after which you have the option of annual renewal. Our standard sequestration model projects out to 50 years forest age, however we will continue to award CarbonCrop credits as long as there is evidence of ongoing additional carbon sequestration. For



native forests in New Zealand this is expected to be the case for hundreds of years, until they reach maturity and a steady state in terms of total biomass.

What happens if the market changes and the returns aren't what I expected?

If the market dynamics change and carbon yields are no longer attractive, you remain bound by the commitments you've made for carbon already sold. You can address these commitments by taking the actions described in connection to *exiting all contractual obligations*. The implications here depend on what's causing the low return.

A couple of examples:

<p><i>You're seeing a low return because the growth rates and hence carbon sequestration and credit issuance is low.</i></p>	<p>In cases of low productivity marginal land this may well be acceptable, but for high productivity land it would suggest an alternative land use is more suitable. It's important to choose land well suited to forest restoration and carbon farming, and to select appropriate species.</p>
<p><i>You're seeing a low return because the market price of the carbon credits has fallen.</i></p>	<p>In this case you might choose to hold onto credits until prices improve, or to exit contractual obligations for the land. Terminating the contractual obligations will require you to settle your unit obligations (generally meaning buying back the units), however if the market price is low you would likely be able to do so for</p>



	<p>significantly less than the initial sale price of those units.</p>
<p><i>You've uploaded your credits to a marketplace but it's taking longer than expected to get your credits sold.</i></p>	<p>The CarbonCrop Native program is new and you'll be joining us at an early stage. We've sold a great deal of units already through CarbonZ, but like any marketplace, it requires both buyers and sellers. As the program is still quite new, selling offsets won't (yet) be instantaneous. We're continuing to develop partnerships and educate the market, but ultimately, supply and demand will set the price of a Native CCU. You might choose to sell your credits for less, or more, than the current launch price of NZ\$50 per credit.</p>





**Better Offsets.
Better Forests.**