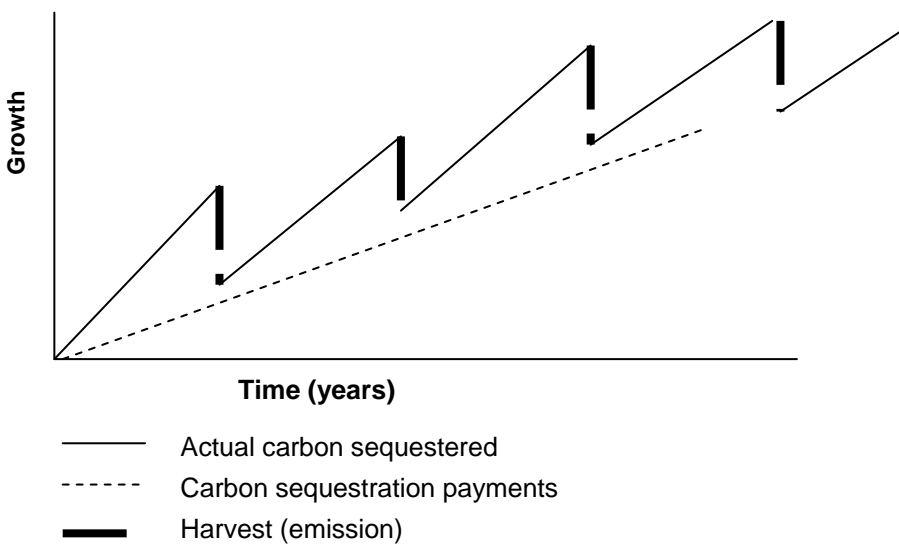


## APPENDIX 3 – FREQUENTLY ASKED QUESTIONS



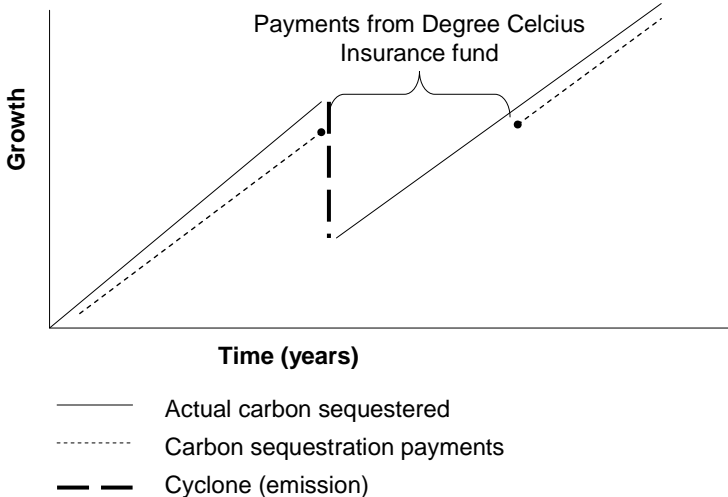
## Frequently Asked Questions

<p><b>What is the Degree Celsius Joint Venture?</b></p>	<p>Terrain NRM is the designated regional body responsible for coordinating and supporting natural resource management in the Wet Tropics region. It is responding to the challenges of climate change by teaming up with environmental services business BIOCARBON Pty Ltd to form the Degree Celsius Joint Venture. This strategic regional initiative is the first of its kind in Australia. The Degree Celsius Joint Venture will:</p> <ul style="list-style-type: none"> <li>• pool the carbon sequestered from forest rehabilitation, and other sustainable land use activities that can measurably sequester carbon (such as sustainable grazing and reduced use of fertilizer in agriculture) in the Wet Tropics and adjacent regions;</li> <li>• broker the sale of this pooled value-added carbon to carbon-intensive corporations, and business, tourism organisations and individuals who wish to offset their activities;</li> <li>• pay landholders for carbon they sequester in their revegetation activities.</li> </ul> <p>Terrain NRM is a not-for-profit organisation, and any additional 'profit' that Terrain NRM makes from this venture will be invested directly into natural resource management projects in the region, furthering our ability to support the community in their efforts to build a resilient and healthy landscape.</p>
<p><b>What can be accepted under the current Degree Celsius arrangements?</b></p>	<p>We are currently working with a range of carbon products. These include:</p> <ul style="list-style-type: none"> <li>- Active replanting of native vegetation since 1990</li> <li>- Assisted natural regeneration of cleared land regenerating since 1990</li> <li>- Avoided deforestation (for forest that is currently not classified as 'remnant' according to the Queensland Vegetation Management Act)</li> <li>- Farm forestry where trees were planted on land which was clear at 1990</li> <li>- Grazing land management where we are keen to talk to landholders who are prepared to participate in the development of a carbon case for soil carbon pools under different land conditions and grazing pressure</li> </ul>
<p><b>What is the difference between the above categories?</b></p>	<ul style="list-style-type: none"> <li>▪ <b>Active replanting</b> refers to revegetation of cleared land which has included clearing of grass or woody weeds and the planting of native species in their place – normally some years of active weed maintenance is also part of a revegetation project.</li> <li>▪ <b>Assisted natural regeneration</b> is the regrowth that can occur if 'disturbance' is prevented from impacting on the natural vegetation – prevention of fire; exclusion of cattle through fencing; weed management, etc. Areas of your land that fall into this category are currently accepted as a carbon offset, providing that the regeneration began occurring after 1990. In other words, we need to show that this area was not regenerating prior to 1990. If for example it was part of a grazed paddock at this stage, then this is acceptable under the Climate, Community and Biodiversity Standards, which are discussed below. It is likely that the carbon sequestration rates for assisted natural regeneration are somewhat lower than active replanting due to the lower intensity of management.</li> <li>▪ <b>Avoided deforestation</b> means deliberately not clearing a forested area which legally can be cleared, but that you protect in return for carbon trading benefits, or for biodiversity conservation. Avoided deforestation will be the case only for forest that is currently classified as 'non-remnant' according to the Queensland Vegetation Management Act. This means that on the Regional Ecosystems maps, it will appear as <b>white</b>. Entering into a carbon trading agreement secures this forest against future clearing. It does NOT mean that you cannot selectively harvest trees from this area.</li> </ul>

	<ul style="list-style-type: none"> <li>▪ <b>Farm forestry</b> usually refers to an area which has been planted as part of an active farm with future timber harvesting in mind. If planted with native species, it is acceptable as a carbon offset under the Degree Celsius initiative.</li> <li>▪ <b>Grazing land management</b> refers to increasing levels of carbon in soils by reducing grazing pressure and managing pasture better. We are currently refining our methodologies for and would like to involve anyone interested in participating in this initiative.</li> </ul>
<p><b>What about harvesting from my farm forestry plot?</b></p>	<p>Farm forestry can be included in your carbon pool. However, when you harvest, it is considered an emission, and this must be subtracted from your total carbon pool. However, if you have not been claiming carbon credits for a proportion of your forest, then you have some 'credit' within which you can harvest providing you are only interested in selective harvesting, and are committed to replanting after harvest. You are actually being paid for an annual increase in carbon in your forest, so as long as the overall growth of the forest is higher than the harvest, then you have a net positive carbon sequestration – for which you can be paid.</p> <p>If at some stage, the level at which you harvest exceeds the rate of increase, you will have a net emission, and may be required to repay some of your carbon credits, or forgo payments until your forest reaches the carbon level at which you were last paid (see below).</p> <p><b>Forestry and carbon:</b> Over time, growth rates are higher than carbon sequestration payments, and therefore there is always a 'credit' in the system which can be harvested without affecting sequestration contract. Eventually, fully established plantations will result in a balance between sequestration and emissions, and at that time, payments cease. However, the obligation to retain the carbon that was paid for remains until end of contract.</p>  <p>— Actual carbon sequestered  - - - Carbon sequestration payments  █ Harvest (emission)</p>
<p><b>What happens if a cyclone destroys my farm forestry plot beyond the point at which it has any timber value?</b></p>	<p>We are currently working out insurance options for this. About 10% of the regional carbon pool will be kept aside for cases such as this, so that the regional carbon pool is not reduced from damage on individual holdings. Please bear with us while we develop solutions that will work well for everyone involved.</p>

<p><b>What am I actually selling, and what is the difference between tonnes of carbon and tonnes of CO<sup>2</sup> equivalent?</b></p>	<p>The global carbon trading unit is <b>one tonne of CO<sub>2</sub> equivalent</b>. All stocks are presented using this term. This is what we will be selling. However, there is quite a bit of work involved in converting your forest to a number of tonnes of CO<sub>2</sub> equivalent. To calculate the amount of CO<sub>2</sub> in one tree, we measure its diameter, then we use an existing formula (called an allometric equation) to calculate its Above Ground Biomass (AGB), which is the weight of the wood once it is dried. Of this biomass, approximately half is pure carbon. When we know the amount of carbon, we then multiply it by 3.67 to convert it into tonnes of CO<sub>2</sub>. This is the number that then 'goes to market'.</p> <p style="text-align: center;"><b>In summary: CO<sub>2</sub> equivalent = AGB x 0.47 x 3.67.</b></p> <p>For soil carbon we need to measure organic soil carbon across different land types and different land conditions, to provide a carbon "curve" under different scenarios against which your organic soil carbon can be measured.</p> <p>For agriculture, different Green House Gases are measured and their impact on the atmosphere is converted back to CO<sub>2</sub>-e (carbon dioxide equivalent).</p>
<p><b>What are my obligations?</b></p>	<p>In order to ensure that we are operating an open, honest and worthy brokerage system, it is important that we can demonstrate how we are locking up carbon for a long period of time. For that reason, anyone entering into a carbon trading arrangement with Degree Celsius will be bound by a number of obligations. Without these obligations, our system would lack integrity and credibility.</p> <p>The project must be based on a solid legal framework and appropriate contracts must be in place. In Queensland, carbon sequestration rights are recognised under the Forestry Act 1959 as a component of a "natural resource product" and the owner may enter into an agreement with a third party called a Natural Resource Product Agreement (NRPA). In Qld these NRPA's do not create a proprietary interest in land. They are instead an agreement which is noted on the title, similar to a covenant or Administrative Arrangement. The nature of this agreement will be that:</p> <ul style="list-style-type: none"> <li>▪ You must commit to retain and protect to the best of your ability the rate of carbon sequestration that you have signed up for on your land for <b>30 yrs, after which time you may withdraw or continue for another 30 years..</b></li> <li>▪ It specifies the area and conditions covered under the NRPA with Degree Celsius as well as a management plan for that area. Degree Celsius will provide management plan templates in order to simplify this process for you. Having an NRPA in place also ensures that you cannot re-sell this specific carbon to another buyer. Degree Celsius will assist with the development of the NRPA.</li> <li>▪ You will also need to sign a <b>contract with Degree Celsius</b>, which specifies that you have agreed to sell the existing and future carbon (up to 30 years) sequestered in your forest to us, and clarifies the services that Degree Celsius will provide in return.</li> <li>▪ You must also allow Degree Celsius staff or its representatives on to your land to verify the condition of the plot both prior to verification and for monitoring.</li> <li>▪ You must keep a copy of the records that Degree Celsius collects on the condition of your plot</li> <li>▪ While you as the landholder retain FULL OWNERSHIP over the trees on your land, you relinquish rights over the carbon held within those trees, and you have an obligation to ensure that to the best extent possible the contracted carbon sequestration rate is maintained.</li> <li>▪ If there is a breach in the arrangement there will be penalties and these will depend on the breach and the amount of carbon paid for that is not delivered, as with any other commodity.</li> <li>▪ Your responsibilities in terms of paperwork etc. will be negligible – this is the role of Degree Celsius. However, if you are interested in becoming involved in monitoring growth rates etc., you will be welcome to do so in collaboration with the Degree Celsius field teams.</li> </ul>
<p><b>What is in it for me financially?</b></p>	<p>By committing to this project with Degree Celsius, you could receive two kinds of payments. The first is a lump sum payment for the carbon that currently exists in your plot that has been verified, less, of course, the costs as discussed here. This will be dependent on the age of the planting, planting type, its condition and the growth rates.</p>

	<p>You will then, at the end of each year, receive an annual payment for the carbon increment for the previous year.</p> <p>The actual amount you receive from selling your carbon will be dependent on the price that Degree Celsius can get for it in the market. While the normal market rate for carbon varies (currently at around \$20 per tonne of CO<sub>2</sub> equivalent on some International markets), the Degree Celsius pool of carbon is likely to attract a higher price as it is carbon with a <b>biodiversity</b> premium. There are many organisations that are prepared to pay more for their offsetting if they are also purchasing biodiversity benefits. Furthermore, there are many regional organisations which are prepared to pay a higher price for premium carbon that is benefiting this region – and which they can see, touch and relate to directly. You will receive 60-70% of the income from the sale of your carbon. The remaining amount covers the costs of verification, monitoring, administration and insurance.</p> <p>So, assuming a sequestration rate of approximately 10 tonnes of CO<sub>2</sub> equivalent/ha/p.a., at the rate of \$20 per tonne, the annual income from carbon is likely to be 60% of \$200 = \$120. In addition to this, an initial lump sum payment will be made for 60-70% of the value of the carbon that already exists in your plot.</p> <p>The value of a tonne of CO<sub>2</sub> equivalent will vary over time, and you will earn the proportion of the market value at the time it is sold (this is not retrospective in that the price at which it is sold is fixed at sale, like any other commodity). The future carbon trading market in Europe is predicted to increase significantly in the near future.</p>
<p><b>For how long do these payments last?</b></p>	<p>Although you will be contracted to retain the carbon for which you have been paid for a period of 30 years, you will not necessarily continue to be paid annually for that entire period. You are being paid for the <b>net annual increase</b> in carbon that has been sequestered by your forest. At some stage, the forest will reach equilibrium, where growth and sequestration of carbon is equalled by death and emissions through the natural process of decomposition. At this point your forest is considered carbon neutral, and as it will no longer be actively sequestering carbon, payments will cease.</p> <p>Although we cannot say exactly how long this will take in each individual case at this stage, it is a long way into the future, and it is expected that forests here in the tropics will be actively sequestering carbon – and earning income – for many years to come! The Degree Celsius initiative will include an inbuilt research component which will be monitoring growth rates, and year by year refining our understanding of the growth of planted forest in the Wet Tropics.</p>
<p><b>What happens if I want to sell, or if I change my mind, or if my children want to cut the forest down?</b></p>	<p>As with all <b>contracts</b> you will be legally bound to deliver the product or you will be in breach of contract. If you, your children or subsequent landowners change their minds about the arrangements with Degree Celsius, and decide to cut the forest down, they will be required to repay the price of the carbon credits at the market rate at the time, and forgo further payments. You will then regain full ownership over the carbon that is standing in the forest. These conditions will be clearly laid out in the contract with Degree Celsius.</p>
<p><b>What if I want to harvest firewood from my plantation?</b></p>	<p>It's no problem if you plan to use fallen timber or branches as dead wood is likely to be a small component of the replanted forest in the first 30 years. If you plan to actually chop trees down for use as firewood, it really depends on the volume. If you harvest one tree per year from one hectare, the consequences from the carbon sequestration perspective are negligible. However, if you are cutting down significant amounts (e.g. for sale) then you would fit best within the farm forestry model, which allows an excess of carbon growth which is not paid for, and is therefore available for harvest.</p>
<p><b>What if I want to harvest posts for fencing?</b></p>	<p>The answer is much the same as above. If the tree has died and you want to use it for posts, then there is no impact. If occasionally you need to harvest a few trees for fencing posts, this is also not a problem, provided that on average, your forest is still increasing its carbon by the amount for which you are being paid. If you plan to harvest a significant number of poles (e.g. 15% of your forest) for either your own use or for sale, once again you would fit best within the farm forestry model described above.</p>

<p><b>What happens if a cyclone/fire destroys my planting?</b></p>	<p>If a cyclone destroys your vegetation, you are contractually obliged to either replant or support the rehabilitation of your area. Degree Celsius will not be able to sell credits from your land until the level of carbon sequestered reaches the pre-cyclone/fire level. However, the insurance fund which accounts for 10% of the carbon payment, will be used to continue these payments until such a date, providing that the area remains protected and is regenerating (see below).</p> <p><b>Cyclones and carbon:</b> If carbon payments are made against full sequestration, then if a cyclone occurs and carbon stock is lost (an emission), payments are suspended until the stock once again reaches pre-cyclone carbon rates, at which point payments resume. The insurance fund assists in the re-establishment/repair of the damaged area.</p>  <p>— Actual carbon sequestered  - - - Carbon sequestration payments  - - Cyclone (emission)</p>
<p><b>What if my forest is covered by a Nature Conservation Agreement or equivalent covenant?</b></p>	<p>At this stage, forest that is covered by a Nature Conservation Agreement is not eligible as a carbon offset. This is largely because it is already secured into the future, and there will therefore be no further ADDITIONAL benefit from trading the carbon.</p> <p>Entering into a contract to trade carbon secures it for the long-term and ensures that the forest is not cut down. This is the 'additionality' component of the process – entering into a carbon trading agreement ensures that the forest will continue to sequester carbon until it reaches maturity.</p>
<p><b>How can I see how much money has been earned/spent by the Degree Celsius Joint Venture?</b></p>	<p>Degree Celsius is committed to a system which is open and transparent. This means that information on all carbon bought and sold by Degree Celsius will be available on the website, in annual reports and by talking with Degree Celsius staff. Our open and transparent system will be subject to annual audits, which will be open to scrutiny by anyone wishing to understand more about where the carbon goes. There will be a Degree Celsius Officer you can contact to discuss any issues face-to-face.</p>
<p><b>Who will come onto my land and how often?</b></p>	<p>Initially staff and contractors of Degrees Celsius will need to assess the vegetation and undertake a stocktake of what is there. This may involve a verification team who will need to determine the extent and quality of the vegetation and biodiversity values in your forest.</p> <p>It is possible that the independent third party verifiers will need to view and/or survey your site as part of the verification process. In addition, regular audits of the condition of your site will need to be undertaken. This will probably be a minor (1 day) visit no more than once a year, with the possibility of a more significant visit once in 5 years to measure and quantify the carbon sequestered and biodiversity values.</p> <p>A communication protocol will be included in our contract with you, which will ensure that you have prior notice of any pending visit and the right to defer if that time is inconvenient.</p>

<p><b>What does verification mean and what do I have to do?</b></p>	<p>Verification means that a third party who is qualified and registered checks the Degree Celsius system to make sure that our carbon is real, additional and permanent (for 30 years), and that our methodologies and systems are World best-practice. They will check that we are doing what we say we are doing, have what we say we have and are adopting an approach which is scientifically acceptable according to the guidelines laid down as part of the United Nations Framework Convention on Climate Change.</p> <p>To be able to trade in carbon, you must be verified against a set of approved standards. We have chosen the Climate, Community and Biodiversity Standards (CCBS). They are some of the most stringent and highly regarded standards available globally, and the only standards that consider biodiversity values, as well as the social impacts. The verifiers will want to check on a random sample of properties, to ensure that our figures match what is on the ground. Your obligation is to provide access to the property for the verifiers should they require it.</p>
<p><b>What is monitoring and what is a baseline?</b></p>	<p>Monitoring is 'checking' – undertaking regular reviews to ensure that the site still exists, is still growing at the predicted rate and is being protected and managed according to the management plan. Over time, our monitoring system will ensure that we have a very thorough understanding of growth rates and performance of a range of rehabilitated ecosystems across the region.</p>
<p><b>What is meant by 'carbon with a biodiversity premium'?</b></p>	<p>In the Wet Tropics, the carbon alone is one asset that is 'tradeable', but the increasing value of the ecosystem services that rehabilitation provides are being recognised. There are people willing to pay to ensure that water quality is protected, clean fresh air is produced, and habitat is available for animals – particularly those that are rare and threatened. These are the 'biodiversity values' that the vegetation may have, in addition to the pure carbon values.</p> <p>The types of revegetation undertaken in this region, even multi-species forestry plantings provide a range of biodiversity benefits. This allows us to be marketing carbon with a biodiversity premium, with the potential of earning a higher price per tonne of CO<sub>2</sub>, and therefore securing a higher return for the landholder. It also enables us to promote the importance of biodiversity within the region and nationally.</p>
<p><b>What about non-natives? Can I get carbon credits without biodiversity credits?</b></p>	<p>The Carbon, Community and Biodiversity Standards prefer that most trees planted are natives. This provides us with carbon with a biodiversity premium. We can include properties that have non-natives but that should be the exception rather than the rule. If the demand is great enough, there is potential to use other less rigorous standards and sell carbon without the biodiversity benefit.</p>
<p><b>Is the money I earn from carbon credits taxable?</b></p>	<p>This information is not tax advice. Income generated from selling the carbon sequestered in your forest is most likely taxable, but costs incurred in the planting and management of your forest may be tax deductible. In September 2007 the Federal Government introduced a Tax Laws Amendment Bill which provides immediate tax deductions for costs incurred in establishing a carbon sink forest. You will need to seek advice from your accountant or a registered Taxation Advisor.</p>
<p><b>What is meant by 'economies of scale'?</b></p>	<p>Degree Celsius is working across the Wet Tropics region as a whole. This provides small landholders with the opportunity to be involved in a carbon trading initiative that would otherwise be prohibitively expensive. The cost of verification and auditing would be so expensive if done on an individual basis that it would cost far more than anyone would ever earn from the initiative. With many people involved, the costs per person reduce significantly. Through charging an administrative fee, Degree Celsius will coordinate the auditing and verification process, including the selection of the appropriately qualified auditor, the collation and retention of the reports and reporting to the purchasers of the results.</p>
<p><b>DISCLAIMER: Independent advice</b></p>	<p>This information is provided on the understanding that it in no way constitutes legal, business, tax, income, revenue, investment or any other advice. You may not rely on any statement in this information package, and should seek independent advice on the options outlined in this information package and on any decisions or investments which you may or may not make on the information contained in this package. Degree Celsius, Terrain NRM Pty Ltd and Biocarbon Pty Ltd will not be held responsible for any and all decisions or actions taken on this information.</p>