



The Carbon Basis Company Ltd

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Reference: Draft Mexico Forest Protocol Version 1

I write to comment on how the matter of project permanence is addressed in the Protocol. We have 30 different ejido clients in Mexico who own some 400,000 hectares of forest land. We are working as project developers to maximize their benefit owing to both carbon offsets and biomass energy opportunities. We have maintained that the carbon offset market currently doesn't offer a substantial opportunity relative to forest carbon sequestration.

The Protocol mentions that Mexico's ejido constitution does not allow for a 100-year commitment of any nature, and subsequently proposes that the aggregator take on this binding commitment as a proxy. From our view, it is difficult to imagine that any private entity would agree to making such a commitment, and we've advised our clients that Version 1 is unworkable in its present form.

We do, however, offer an alternative for your consideration that we believe has several positive attributes, including:

- 1) eliminates the opportunity for gaming the market,
- 2) eliminates perverse incentives,
- 3) cultivates a viewpoint that managing forest carbon is a long term objective,
- 4) enables the ejido owners to fully participate in the carbon market; and,
- 5) is independent of land title (i.e. no easements).

This approach requires a few simple rules, including:

- 1) the appropriate Mexico government body issues an offset certificate that expires after a period of time (e.g. 20 years) without any regrets,
- 2) the ejido commits to an approved carbon sequestration plan that is consistent with their statutory 5-year development plan,
- 3) the locations of the offset projects are delineated using standard survey methods as separate strata within the managed landbase, and the offset certificate references the strata accordingly,
- 4) the strata certificates are fully fungible,
- 5) carbon losses of any nature from any strata do not affect the certificates issued before the loss, thereby guaranteeing their redemption value,
- 6) any losses are buffered from a pool established by virtue of the conservative estimates of the carbon accumulations;



- 7) any stratum suffering from a loss is eliminated from further participation (i.e. no more certificates) until an approved remediation plan is fully executed.


The purpose of the rules are:

- 1) The government-backed certificate is issued for each year where carbon is accumulated per the approved sequestration plan, and thereby eliminates the need for the market to discount for permanence because this is considered in the offset pool set aside. The market can therefore price the forest offset on par with any other sanctioned offset.
- 2) The finite shelf-life of the offset certificate limits any accumulated liability that must be covered by the pool as guaranteed by the government,
- 3) Fitting the carbon sequestration plan within the existing regulated government planning process lessens the administrative burden for development, approvals, and enforcement,
- 4) Allowing for separate carbon strata within an ejido landbase makes monitoring and verification an easier task and allows the land manager to fully integrate his land management activities; and,
- 5) Failure to comply means that the ejido faces all enforcement options available for non-compliance of their regulated forest management planning, as well as forgoing any additional offset revenue until remediation is complete.

Similar recommendations were adopted by government of Alberta in 2007 and resulted in a very successful program where there has been widespread participation of the farmers who have adopted low tillage management practices. I believe that it is fair to say that few Alberta farmers have not contemplated how they might become involved in the marketplace and that many have changed their practices to participate accordingly. The environmental integrity of the program comes from evidence of widespread practice change.

Sincerely,

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President and CEO



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