

You Get What You Pay For: A Timberland Investor's Perspective on Forest Carbon Offsets and Evolving Carbon Markets

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Thanks to all of you for choosing to spend some more time with me. After an hour in the last session, I assumed there would be some fallout, but it looks like we have a pretty good crowd.

Agenda: I'm going to do four things before opening the session for questions and discussion. First, I'll respond to some of the legitimate criticisms of forest carbon offsets that have made the news over the past year. Second, I will provide a framework for thinking about the two bookends of forest carbon markets: the well-established 100-year California compliance offsets and the recently

developed NCX one year harvest deferral credits. Third, I will use three case studies from the Lyme portfolio to discuss an approach to carbon pricing that begins with changes in forest management – specifically, harvest reductions and rotation extensions - then backs into the carbon price necessary to incentivize such management changes. Finally, I'll share some observations about where carbon markets may be headed and discuss the implications for landowners and the forest products industry.

Background on Lyme: Before I get started: a little background on The Lyme Timber Company. Our 1.6 million-acre forestland portfolio is built around seven businesses, all of which include significant naturally regenerated forests. Over 90% of our portfolio is hardwood and mixed wood forests in the Eastern US. For this reason, we have been active in carbon markets. In just the last 18 months, we've sold over \$50 million of compliance offsets from five different projects on 200,000 acres of

YOU GET WHAT YOU PAY FOR: A PERSPECTIVE ON CARBON MARKETS

Agenda

1. Respond to criticisms of forest carbon offset projects
2. Present a framework for thinking about 100-year compliance offsets and 1-year harvest deferral credits
3. Present 3 case studies from the Lyme portfolio to build up a price for carbon based on the fully loaded cost of harvest reductions and other obligations
4. Share some conclusions about carbon markets and their implications for the forest products industry
5. Questions and discussion

THE LYME TIMBER COMPANY PORTFOLIO

Lyme's **1.6 million acre** portfolio includes over 200,000 acres subject to carbon agreements and over 1.0 million acres under consideration for carbon

