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Subject: RCPM Valuation Considerations And Assumptions

Friday 23rd August 2024

Dear Mr Ollech,

I understand from David that you are seeking clarification about aspects of the methodology and assumptions used in the calculation of the overall value of the RCPM project showing a current Net Present Value of $105,356,371 USD.

This figure is based on careful calculation using a detailed matrix which has been sent in previous correspondence. It is composed using cost estimates from local experts and suppliers, independently verified data from scientific and/or government resources or NGOs. Finally, we have benchmarked out expected output against currently existing projects that have already been funded and verified.

I understand however that further breakdown and explanation has been requested in supporting the figures how all the number tie in together.

There are some items that provide a greater weight in terms of how they lead to a material change in value of the project.

This report therefore summaries a more robust explanation on some of the key metrics and assumptions with commentary on how these figures may change in the development of the project.

Below are headline details of further clarification:

Expectations of Sales of Carbon Prices

There is no guarantee of a fixed price in the carbon market and is subject to change just as any other commodity or tradable item. However, in the interests of showing independence, I have calculated the estimated weighted average start price on a ‘per credit’ basis as $17.57. The reason for this estimation has several moving parts;

Firstly, there are two separate credit types available for sale once the project is generating VCUs, Blue Carbon (Mangrove) credits, and Peatland (other Forestry) credits. When project details were entered in to the **Viridios AI system**, the estimated bid price for the Mangrove credits was $38.05. To further make a conservative adjustment, this figure was discounted in my calculations by a further 15% to $32.34. Likewise, this approach was taken with the Peatland credits, and after a 15% discount, the estimated bid price per credit came to $15.42. The blended price of these two figures in proportion to the project in its division of Peatland and Mangrove came to a weighted average of $17.57 USD.

It is of course possible that the credits will trade at a reduced or increased price point however this is independently a reasonable price expectation.

Moreover, a relatively minimal expected 3% annual increase in price considering the post COP28 agreements by most governments to hit net zero by the year 2050.

This is further evidenced by the recent **BCG Report** which estimated that good quality carbon credits prices should reach $25-30 on average by 2030. Note that the **Ernst & Young Report** is even more bullish in its expectation on carbon credit prices in the coming decades.

Expected Number of Verifiable Carbon Units Per Hectare

The second major consideration for the overall value and profitability of the project is the expectations of how many VCUs can be realistically be achieved per Hectare.

By way of a more rudimentary comparison, we have measured the expected VCU/Ha figures against 11 comparable projects in the region with broadly similar scopes to ours. The average VCU/Ha achieved across these projects is 91.97 VCU/Ha. However there is one project that is claiming to achieve well above average returns at close to 500 VCU/Ha. Once this project is removed from the weighting, the average reduces to 46.91 VCUs/Ha. Based on our calculations, we are estimating a level of 52.59 VCU/Ha which puts us near the average achieved.

Considering the RCPM project has far higher additionality factor that comparable projects and we have used such high buffers and provisions, I believe it is highly likely that the projects VCU output will be much greater than the 52.59 figures used in the calculations.

Assumed Deforestation Rate

An average deforestation rate of 2.58% has been used. This is measured against well published evidence documenting the sadly impressive deforestation of Riau and it's sub-national areas (source: **Global Forest Watch**). Our calculation is derived from the local areas where the project is taking place.

It is of course possible that it will subsequently be shown that the details are not exactly this figure but based on the current information this is the very defensible number.

Leakage / Buffer Rate Used

Our calculations use a very conservative 30% buffer rate to factor in any leakages in the carbon capture, and or costs incurred in generating said carbon capture rate. This is in excess of the maximum 25% buffer rate our Indonesia-based Carbon originators have estimated. The increased figure of 30% is designed to be extra conservative to allow for any unforeseen circumstances.

In addition to this, we have included a further 10% reserve buffer. Our effective buffer is therefore a giant 40%. No one in the 360green team expects this provision to be necessary however the team has chosen to adopt an extra-conservative approach to highlight the financial attractiveness of the project even with such extreme provisions.

Expected Carbon Tax Rate

Indonesia does not currently have a tax rate attributable to carbon projects, however the regulation is expected to be firmed up in October of this year (2024). There has been much back and forth between ministers however it seems likely that a 20% blanket tax on carbon credit revenues will be imposed. I have to stress that this is currently an educated guess. The figure in practice could be lower or higher and there is unfortunately no published information to indicate with any real authority what this could be.

Weighted Average Cost of Capital

A 12% Weighted Average Cost of Capital (WACC) was used in order to reflect a higher perceived risk associated with the project and the industry as a whole which is still considered very nascent. The 12% WACC accounts for factors such as market volatility, industry-specific risks, or uncertainties about future cash flows, which justify a more conservative approach. This higher discount rate results in a lower present value of future cash flows, making the project appear less attractive from a net present value (NPV) perspective. The implications are significant: by using a 12% WACC, I am setting a higher threshold for the investment to be considered viable.

Final Thoughts

The voluntary carbon market is a very young industry and there are intrinsic risks in this business and in any project performance evaluation methodology. The figures used above represent, to the best of my knowledge, presently accurate or indicative cost of revenue estimates.

The information is my no means designed to be exhaustive and represents a brief summary of the primary contributors to the project valuation methodology. Information and Government regulation can change rapidly and significant changes in legislation could have a material impact on the profitability of the project as a whole.

It should also be noted that the currently calculated Net Present Value represents the value of the entire project and does not break down this figure based on the SPV rights to profits of the landowners, developers and project funders.

Should you require further breakdown or understand of any of the above, please free to reach to me and I will do my best to assist.

Yours sincerely,

Alexander Linton

Maayan Capital Pte Ltd

Finance Director

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