THE PROBLEM

DROUGHT

37% of the US is in “moderate drought”

94% of California is in “severe drought”

“The worst drought in 1,200 years”
DROUGHT IS EXACERBATED BY CLIMATE CHANGE

California snowpack currently at 5% of historical average

CA’s snowpack usually holds as much water (15mm acre feet) as all state reservoirs combined
THE DROUGHT HAS REAL IMPACT ON FARMERS

$5.7 Billion
Direct economic losses due to California agriculture in 2014 ALONE

23,000 expected agriculture jobs lost in 2015
LACK OF EFFECTIVE AND AFFORDABLE SOLUTIONS

<table>
<thead>
<tr>
<th>Solution</th>
<th>Cost per Acre Foot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desalination</td>
<td>$2,000</td>
</tr>
<tr>
<td>Wastewater Recycling</td>
<td>$1,000</td>
</tr>
<tr>
<td>Reservoir Creation</td>
<td>$1,000</td>
</tr>
<tr>
<td>Groundwater Well</td>
<td>$650</td>
</tr>
<tr>
<td>Our Solution</td>
<td>$200</td>
</tr>
</tbody>
</table>
FOREST MANAGEMENT

EXAMPLE

El Dorado National Forest

Overgrown

Improved retention of snowpack with thinning

Proactively Managed
AN EFFECTIVE, LOW-COST OPTION: FOREST MANAGEMENT

Current State: Overgrown

Proactively Managed

For each acre managed, intervention can generate 125-366 gallons of water per day.
FOREST THINNING BENEFITS ARE MULTIFACETED

Improved Water Retention

Reduced Risk of Fire

Folsom Lake

2011 2014
ENGAGED AND WILLING
STAKEHOLDERS

US Forest Service
Vicious cycle in which expensive fire suppression limits budget for proactive measures such as forest management

Water Utility
Currently paying up to $1,300 per acre foot for water vs. our proposed pricing of $200

Electric Utility
Federal and state climate change regulations require affordable, low-carbon generation

Why Now?
• Climate change exacerbating drought and fire risk – no end in sight
• States of emergency declared in CA as a result of wildfires and droughts; CA Governor Brown announced $1bn plan to support water projects statewide
• USDAFS actively searching for low cost forest management / fire suppression services due to budgetary constraints
BLUE FOREST CONSERVATION NOTES

FUND STRUCTURE

<table>
<thead>
<tr>
<th>Debt Investors</th>
<th>Funds</th>
<th>Special Purpose Vehicle</th>
<th>Contracted Cash Flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Investors</td>
<td>Notes</td>
<td>Forest Management</td>
<td>Water Benefits</td>
</tr>
<tr>
<td></td>
<td>Funds</td>
<td></td>
<td>Fire Suppression Benefits</td>
</tr>
<tr>
<td></td>
<td>Residual CF</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Contracted Cash Flows

Water Benefits

Fire Suppression Benefits
MULTIPLE SOURCES OF CASH FLOW

Cash Flow Assumptions: Water sold at $200/acre-foot (assuming increased flow of 0.2 acre-feet per acre thinned vs expected increased flow of 0.14-0.41), hydropower utilization of only 20%, low end productivity of 12MW generated per acre-foot (productive range is 12-23MW per acre-foot) and $35/MWh pricing (low end of FERC historical pricing in California from 2003-2012), 3% return on fire suppression benefit.

Debt IRR: 5%
Equity IRR: 12-15%
BLUE FOREST’S APPEAL TO INVESTORS

Expressed investor demand
Cash flows accrue immediately
Portfolio diversification benefits
Multiple CF sources from low-risk counterparties
Note issuance platform allows for scale and replication
Alignment of incentives with manager taking 50% equity stake
Flexible structure allows for tailored investment opportunity
ACKNOWLEDGING AND MITIGATING RISKS

Success determined through modeling outputs

- Pay for success models monetize avoided costs only
- Utilities are risk averse and slow to act
- Forest Service faces budget limitations

Empirical models are widely used and standardized; conservative assumptions foster stakeholder agreement, easier than RCTs

- Two out of three cash flow streams are derived from actual revenues provided and do not rely on budgeted savings to repay investors
- No upfront capital is required as utilities pay only for benefits received. Drought is so severe that utilities can’t afford to wait
- Precedent set by similar projects in other states, no upfront capital required
DUE DILIGENCE AND IMPLEMENTATION

1. Identify target land & stakeholders
   - Partner Actions: Identify timberland with best forest management opportunities
   - BFCN Team Actions: Determine stakeholder costs and motivations

2. Select Manager & Engage Stakeholders
   - Partner Actions: Test and pilot forest mgmt techniques
   - BFCN Team Actions: Determine cash flow and deal structure

3. Engage Investors & Select Underwriter
   - Partner Actions: Determine metrics and cash flows
   - BFCN Team Actions: Finalize structure

4. Independent Board to Manage Future Opportunities
   - Partner Actions: Complete stakeholder contracts
   - BFCN Team Actions: Engage and negotiate with stakeholders

Potential Partners:
- The Nature Conservancy
- Conservation Forestry, LLC
- EKO
- Imprint Capital
- Morgan Stanley
- sonen capital
- The Lyme Timber Company
- American Water Works Association
- U.S. Forest Service
Total Addressable Market: $1.6bn

SCALE

10YR useful life of Forest Management Activities allows for a consistent cycle of financing opportunities

*Assumes net cost of $1,000 per operable acre managed

<table>
<thead>
<tr>
<th>Region</th>
<th>Watershed</th>
<th>Cost*</th>
<th>Households Served</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Sierra</td>
<td>Mokelumne River</td>
<td>$67mm</td>
<td>23k – 68k</td>
</tr>
<tr>
<td></td>
<td>Battle Creek</td>
<td>$26mm</td>
<td>9k – 26k</td>
</tr>
<tr>
<td></td>
<td>Mill Creek</td>
<td>$10mm</td>
<td>3k – 10k</td>
</tr>
<tr>
<td></td>
<td>Deer Creek</td>
<td>$16mm</td>
<td>6k – 16k</td>
</tr>
<tr>
<td></td>
<td>Butte Creek</td>
<td>$12mm</td>
<td>4k – 12k</td>
</tr>
<tr>
<td></td>
<td>Feather River</td>
<td>$770mm</td>
<td>267k – 782k</td>
</tr>
<tr>
<td></td>
<td>Yuba River</td>
<td>$201mm</td>
<td>70k – 204k</td>
</tr>
<tr>
<td></td>
<td>Bear River</td>
<td>$7mm</td>
<td>2k – 7k</td>
</tr>
<tr>
<td></td>
<td>American River</td>
<td>$260mm</td>
<td>90k – 264k</td>
</tr>
<tr>
<td></td>
<td>Consumnes River</td>
<td>$86mm</td>
<td>30k – 87k</td>
</tr>
<tr>
<td>Eastern Sierra</td>
<td>Truckee/Tahoe</td>
<td>$139mm</td>
<td>48k – 141k</td>
</tr>
<tr>
<td></td>
<td>West Carson River</td>
<td>$11mm</td>
<td>4k – 11k</td>
</tr>
<tr>
<td></td>
<td>East Carson River</td>
<td>$27mm</td>
<td>9k – 27k</td>
</tr>
</tbody>
</table>

Western US

*Assumes net cost of $1,000 per operable acre managed
SOCIAL AND ENVIRONMENTAL IMPACT

**Impact**
- Electric utilities
- Citizens of wildfire-prone areas
- Citizens & agriculture in drought-ridden states
- Water utilities
- Citizens of wildfire-prone areas
- Firefighters
- Drought-afflicted farmers
- Rural forest thinning laborers

**Direct Beneficiaries**
- Actual vs. expected carbon emissions
- Actual vs. expected water flow and turbidity
- Actual vs. historical casualties
- Number of jobs created or saved
MARKET FEEDBACK AND BLUE FOREST ADVISORS

EKO Asset Management Partners

RENEWABLE RESOURCES GROUP

Credit Suisse

Table Rock Capital

Imprint Capital

Sonnen Capital

The Nature Conservancy

Gates Family Foundation

The David & Lucile Packard Foundation

Trust for Public Land

Headwaters Economics

Denver Water
MEET THE BLUE FOREST TEAM

Zach Knight  
Leigh Madeira  
Chad Reed  
Nick Wobbrock

A diverse and passionate team

Finance and Investing

Social and Environmental Impact

Government and Engineering
## Summary Terms and Fees

**Blue Forest Conservation Notes**

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>BFCN Total Funded Amount</td>
<td>$67mm</td>
</tr>
<tr>
<td>Debt Tranche</td>
<td>$33mm priced @ 95.24 to yield 5%</td>
</tr>
<tr>
<td>Coupon</td>
<td>5% fixed or 6mL + 460, paid semiannual</td>
</tr>
<tr>
<td>Term</td>
<td>7 years, amortizing beginning in year 2</td>
</tr>
<tr>
<td>Equity Tranche</td>
<td>$33.7mm, 12-15% Target IRR</td>
</tr>
<tr>
<td>Management Equity Investment</td>
<td>Minimum of $17mm</td>
</tr>
<tr>
<td>Final Legal Maturity</td>
<td>10 years</td>
</tr>
<tr>
<td>Senior Management Fees</td>
<td>50bps, paid annually</td>
</tr>
<tr>
<td>Subordinate Management Fees</td>
<td>100bps, paid upon satisfying annual interest and amortization payments</td>
</tr>
<tr>
<td>Underwriting Fee</td>
<td>2%, Paid upon closing</td>
</tr>
</tbody>
</table>
Mokelumne Watershed Avoided Cost Analysis
April 10, 2014

“We’re working now to identify new investors—engaging people who have something to gain by having healthy watersheds, not just because it’s the right thing ecologically, but also because economically it makes sense.”
- Kim Carr, Lead on Mokelumne Watershed Study

“Investing in proactive forest management activities can save up to three times the cost of future fires, reduce high-severity fire by up to 75 percent, and bring added benefits for people, water, and wildlife.”
-USDA Forest Service

“[The study is] a scientifically defensible research study that reinforces what foresters and resource specialists have known for years – well-designed forest management activities focused on returning uncharacteristically dense forest ecosystems to their natural stocking levels can provide a multitude of economic, social and environmental benefits”
-Integrated Natural Resources Management
SIZE OF FIRES BEFORE AND AFTER FOREST MANAGEMENT

Figure ES-2. High-intensity Wildfire Pre- and Post-Treatments

Sources: Mokelumne Avoided Cost Study, The Nature Conservancy
CA’s snowpack usually holds as much water (15mm acre feet) as all state reservoirs combined.