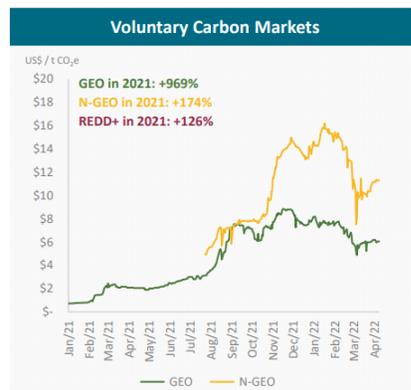
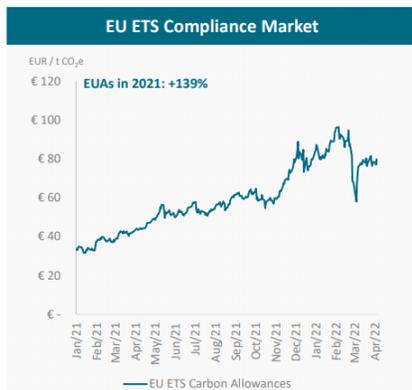




Decarbonization Blind Spot Profiting from the planned and unintended consequences

So, Who Is Wrong?



Source – Schwab, ClearBlue Markets, EEAM

These three charts raise a very interesting question, which market is wrong?

The share price chart of Carbon Streaming has fallen 73% since the turn of the year while regulated carbon prices in the European ETS scheme are close to all time highs and voluntary nature-based carbon offsets are trading three times higher than this time last year.

Background

Since Blackrock CEO Larry Fink, in January 2021, requested companies “disclose a plan for how their business model will be compatible with a net-zero economy” over 4000 of the world’s largest corporations, including Amazon, Apple, Delta, ENI, Shell, Kering, Microsoft and Volkswagen have established meaningful carbon reduction targets, many seeking net zero by 2030. Airbus recently signed a deal with Oxy Petroleum to purchase 100,000 tonnes of Direct Air Capture (DAC) carbon per year for four years at a price believed to be \$200/T, representing \$20Million of annual commitments.

As corporate demand increases, it is prudent to expect “financialization” of the market place. A number of offset funds have raised, or are seeking to raise funds of up to \$1B each in size to participate in this market.

The voluntary carbon market is rapidly expanding by 2 to 4 times each year reaching almost \$15B in value in 2021. Some estimates suggest the market could reach \$1Trillion by 2030.

Carbon offset projects display a cost curve. The projects with the lowest hanging fruit (highest returns) are completed first, largely in the nature-based category. As committed capital rises, project developers can move up the cost curve to increasingly technical industrial projects such as carbon capture and storage. This should have the effect of pushing up average selling prices for the offset certificates towards the breakeven prices of the more costly technologies. Some credible firms have published predictions of prices moving above \$60/T, not such a big stretch when compared to the European regulated prices of \$90/T.

Carbon credits are not all equivalent. The projects are typically ranked on up to 40 different factors, which include the number of co-benefits scored under the UN social development goals, as well as the assessed “Additionality” of the project’s carbon removal. It appears higher quality offsets are currently trading between \$8 to \$15, although older renewable energy offsets with low additionality and say a 2013 vintage, would trade as low as \$1/T.

Adding additional credibility and price pressure to this market, SEC Chairman Gary Gensler, has signaled a requirement for enhanced disclosures on climate related risk and opportunities from public companies. This will likely add even more incentive for companies to comply, as ESG ratings become an increasingly significant influence on a company’s cost of capital and share-market valuation. Experts believe, reputational risk will drive compliant buyers to pay a premium for the higher quality offsets.

Verification of carbon offsets is conducted by four principal global registries, and there are currently up to 5000 projects worldwide. As capital flows into the space, demand for experienced engineers, environmental scientists and financiers is surging, typically targeting the registries and other lower paying NGO's, the previous guardians of this sector. The result is actually a slow down in project authorization, signaling a big advantage for incumbent investors and an increasing mismatch of supply with the rising demand.

Carbon Streaming Corporation (CSC)

Turning back to the falling share price of Carbon Streaming. This company has taken the well-established stream model exemplified by precious metals companies like Franco Nevada. Development capital is exchanged for a future commodity stream which is taken as royalty without associated operating costs. Because this income is perceived as lower risk, the companies specializing in this financing technique typically trade at a meaningful premium to the underlying mining companies.

This company's 47M shares currently trade at US\$4 or less implying a value of <\$188M. With over \$100M net of cash, this implies an EV of <\$90M. Starting in 2023, the company will receive approximately 3 Million carbon credits for each of the next 20 years from the Rimba Riya Biodiversity Reserve Project and the Mar Vivo Blue Carbon mangrove project, both considered to be of the very highest quality.

If we conservatively say these credits are worth \$10/T, and say it costs \$10Million a year to run the business, this gives an EBITDA of \$20M pa for 20 years, which assuming an 8% discount rate, gives a NAV of \$176Million versus an EV of \$90Million. These numbers assume nothing for the pipeline of projects Carbon Streaming has assembled which it claims to be worth another \$200Million. Most importantly, CSC is well established with a strong investment portfolio and the connections to have secured access to a viable stream of future projects.

If one assigns carbon offset prices as discussed above, clearly the NPV of the existing stream would be many times higher.

So if you believe a forthcoming recession and risks of massive military escalation in Europe will be sufficient to severely derail the ESG train, then the recent rapid fall in the share price of Carbon Streaming may be accurately predicting this demise. If however, you are open to seeking exposure to a new diversified asset class at an apparent bargain basement price, perhaps you should check out the company's recent corporate presentation:

[corporate-presentation.pdf \(carbonstreaming.com\)](https://www.carbonstreaming.com/corporate-presentation.pdf)

David Talbot
Ruby Accordia-Group
+1 203 682 5561
davidt@accordia-group.com