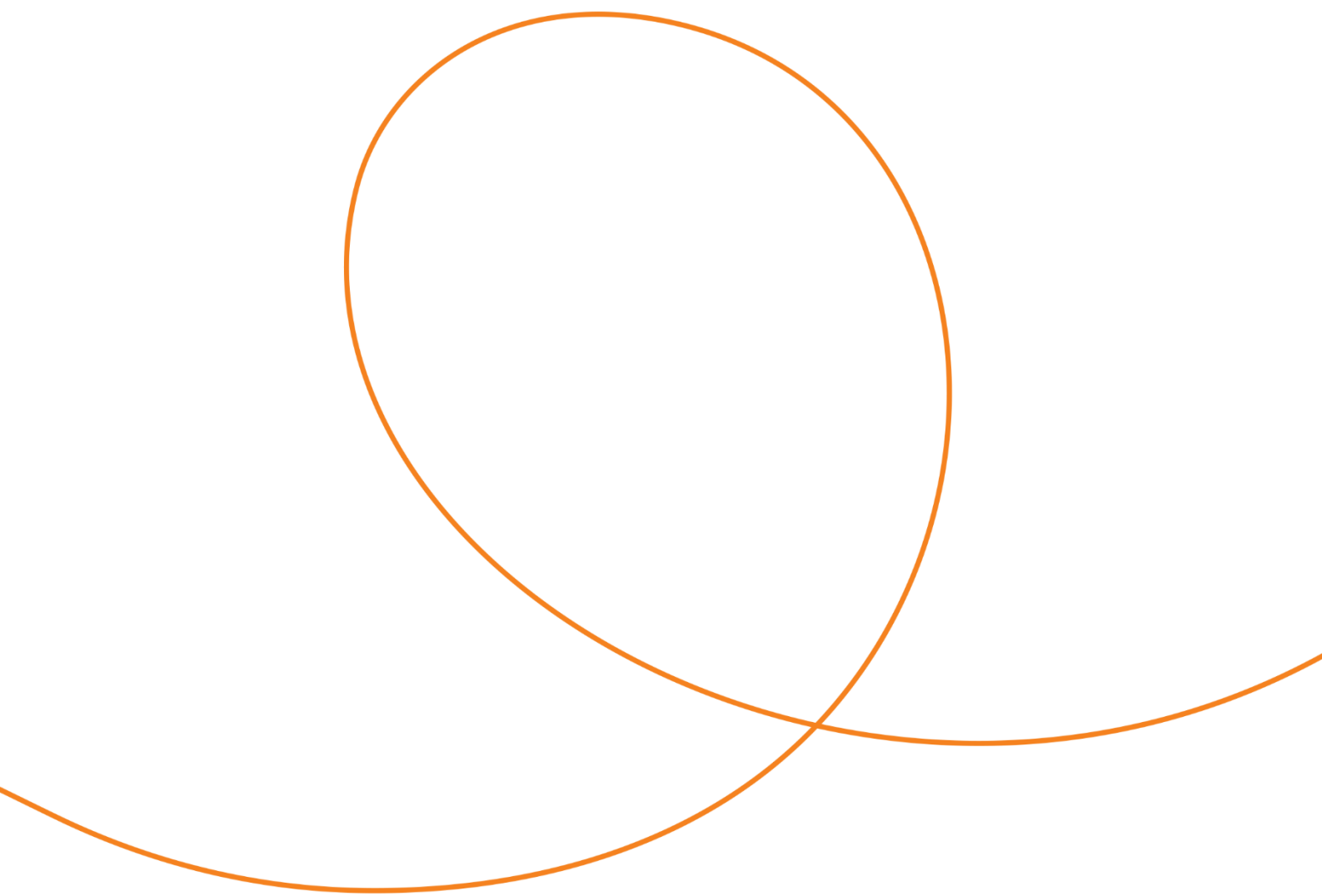


# *Carbon Loan*

Specific Facility Conditions



November 2022



## Carbon Loan Specific Facility Conditions

These Carbon Loan Specific Facility Conditions are the terms and conditions which apply to Rabobank's Carbon Loans in New Zealand and are incorporated into and form part of any Contract which refers to or annexes these Carbon Loan Specific Facility Conditions.

### 1. Definitions

In addition to the definitions set out in the Standard Loan Terms:

**Annual Budget** means the operating annual budget (including statements of financial performance and cashflow forecast) of the Borrower and each other Relevant Person, as prepared by the Borrower, in relation to all of the business, assets and undertakings (including for the avoidance of doubt all assets and business independent of forestry) of the Borrower and each other Relevant Person (as requested by the Bank), and in relation to all relevant Forest Assets including a summary of all key budgeting assumptions and relevant supporting commentary including by reference to the Base Case Financial Model.

**Base Case Financial Model** means a base case financial model prepared by a Forestry Consultant together with the Forestry Consultant Initial Report (as may be updated by the Forestry Consultant Post ETS Registration Report or upon request by the Bank from time to time) in respect of any actual or proposed Forest Asset to be registered as a Carbon Accounting Area to reflect all planting, infrastructure and maintenance costs and anticipated cashflow (detailing expected annual income and expenditure for the afforested area, utilising carbon pricing approved by the Bank) under the applicable ETS accounting approach. The Base Case Financial Model should also reflect any anticipated harvest timber income (if any) and any potential ETS liability or obligations arising at harvest including replanting costs / surrender obligations.

**Carbon Accounting Area** means areas of Post-1989 Forest Land registered under the ETS with the Registry to track carbon stock changes in relation to a Forest Asset.

**Carbon Credits** means New Zealand emission units issued under the CCRA held by any Relevant Person pursuant to the ETS in respect of any Carbon Accounting Area and either held in the Relevant Person's ETS Account in the Registry or capable of being converted into New Zealand emission units which can be held in such an ETS Account.

**Carbon Spot Trade** means a one-off spot sale trade, agreed by a Relevant Person as vendor or disposing party on arm's length terms for full commercial value, in respect of any Carbon Credits generated from a Forest Asset.

**CCRA** means the Climate Change Response Act 2002.

**Eligible Forest Area** means the area of a subject property that is planted or plantable as a Forest Asset so as to be eligible for Post-1989 Forest Land status under the ETS.

**Emissions Return** means each and any mandatory or voluntary annual emissions return filed by any Relevant Person with MPI under the ETS in respect of any change in the carbon stock of any Carbon Accounting Area and/or Forest Asset to determine whether the Relevant Person should pay or receive Carbon Credits.

**ETS** means the New Zealand Emissions Trading Scheme established in New Zealand under the CCRA or upon any other basis.

**ETS Account** means each account of a Relevant Person held or to be held with the Registry in respect of Carbon Credits.

**Floor Price** means the applicable minimum price that Carbon Credits can be sold in an ETS auction, as determined in accordance with the CCRA and specified in regulations made under the CCRA from time to time (including without limitation the Climate Change

(Auctions, Limits, and Price Controls for Units) Regulations 2020 and any update or amendment thereof).

**Forest Asset** means each actual or proposed forest asset (land and timber) owned by a Relevant Person which is or is to be made subject to Security in favour of the Bank (noting that such asset may be in the form of a freehold land forest asset, a leasehold forest asset or a forestry right).

**Forest Management Plan** means a forest management plan for each Forest Asset in a form consistent with the National Environment Standard – Plantation Forestry and the forest practice guides established by the New Zealand Forest Owners Association.

**Forestry Consultant** means a Bank approved external forestry consultant engaged by the Relevant Person in accordance with clause 4.1(n) of the Carbon Loan Specific Facility Conditions or any other Bank approved external forestry consultant engaged subsequently by the Relevant Person (on a basis consistent with clause 4.1(n) of the Carbon Loan Specific Facility Conditions) in replacement of the original Forestry Consultant.

**Forestry Consultant Initial Report** means an initial report prepared by a Forestry Consultant and addressed to the Relevant Person and the Bank, in respect of any proposed Forest Asset intended to be registered as a Carbon Accounting Area including:

- (a) evidence for assuming eligibility of the subject Forest Asset for the ETS and anticipated Eligible Forest Area including:
  - (i) historical imagery;
  - (ii) actual photos from late 1980's or early 1990's (if available); and
  - (iii) land use classification maps;
- (b) confirmation of the intended applicable ETS accounting approach for the anticipated Eligible Forest Area;
- (c) confirmation of the anticipated Carbon Credit profile, under the applicable ETS accounting approach, outlining projected annual carbon sequestration rates over the life of the subject forest including:
  - (i) estimates of carbon based on relevant lookup tables for all relevant species and regions; and
  - (ii) relevant measurement/lookup tables for each relevant proposed Carbon Accounting Area:
    - a) for areas over 100 hectares, this must be calculated using the 'Field Measurement Approach' in accordance with the Climate Change (Forestry Sector) Regulations 2008 (or any replacement thereof). This must include details of the methodology applied in calculating the projected annual carbon sequestration rates by reference to all relevant assumptions, local examples and the comparable position under the look-up tables in Schedule 6 of the Climate Change (Forestry Sector) Regulations 2008 (or any replacement thereof); or
    - b) for areas under 100 hectares, this must be calculated using the look-up tables in Schedule 6 of the Climate Change (Forestry Sector) Regulations 2008 (or any replacement thereof);
- (d) silviculture plan and costings if this is part of the proposed forestry regime and how this will be funded (including details and competency of proposed contractors who will conduct planting and complete forestry maintenance);
- (e) provide a National Environmental Standard Erosion Susceptibility Map (NES - ESC) of the area to be planted to determine the level and type of compliance required at planting and harvest;
- (f) projected harvest volumes and estimated time until harvest;

- (g) a list of insurable risks that may impact any Forest Assets (land, trees and in respect of each Forest Asset that is registered as a Carbon Accounting Area, Carbon Credits) including by reference to the current age and maturity of the relevant tree crop and to include consideration of:
  - (i) all relevant insurable risks, including without limitation loss of insured trees by reason of wind, flood, snow/ice, pests, fire, hail, landslide, earthquake, volcanic eruption and strike, riot or civil commotion; and
  - (ii) replanting costs (for replanting of all or part of each relevant Forest Asset within the required time sufficient to mitigate liability under the ETS arising from any adverse event(s));
- (h) details of the professional indemnity insurance cover maintained by the Forest Consultant;
- (i) detailed map of proposed or actual forestry plantings and planting plan;
- (j) confirmation that the proposals comply with all National Environmental Standard – Plantation Forestry provisions; and
- (k) if any relevant Forest Asset is a leasehold or forestry right (Relevant Person as lessee or grantee) or if any lease or forestry right is contemplated in favour of a third party in respect of any Forest Asset (Relevant Person as lessor or grantor):
  - (i) full details and key commercial terms of any proposed lease or forestry right with commentary on the financial and tax implications for each Relevant Person;
  - (ii) confirmation of which Relevant Person is intended to be registered in the ETS as a participant in respect of the relevant Forest Asset and where any ETS liability for replanting post-harvest or making good any carbon deficit (ETS surrender obligations) lies and any contractual protections available to the Relevant Person in respect of the same (including upon expiry or termination of any applicable lease or forestry right);
  - (iii) term of the proposed lease or forestry right; and
  - (iv) confirmation of which party (Relevant Person or counterparty) is responsible for re-fencing and post-harvest remediation as applicable).

**Forestry Consultant Post ETS Registration Report** means upon completion of planting and registration as a Carbon Accounting Area in respect of any actual Forest Asset, when MPI has confirmed the Eligible Forest Area, an update addressed to the Relevant Person and the Bank in accordance with the terms of the engagement described in clause 4.1(n) of the Carbon Loan Specific Facility Conditions, of each of the Forestry Consultant Initial Report and the Base Case Financial Model highlighting any variances or shortfalls against forecast in each case by reference to actuals.

**Forestry Consultant Forest Management Report** means an annual report provided by a Forestry Consultant, and addressed to the Relevant Person and the Bank in accordance with the terms of the engagement described in clause 4.1(n) of the Carbon Loan Specific Facility Conditions, in respect of the management of each applicable Forest Asset in accordance with the applicable Forest Management Plan and reflecting the management and the provision by a Forestry Consultant of technical expertise regarding forestry and carbon services to the Borrower and each other Relevant Person.

**Material Contract** means any Offtake Agreement, forestry right or lease entered into by any Relevant Person (with the prior written consent of the Bank).

**MPI** means the New Zealand Ministry for Primary Industries.

**Offtake Agreement** means any sale agreement (or emissions services master agreement or any other documentary form of Carbon Credit disposal transaction) entered into by any Relevant

Person as disposing party (vendor), on terms acceptable to and approved by the Bank in each case in accordance with clause 4.1(q) (excluding any documentation in respect of any Carbon Spot Trade).

**Post-1989 Forest Land** has the meaning as defined in the CCRA.

**Registry** means the 'Registry' as defined in the CCRA.

**Standard Loan Terms** means the Bank's 'Standard Loan Terms' for rural lending as amended or replaced from time to time.

**Test Date** means 31 March, 30 June, 30 September and 31 December in each calendar year.

**TPP** means notation on the Registry of the interest of the Bank or any other relevant secured party as 'third party possessor' in respect of any credit balance on any ETS Account for the purposes of section 18(1A) of the PPSA and section 18 of the Climate Change (Unit Register) Regulations 2008 (and any replacement thereof).

## 2. Mandatory Prepayment

- 2.1 Subject to and in accordance with clauses 9 (Break Costs) and 10 (Payments) of the Standard Loan Terms, if any Relevant Person receives any of the following it shall promptly apply those proceeds in prepayment to the Bank of the Amounts Owed:
  - (a) proceeds of any insurance claim by any Relevant Person arising from loss or damage to any Forest Asset (excluding amounts required by that Relevant Person to reinstate, re-plant and/or replace the affected Forest Asset to a standard necessary for the Borrower to continue to meet its obligations under the ETS and/or any relevant Offtake Agreements); and/or
  - (b) net sale proceeds of the sale of any Carbon Credits (permitted under clause 4.1(m)) unless otherwise agreed by the Bank in writing; and/or
  - (c) net sale proceeds of any disposal of all or any part of any Forest Asset (land or timber).

## 3. Additional representations

- 3.1 In addition to the continuing representations and warranties set out in clause 11.1 (Continuing representations and warranties) of the Standard Loan Terms, the Borrower represents and warrants to the Bank, both in relation to itself and each other Relevant Person, that:
  - (a) there has been no breach, expiry or termination of any Material Contract and each Relevant Person is fully compliant with all obligations under any Material Contract to which they are a party, and no Relevant Person is aware of any counterparty default under any Material Contract;
  - (b) all ETS registration requirements have been maintained on an ongoing basis for all applicable Carbon Accounting Areas in accordance with the applicable ETS accounting approach and on a basis consistent with the Base Case Financial Model and the Forestry Consultant Initial Report; and
  - (c) no Relevant Person has any unsatisfied ETS liabilities outstanding.

- 3.2 The representations and warranties set out in clause 3.1 above are deemed to be repeated by the Borrower in accordance with clause 11.2 (Warranties to continue) of the Standard Loan Terms.

## 4. Additional Covenants

- 4.1 In addition to the continuing undertakings set out in clause 11.3 (Continuing Undertakings) of the Standard Loan Terms,

so long as there are any Amounts Owed, each Relevant Person undertakes:

- (a) in addition to the insurance requirements of clause 2.10 (Real and Personal Property Insurance) of the Standard Loan Terms, to maintain comprehensive insurance cover on terms suitable to the Bank in all respects, in respect of all Forest Assets (land, trees and in respect of each Forest Asset that is registered as a Carbon Accounting Area, Carbon Credits) with the interest of the Bank noted as first mortgagee and secured party. Such insurance must include as a minimum (but without limitation to the Bank's insurance suitability requirements) cover in respect of:
  - (i) each of the relevant insurable risks identified by the Forestry Consultant in the Forestry Consultant Initial Report (unless the Bank agrees otherwise in writing);
  - (ii) replanting costs (for replanting of all or part of each relevant Forest Asset within the required time sufficient to mitigate liability under the ETS arising from any adverse event(s)); and
  - (iii) public liability.
- (b) to ensure that, each Relevant Person has or will complete all filings required to register each Carbon Accounting Area under the ETS with an accounting approach and on a timing basis consistent with the Base Case Financial Model and Forestry Consultant Initial Report;
- (c) to do all things necessary to maintain ETS registration of all applicable Carbon Accounting Areas under the applicable ETS accounting approach on a basis consistent with the Base Case Financial Model and the Forestry Consultant Initial Report and comply at all times with all applicable ETS requirements and relevant ETS legislation (including the CCRA);
- (d) to do all things necessary to establish and maintain ETS Account(s) with the ETS Registry to which the anticipated Carbon Credits will accrue by reference to all Carbon Accounting Areas in respect of Forest Assets subject to Security to the Bank and to advise the Bank of full details in respect of every such ETS Account when established and to provide evidence to the satisfaction of the Bank at any time upon request by the Bank that no TPP is noted on any such ETS Account other than the Bank in accordance with clause 4.1(l);
- (e) to ensure that, in respect of each relevant Carbon Accounting Area constituted by the applicable Forest Asset, the Relevant Person (as applicable) is the ETS participant on its own account, with no consolidated grouping of ETS Accounts with any other Relevant Person or third party;
- (f) to ensure that an Emissions Return is filed by each Relevant Person annually with MPI for all Carbon Accounting Areas and/or Forest Asset owned by that Relevant Person with the first such Emissions Return to be filed on a timing basis consistent with the Base Case Financial Model and Forestry Consultant Initial Report;
- (g) to do all things necessary to complete planting, maintenance and registration of the Carbon Accounting Areas and/or Forest Asset as contemplated in the Base Case Financial Model within the timeframe contemplated in the Base Case Financial Model;
- (h) to ensure that no Forest Asset subject to Security in favour of the Bank may be used to offset any liability arising under the ETS of any other Relevant Person or third party;
- (i) to do all things necessary, at any time immediately upon request by the Bank, or immediately upon the occurrence of any Event of Default, to allow for the Bank to be

registered as TPP in respect of all Carbon Credits in all ETS Account(s) of each Relevant Person;

- (j) comply in all respects with all Material Contracts and enforce its rights in respect of the same and not amend or vary any Material Contract without the prior written consent of the Bank;
- (k) that it will not make any changes to the ETS accounting approach of any Carbon Accounting Area (from that contemplated in the Base Case Financial Model and the Forestry Consultant Initial Report) without the prior written consent of the Bank;
- (l) that it will not permit or create any Security Interest in or over any part of any Forest Asset or any Carbon Credits other than in favour of the Bank (or any notation of any TPP other than the Bank on the Registry in respect any ETS Account(s) of any Relevant Person);
- (m) that it will not dispose by one or more transactions of any Carbon Credits other than by way of a Carbon Spot Trade (or an Offtake Agreement which has been consented to by the Bank in accordance with clause 4.1(q)) in each case with all proceeds of sale of any Carbon Credits to be paid to a nominated proceeds bank account held by the Relevant Person with the Bank and applied to prepayment in accordance with clause 2.1(b);
- (n) that the Borrower will engage at the Borrower's expense a Forestry Consultant (on terms satisfactory to the Bank) which must include provision for full reliance by the Bank on each of the Base Case Financial Model, Forestry Consultant Initial Report, Forestry Consultant Post ETS Registration Report and Forestry Consultant Forest Management Report and any other associated reports, forecasts or services prepared and provided by the Forestry Consultant as part of their engagement) in respect of each Forest Asset intended to be registered as a Carbon Accounting Area for so long as there are any Amounts Owed to:
  - (i) prepare and provide a Base Case Financial Model to the Borrower and the Bank (the Bank may, at its discretion, require that any such Base Case Financial Model be 'audited' or reviewed by a third-party forestry consultant independent of the Forestry Consultant (who prepared the Base Case Financial Model) with a focus on validation of assumptions used to build the Base Case Financial Model);
  - (ii) prepare and provide a Forestry Consultant Initial Report to the Borrower and the Bank;
  - (iii) prepare and provide a Forestry Consultant Post ETS Registration Report to the Borrower and the Bank;
  - (iv) prepare and provide ongoing reporting to the Borrower and the Bank during the establishment phase of the Forest Assets and provide a Forestry Consultant Forest Management Report on an annual basis to the Borrower and the Bank. The Forest Consultant Forest Management Report must include confirmation that the forest has been assessed for any adverse event(s) prior to an Emissions Return being filed for that year; and
  - (v) oversee forest planting, management and measurement in respect of all Forest Assets (including thinning, forest health, pest-management, reporting, managing and performing the Borrower's obligations under any applicable Off-take Agreement, the CCRA and all other relevant ETS and related climate change legislation).
- (o) deliver to the Bank (in each case in form and substance satisfactory to the Bank):

- (i) upon Bank request an updated valuation of all Forest Assets (land and timber) addressed to, and able to be relied upon by, the Bank and prepared by a valuer acceptable to the Bank in all respects, such valuation on terms satisfactory to the Bank;
  - (ii) within 30 days of the commencement of each financial year of the Borrower a copy of the Annual Budget for that financial year (to be subject to Bank approval);
  - (iii) as and when received, MPI confirmation of registration of each Carbon Accounting Area and MPI accredited future carbon sequestration rates for each Carbon Accounting Area and/or Forest Asset;
  - (iv) at the same time as these are submitted to MPI, and in any event no later than 30 June following the relevant calendar year end in respect of which the Emission Return is filed, a copy of any Emissions Return filed by any Relevant Person for each Carbon Accounting Area;
  - (v) statements of all Carbon Credit balances on all ETS Accounts of each Relevant Person on an annual basis (at the same time as delivery of annual financial statements by the Borrower to the Bank) and otherwise upon request by the Bank, including in each case confirmation that there is no TPP other than the Bank noted against any such ETS Account on the Registry in accordance with clause 4.1(l); and
  - (vi) copies of any notice or material correspondence from or with a governmental agency (including without limitation MPI, the Registry or any stock exchange) relating to any Forest Assets (including without limitation any notice of revocation of registration of any Carbon Accounting Area).
- (p) that it will not (as lessor or grantor) enter into any agreement for the grant of any lease of any Forest Asset or any sale or grant of forestry rights in respect of any Forest Asset without the prior written consent of the Bank, with the Bank to have the option to require a direct deed with the counterparty in respect of any such lease or forestry right. Any such approved lease or forestry right shall be a Material Contract; and
- (q) that it will not enter into any third-party Offtake Agreement without the prior written consent of the Bank, with the Bank to have the option to require a direct deed in respect of any such Offtake Agreement and to require payment of the proceeds of any consented Offtake Agreement to a nominated bank account held by the Relevant Person with the Bank as account bank. Conditions for bank consent to any Offtake Agreement to include without limitation:
- (i) a prohibition on the grant of any Security Interest in favour of any off-taker over any purchased Carbon Credits; and
  - (ii) insurance arrangements satisfactory to the Bank in all respects in respect of risks associated with Borrower obligations under any Offtake Agreement and potential damage or loss to any relevant Forest Asset, loss of Carbon Credit revenue or unrecoverable Carbon Credits due to any adverse event. Any such approved Offtake Agreement shall be a Material Contract.

**4.2 Additional Facility Review Date Trigger Events:** A Facility Review completed in accordance with clause 8 (Facility and credit reviews) of the Standard Loan Terms shall be required if any of the following events occur (and the definition of Facility Review Date in the Standard Loan Terms shall be interpreted as including the date of occurrence of any of the following):

- (a) as at any date there is any reduction in the Floor Price below the Floor Price that applied in the immediately preceding calendar year; or
- (b) there is, in the reasonable opinion of the Bank, a materially negative variance against forecast (as reflected in the Forestry Consultant Initial Report and/or Base Case Financial Model) in the actual hectares of Eligible Forest Area registered by MPI as a Carbon Accounting Area, or the forecast carbon sequestration rates in respect of the same, identified by the external Forestry Consultant in the Forestry Consultant Post ETS Registration Report delivered to the Bank following completion of registration of the relevant Carbon Accounting Area with MPI under the ETS.

## 5. Additional Events of Default

- 5.1 In addition to the Events of Default set out in clause 13.1 (Events of Default) of the Standard Loan Terms, an Event of Default will also occur under the Contract and the Bank may exercise any of its rights under clause 14 (The Bank's rights in Event of Default) of the Standard Loan Terms, if in the Bank's opinion:
- (a) any Carbon Accounting Area or apart thereof, owned by a Relevant Person which has been registered in accordance with the ETS is de-registered under the ETS or any revocation or suspension of an ETS registration of any Forest Asset occurs;
  - (b) any Material Contract is terminated, rescinded or repudiated or not renewed on substantially the same terms or any party to a Material Contract fails to perform or comply with its obligations;
  - (c) there is a change to the CCRA or any part of the New Zealand ETS legislative or regulatory framework that, in the Bank's opinion, may have a material adverse effect on a Relevant Person's business or financial position or a Relevant Person's ability to perform its obligations under the Contract; and/or
  - (d) registration of each applicable Forest Asset as a Carbon Accounting Area (in accordance with the Base Case Financial Model) is not completed with MPI as a condition precedent under the Letter of Offer (or within the permitted time frame allowed following initial Drawing consistent with the Forestry Consultant Initial Report and Base Case Financial Model).

## 6. Carbon Loan Conditions Precedent

- 6.1 **General Conditions:** It shall be a condition precedent to the first Drawing under the Facility that the Borrower has provided to the Bank in form and substance satisfactory to the Bank each of the following:
- (a) in addition to full replacement insurance in respect of all other assets subject to any Bank Security, evidence of comprehensive insurance cover, on terms suitable to the Bank in all respects, in respect of all Forest Assets (land, trees and in respect of each Forest Asset that is registered as a Carbon Accounting Area, Carbon Credits) with the interest of the Bank noted as first mortgagee and secured party;
  - (b) a Forest Management Plan in respect of all Forest Assets;
  - (c) evidence that a Bank approved Forestry Consultant has been engaged on the terms as set out in clause 4.1(n) of the Carbon Loan Specific Facility Conditions;
  - (d) a Base Case Financial Model;
  - (e) a Forestry Consultant Initial Report;

- (f) evidence that the Borrower (or each other Relevant Person) has registered each Forest Asset as a Carbon Accounting Area with MPI and opened an ETS Account on the Register for accrual of Carbon Credits and has provided full details of the same to the Bank (unless the Bank agrees that such steps are to occur after the date of initial Drawing consistent with the Forestry Consultant Initial Report and the Base Case Financial Model); and
- (g) such other evidence or information as the Bank may reasonably require.

**6.2 Planting and Infrastructure Conditions Precedent:** It shall be a condition precedent to each Drawing under the Facility, that is to be applied to fund planting and/or infrastructure costs in respect of a Forest Asset, that the Borrower has provided to the Bank in form and substance satisfactory to the Bank each of the following:

- (a) evidence of final price costings contracted for the intended planting and/or infrastructure works;
- (b) evidence of the amount expended to date to complete the intended planting and/or infrastructure works;
- (c) evidence of the total anticipated cost to complete the intended planting and/or infrastructure works;
- (d) copies of relevant invoices to be funded in whole or in part in respect of the relevant planting and/or infrastructure works;
- (e) evidence and copies of all relevant consents or approvals required for commencement of the relevant planting and/or infrastructure works; and
- (f) evidence of planting works consistent with the planting plan in accordance with the Forestry Consultant Initial Report.

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