Redefining Climate Leadership

The imperative of immediate action to address dangerous climate change is clear. The higher costs of inaction and potential irreversible damage to our environment and economy are large even though they may not yet be fully understood down to the last detail. In 2011, global collective action has been insufficient, even as many governments, whole industries, and individual corporate leaders shift their responses to address climate change.

Over the past year, The Climate Trust advanced our accomplishments and mission, and charted our initial steps in our three (3) year Business Plan. We approached retiring almost 1 million metric tons of greenhouse gas emissions (GHGs), however, we ask ourselves how we can work with partners to achieve 1 billion metric tons of GHG reductions by 2017.

We have added new staff and increased the expertise of existing staff in the agriculture, forestry, renewable energy and transportation sectors. Yet, we ask ourselves how we can effectively share our expertise to accelerate faster emission reductions, while increasing the knowledge of our industry partners and policy makers, particularly using the projects we finance as models.

Part of our role as an innovator is providing the inspiration, expertise and financing necessary to accelerate long-term climate solutions across many sectors of our economy. The Climate Trust is pursuing results that matter, working with companies that must meet regulatory requirements in Oregon, Washington, California and elsewhere, as well as companies that choose to voluntarily reduce their impact on our fragile climate.

When looking back at the accomplishments detailed in this report, we are proud of the progress we achieved with our partners in 2011. When a farmer or forest owner is making a decision to finance a new project that reduces emissions, The Climate Trust will be there to help. When a company is preparing to use carbon credits to comply with legislation or a voluntary commitment, The Climate Trust will be there to implement solutions. When a government official is developing innovative policy measures to incentivize lower-carbon technologies, The Climate Trust will be there to provide advice. As California implements its emerging cap-and-trade system, The Climate Trust is pursuing results that matter, working with companies that must meet regulatory requirements in Oregon, Washington, California and elsewhere, as well as companies that choose to voluntarily reduce their impact on our fragile climate.

The importance of swiftly deploying climate change solutions cannot be overstated, and we must recognize that though we may make significant progress in any given year, our individual efforts will be insufficient until our collective action has the required large scale impacts that are needed to reverse climate change. Only with the collective action of our supporters—individuals, businesses, government, foundations, and most importantly, our partners—can The Climate Trust set even more ambitious goals for 2012 to implement our vision of ensuring a secure, resilient, and just future. When a farmer or forest owner is making a decision to finance a new project that reduces emissions, The Climate Trust will be there to help. When a company is preparing to use carbon credits to comply with legislation or a voluntary commitment, The Climate Trust will be there to implement solutions. When a government official is developing innovative policy measures to incentivize lower-carbon technologies, The Climate Trust will be there to provide advice. As California implements its emerging cap-and-trade system, The Climate Trust will be there to provide resources and recommendations based on our 14 years of experience.

The importance of swiftly deploying climate change solutions cannot be overstated, and we must recognize that though we may make significant progress in any given year, our individual efforts will be insufficient until our collective action has the required large scale impacts that are needed to reverse climate change. Only with the collective action of our supporters—individuals, businesses, government, foundations, and most importantly, our partners—can The Climate Trust set even more ambitious goals for 2012 to implement our vision of ensuring a secure, resilient, and just future. We look forward to deepening and broadening our relationships in 2012 and we thank you for your energy and passion.

Sincerely,

Ben Vitale
President

Laura Beane
Board Chair
“Our financing of community-based dairy biogas projects in the Pacific Northwest has been strengthened by The Climate Trust over a number of years. The Trust encourages innovation as a means to reach our joint goals, particularly to create new revenue streams that support local family-scale dairy farms and economic development.”

—Kevin Maas, President and Co-Founder of Farm Power Northwest

2011 Year in Review

Expansion of Pioneering Climate Law
After a successful campaign to update the Oregon Carbon Dioxide Standard involving environmentalists, businesses and utilities, the amended law now allows for financing projects that reduce methane and nitrous oxide emissions, in addition to carbon dioxide emissions. This change provides an opportunity for utilities as well as The Climate Trust to fund a broader array of local projects that reduce these internationally recognized greenhouse gases, which are much more potent than carbon dioxide. The Climate Trust’s partnership with Roseburg Energy is the very first methane reduction project funded under the new Oregon Standard, and also its first project under the Climate Action Reserve (CAR) protocol. The project captures and burns methane emissions from the Douglas County Landfill — significantly reducing the release of greenhouse gases and creating enough renewable energy to power nearly 1,150 homes.

Innovations in Agriculture
Rural agriculture holds a significant opportunity to mitigate climate change, particularly through the development and adoption of innovative models, including improved nutrient management, avoided grassland conversion and biochar. The Climate Trust is a partner on multiple, United States Department of Agriculture Conservation Innovation Grants this year. The first grant — in partnership with The Fertilizer Institute — provided funding to design a program that encourages farmers to adopt best nutrient management practices and road test various carbon quantification protocols. The second — in partnership with Ducks Unlimited — was designed to prevent the conversion of native grasslands into cropland across the Northern Great Plains.

Biogas Milestones
The Climate Trust reached a number of milestones this year in the biogas industry, chief among them, joining the American Biogas Council, and publishing a groundbreaking and frequently-cited biogas white paper in collaboration with Energy Trust of Oregon, “Growing Oregon’s Biogas Industry.” The Climate Trust was also funded by the Bullitt Foundation for our coordinated efforts to strengthen Washington’s Renewable Portfolio Standard under Initiative 937 (I-937) as it impacts the ability to finance important biogas projects. The Climate Trust continued to grow financing for dairy digester projects; helping to improve manure management systems that result in lower costs for dairies and reduced environmental impacts. A new digester project at the Lochmead dairy with partner Revolution Energy Solutions reached commercial operation. Another project with partner Farm Power Northwest at their Rexville facility completed their first issuance of Climate Action Reserve credits in 2011. These projects transform methane generated by manure from a combined 2,725 dairy cows into renewable electricity.

Colorado Carbon Fund Finances Clean Energy
The Climate Trust retired 20,518 carbon credits from the Larimer Landfill Methane Destruction Project; one of the first certified carbon reduction projects in Colorado. This project continues to prevent methane from reaching the atmosphere — the equivalent of removing over 4,000 cars from the road each year. There are four community carbon mitigation projects currently operating in Colorado, including two involving solar hot water thanks to the Colorado Carbon Fund. The City of Steamboat Springs project installed two flat plate solar collectors on the roof of their Community Center, to assist in preparing some 6,000 meals for senior citizens each year. The City of Boulder signed a contract to install solar collectors at two recreation centers with significant heating requirements; a project expected to reduce natural gas consumption by more than 40%.

Climate Service Expertise
This year several businesses have relied on services provided by The Climate Trust, and built over our 14 years of operation, to achieve their climate goals. We work with clients who require support to meet compliance or voluntary goals and we provide technical carbon expertise and access to financing across a number of sectors. This year, The Climate Trust completed a groundbreaking report for the Electric Power Research Institute examining approaches to aggregate carbon projects to expand deployment and reduce project costs. We also implemented a comprehensive Forestry Feasibility Study within the Southeast United States.
Soil Carbon Sequestration

Supporting farmers’ capabilities to increase soil carbon, while enhancing soil quality and protecting long-term productivity.

Innovation Across Sectors Drives Strong Climate Leadership

In order to swiftly reduce emissions over the next few years, The Climate Trust is pioneering “innovation models,” or cutting-edge initiatives that reduce greenhouse gas emissions, channel financing from a variety of sources for project replication, and inspire implementation of practical climate-related policies across the United States. By focusing our investments on projects with strong co-benefits, we aim to attract socially and environmentally responsible financial partners in exciting and often untapped arenas.

Biogas

We have targeted the biogas sector as a primary focus due to the potential to scale-up solutions rapidly. Biogas projects offer a host of beneficial revenue streams, from improving the economic and environmental performance of dairies, to clean energy, organic fertilizer, and diverting waste from landfills. Furthermore, there is a growing demand for biogas carbon credits in compliance and voluntary carbon markets. We work diligently with project developers to consistently deliver environmentally sound results and sustainable project financing. The Climate Trust supported a biogas project in Mount Vernon, Washington that exceeded expectations in 2011 by delivering more emission reductions than anticipated. The pipeline of projects in this sector will continue to expand with multiple partners requesting services and financing for 2012.

Nutrient Management

Nearly three-quarters of U.S. nitrous oxide emissions can be attributed to the agriculture sector. Optimizing the application of fertilizer, a process known as “nutrient management,” is a simple process that can reduce greenhouse gases and contamination of waterways, while also protecting crop productivity and profitability. The Climate Trust is currently working with partners in the Midwest and Northwest on improving nutrient management practices. By developing pilot projects to spur carbon investment, we aim to provide a financial incentive for farmers to adopt and maintain improved nutrient management methods that are environmentally and financially sound. To this end, The Fertilizer Institute, Camco, The Climate Trust and other partners will be enrolling up to 30,000 acres over the next three years to test and analyze nutrient management improvements in the Midwest.

Forestry

Implementation of sustainable land management practices has the potential to increase stored carbon, provide habitat for a rich diversity of flora and fauna, and enhance recreational opportunities in local communities. The Climate Trust’s forestry team is working to expand our support and financing to U.S. forestry projects that have the potential to increase carbon sequestration working with land trusts, private owners and timber management companies. In 2011, we completed a Forestry Feasibility Study in the Southeast, and we assisted landowners with technical preparation and financial valuation of their carbon assets.

Soil Carbon Sequestration

Soils provide the largest terrestrial store of carbon on Earth, with twice the carbon stored in shallow soil than in all the vegetation aboveground. Unfortunately, the most financially viable use of land often favors increasing development, leading to loss of habitat for native species, valuable soil carbon and an estimated 35 million tons of greenhouse gas emissions annually in the U.S. The Climate Trust is currently collaborating with Ducks Unlimited to develop and apply a new Avoided Grasslands Conversion methodology across the Northern Great Plains – an area where more than 770,000 acres of grasslands were converted to cropland between 1997 and 2007. Financial incentives will help preserve 50,000 acres of grasslands across the Prairie Pothole Region, and provide economic benefits to around 100 landowners.
Our Portfolio of Projects

In 2011, The Climate Trust continued to expand our project portfolio and to increase the delivery of credits from our portfolio. The credits under contract increased to 3,006,463 tCO₂e, while the credits retired or delivered reached 987,756 tCO₂e in 2011. The mix of sectors in the portfolio was broadened with a focus on California compliant credits from livestock biogas projects and the addition of an avoided grassland conversion project. Moving forward, we expect to increase the percentage of California compliant projects, add to the credits retired or delivered, and enhance the types of innovative projects included in the portfolio.

Total Credits Contracted: 3,006,463 tCO₂e
Total Credits Retired or Delivered: 987,756 tCO₂e
Initiatives that Deliver

Since our start in 1997, The Climate Trust has managed over $18 million in carbon financing provided to greenhouse gas emission reduction projects. The Oregon Program has built a strong legacy of innovation that delivers results for our partners and the environment year after year. The Climate Trust has been successful expanding beyond the Oregon Program by creating customized carbon portfolios such as NW Natural Smart Energy and the Colorado Carbon Fund.

Oregon Program
Utilities have relied on The Climate Trust to finance and effectively manage numerous greenhouse gas reduction projects in eight different sectors. The Climate Trust is responsible for managing carbon funds; originating, contracting, and managing carbon projects, and registering and retiring carbon credits on behalf of regulated utilities. The Oregon Program completed financing for the first methane reduction biogas project in 2011, and is actively funding innovative projects in the forestry, agriculture and transportation sectors that meet high quality standards.

NW Natural Smart Energy
Since 2007, The Climate Trust’s innovative partnership has been expanding with NW Natural Smart Energy™, a voluntary carbon program that allows customers to offset the emissions from their natural gas. The program focuses investments in biogas projects, in which methane from cow manure and other organic waste is captured and turned into energy. The successful program has enrolled over 13,500 residential and commercial customers, and invested in four projects in Oregon and Washington that are anticipated to deliver more than 135,000 tons of carbon credits.

Colorado Carbon Fund
The Climate Trust has grown the Colorado Carbon Fund (CCF) in partnership with the Colorado Governor’s Energy Office. The CCF is the first and only state-sponsored voluntary carbon program in the U.S., that has helped over 2,000 individuals, business owners and event planners measure and reduce their carbon footprint. CCF is currently operating four emission reduction projects in the state of Colorado, and has retired credits from the Larimer Landfill project. Through the generous support of our donors, we have been able to fund several projects in 2011, including the installation of solar hot water systems at a community center in Steamboat Springs and a public recreation center in Boulder that save communities’ money on their energy bills.

Rural Farms and Climate Change Initiative
The objective of the Rural Farms and Climate Change Initiative is to create economic incentives for farmers and ranchers to engage in sustainable ‘climate friendly’ agriculture, protecting the environment and enhancing the quality of life for rural communities. Improving the sustainability of operations is only the first step; we also work to expand farmer outreach and education to replicate these sustainable practices by sharing ‘success stories’ from leading early adopters. Innovative practices that we will advance through this initiative include improved nutrient and rangeland management, avoided grassland conversion, use of bio-fertilizers, biochar, and new dairy biogas/digester facilities. In 2011, approximately 3,000 people were directly impacted by one of the seven (7) Rural Farms and Climate Change Initiative projects, with 5,000 more learning about activities through traditional media outlets.

Biochar
Potential of a U.S. Market for Biochar.
The Climate Trust is working with partners to demonstrate the potential large-scale impact of biochar on increasing soil carbon sequestration. Biochar’s ability to deliver measurable agricultural and environmental benefits is supported by existing scientific research; however, there is no market for biochar and many questions remain. With funding from the Blue Moon Fund and collaboration with organizations such as the International Biochar Initiative, The Climate Trust is working to bridge the gap between scientific study and the commercialization of biochar; the potential agricultural and environmental impacts could be very significant in the U.S. and beyond.

“The Bank and The Climate Trust have shared values that include encouraging social and environmental change through our impact investments in Oregon, Washington and California communities. We are proud to share a common mission that is focused on sustainable solutions that endure.”

—Kat Taylor, Board of Directors, One Pacific Coast Bank

biochar
This charcoal-like substance increases long-term storage of carbon in soil and improves soil function and water retention characteristics.
“By utilizing best management practices, farmers are able to achieve sustainable agricultural production and address environmental impacts. The Fertilizer Institute’s partnership with The Climate Trust allows us to investigate additional incentives for farmers to embrace 4R Nutrient Stewardship.”

—Lara Moody, Director of Stewardship Programs, The Fertilizer Institute

Statement of Financial Position

The financial health of The Climate Trust improved in 2011 through effective cost management and improvements in revenue generation. The 2011 financial audit results provided by our auditors was clean and without exception. The 2012 plan includes a focus on growing revenue from grants, contributions, technical services and contract fees.

<table>
<thead>
<tr>
<th>REVENUES</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon contract revenue</td>
<td>$863,851</td>
<td>$1,079,355</td>
<td>$2,665,387</td>
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<tr>
<td>Other contract revenue</td>
<td>$277,077</td>
<td>$324,862</td>
<td>$304,760</td>
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<td>Grants and contributions</td>
<td>$54,766</td>
<td>$70,125</td>
<td>$68,818</td>
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<tr>
<td>Other income including investments</td>
<td>$650,782</td>
<td>$318,657</td>
<td>$323,737</td>
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<tr>
<td>TOTAL REVENUE</td>
<td>$1,846,476</td>
<td>$1,792,999</td>
<td>$3,362,702</td>
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<table>
<thead>
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<th>EXPENSES</th>
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<th>2010</th>
<th>2009</th>
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<tbody>
<tr>
<td>Program services</td>
<td>$1,274,147</td>
<td>$1,483,269</td>
<td>$3,174,134</td>
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<td>Management and general</td>
<td>$245,664</td>
<td>$516,837</td>
<td>$493,780</td>
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<tr>
<td>Development</td>
<td>$190,986</td>
<td>$74,078</td>
<td>$59,053</td>
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<tr>
<td>TOTAL EXPENSES</td>
<td>$1,710,797</td>
<td>$2,074,184</td>
<td>$3,726,967</td>
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<th>CHANGE IN NET ASSETS</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
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<tbody>
<tr>
<td></td>
<td>$135,679</td>
<td>($281,185)</td>
<td>($364,265)</td>
</tr>
</tbody>
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| BEGINNING ASSETS           | $12,956,602 | $13,914,871 | $14,292,197 |
| ENDING ASSETS              | $13,286,316 | $12,956,602 | $13,914,871 |

Implementing Best Practices. The nutrient management program was created with support from the USDA to champion widespread adoption of better nitrogen management practices for landowners. The program, which is a partnership with The Fertilizer Institute, Camco and many others, offers a science-based approach for farmers to implement best nutrient management practices that reduce costs, protect yield, provide incentives, and improve environmental results. Farmers who join the program agree to share data related to fertilizer use and practices with our team’s experts, and will receive a customized farm analysis helping them make an informed decision on the merits of implementing fertilizer best management practices. In addition, the farmers have access to increased incentives from the USDA and environmental services payments when they reduce greenhouse gas emissions.

"By utilizing best management practices, farmers are able to achieve sustainable agricultural production and address environmental impacts. The Fertilizer Institute’s partnership with The Climate Trust allows us to investigate additional incentives for farmers to embrace 4R Nutrient Stewardship.”

—Lara Moody, Director of Stewardship Programs, The Fertilizer Institute

Working with farmers to optimize the application of nutrients protects productivity, reduces costs, and provides a tool to reduce contamination of waterways.
Forestry

Sustainable land management activities provide vital habitat for flora and fauna, benefit water quality, increase stored carbon, and enhance recreational opportunities for the enjoyment of all.

“Our vision to safeguard the natural environment through responsible actions is one shared by The Climate Trust and exemplified in their efforts to educate policy makers and business leaders on practical improvements to Oregon’s Carbon Dioxide Standard.”

—Denis Hayes, President, Bullitt Foundation