



**CLIMATE
ACTION
RESERVE**

2011 ANNUAL REPORT



Letter from the President

2011 marked a period of significant growth for the Climate Action Reserve. I am proud to look back at our accomplishments and am very honored to acknowledge the tremendous support we received from our partners in the environmental, business, government and academic communities and, especially, from our dedicated Board of Directors.

During the year, the Reserve program experienced tremendous growth. By the end of December, we had over 400 account holders in 45 U.S. states and nine countries. Nearly 500 offset projects had been registered with or submitted to the Reserve. More than 20.6 million Climate Reserve Tonnes (CRTs) had been issued, which was a tremendous milestone.

Equally impressive, over three million CRTs had been retired to balance emissions for a variety of activities, including corporate operations, travel and music festivals.

The program also planted the seeds for future growth. We welcomed two new members to our Board of Directors. Dr. Francisco Barnes, President of the National Institute of Ecology in Mexico, will help guide the Reserve in its work to develop offset standards in Mexico, and Cynthia Cory, Director of Environmental Affairs for the California Farm Bureau Federation, will provide expertise in our continuing agriculture work. More future growth will stem from the Board's 2011 adoption of the Rice Cultivation Project Protocol and updated versions of four existing protocols.

We were also pleased to publicly present the draft version of the Mexico Forest Protocol, which had undergone 18 months of development by a dedicated workgroup.

The Reserve's growth in 2011 is reflective of the positive steps being taken by government agencies, businesses and individuals to reduce greenhouse gas (GHG) emissions and the deepening level of understanding about what constitutes high quality emissions offsets. We are looking forward to continuing our growth trend in 2012, which will mark the organization's 10th anniversary.

Sincerely,
Gary Gero
President, Climate Action Reserve

About the Reserve

As the premier carbon offset registry for the North American carbon market, the Climate Action Reserve encourages action to reduce GHG emissions by ensuring the environmental integrity and financial benefit of emissions reduction projects.

The Reserve establishes high quality standards for carbon offset projects, oversees independent third-party verification bodies, issues carbon credits generated from such projects and tracks the transaction of credits over time in a transparent, publicly-accessible system.

The Reserve offsets program demonstrates that high-quality carbon offsets foster

real reductions in GHG pollution, support activities that reduce local air pollution, spur growth in new green technologies and allow emission reduction goals to be met at lower cost.

The transparent processes, multi-stakeholder participation and rigorous standards of the Reserve help earn confidence that registered emissions reductions are real, additional, verifiable, enforceable and permanent. The Reserve's expertise and insight helped inform the development of the State of California's cap-and-trade program, which adopted four of the Reserve's protocols for use in its regulation.

Achievements

- Adopted the Rice Cultivation Project Protocol, which provides guidance on how to quantify, monitor and verify GHG emissions reductions resulting from changes in water and residue management in rice cultivation.
- Adopted updated versions of four existing protocols:
 - Nitric Acid Production Project Protocol Version 2.0
 - Mexico Landfill Project Protocol Version 1.1
 - Organic Waste Digestion Project Protocol Version 2.0
 - U.S. Landfill Project Protocol Version 4.0
- Mexico National Institute of Ecology (INE) President Dr. Francisco Barnes joined the Reserve Board of Directors, bringing insight and experience to foster the organization’s focus on carbon reduction strategies for Mexico.
- Cynthia Cory, Director of Environmental Affairs for the California Farm Bureau Federation, joined the Reserve Board of Directors, strengthening the relationship between the agriculture industry and the carbon market.
- Achieved milestone of 20 million credits registered and three million credits retired. The significant growth of the program is a testament to the market’s confidence in the high quality of CRTs.
- Registered 50 new GHG emissions reduction projects, including the first registered avoided conversion project under the Forest Project Protocol.

- California adopted the nation’s first economy-wide cap-and-trade regulation, which allows covered entities to meet up to eight percent of their compliance obligation with carbon offsets. Four Reserve offset protocols (livestock, forest, urban forest and ozone depleting substances) were included in the regulatory program.
- Released the draft Mexico Forest Protocol for public comment after 18 months of development. The protocol has sought to align with Mexico’s National REDD+ strategy and California’s Global Warming Solutions Act (AB 32) in an effort to link activities in Mexico to California’s compliance market.
- Continued development of other agriculture sector protocols. The Nitrogen Management Project Protocol will provide guidance on emissions reductions from changes in nitrogen fertilizer management on agricultural lands. The Reserve also continued to explore protocol options for emissions reductions from changes in agricultural land management or land use that increase soil carbon sequestration.
- Issued four forest protocol white papers examining issues related to forest carbon accounting and forest management practices. The white papers addressed accounting for carbon in soils, carbon accounting and management of lying dead wood, carbon dynamics associated with even-aged management and sustainable forest management certification.

- Hosted the ninth annual Navigating the American Carbon World conference, which was attended by nearly 700 delegates and featured exciting and innovative leaders in climate policy, including Gov. Arnold Schwarzenegger, Gov. Gray Davis, Gina McCarthy, Nancy Sutley, Mary Nichols and Ed Begley Jr.
- Linda Adams, Chair of the Reserve Board of Directors, and Derik Broekhoff, VP Policy, spoke at several UNFCCC COP 17 side events in Durban, including two official UN side events and a session in the U.S. Center.
- Hosted a series of online sector-specific project protocol training courses throughout the year. The courses were well attended and provided project developers with detailed information on how to develop and register GHG emissions reduction projects, covering eligibility rules, calculation methodologies, monitoring requirements and program procedures.
- Held Carbon Market Workshops in Houston, Los Angeles, New York, San Francisco, Sacramento, and Bakersfield. The in-person workshops were attended by key leaders in the corporate, business and carbon communities. They provided an in-depth look into the Reserve offsets program and California’s compliance program.
- Initiated the CRT Marketplace on the Reserve website, which lists organizations that are actively participating in CRT transactions. The page serves as a resource for buyers seeking CRTs, sellers interested in connecting with buyers, or anyone else interested in the market for CRTs.

“This year, Green Mountain Energy Fan Tag sales supported landfill methane capture projects located in the same region as each festival. Austin City Limits Fan Tag sales went toward the SouthTex Greenwood Farms project in Taylor, Texas, while Lollapalooza Fan Tag sales supported the Central Sanitary project in Pierson, Michigan. Both projects are certified by the Climate Action Reserve, helping assure fans that their Fan Tag purchase is backed up by high quality emissions reductions. More than 2,300 Fan Tags were sold in 2011, helping offset over 500,000 pounds of CO2 emissions.”

-Green Mountain Energy



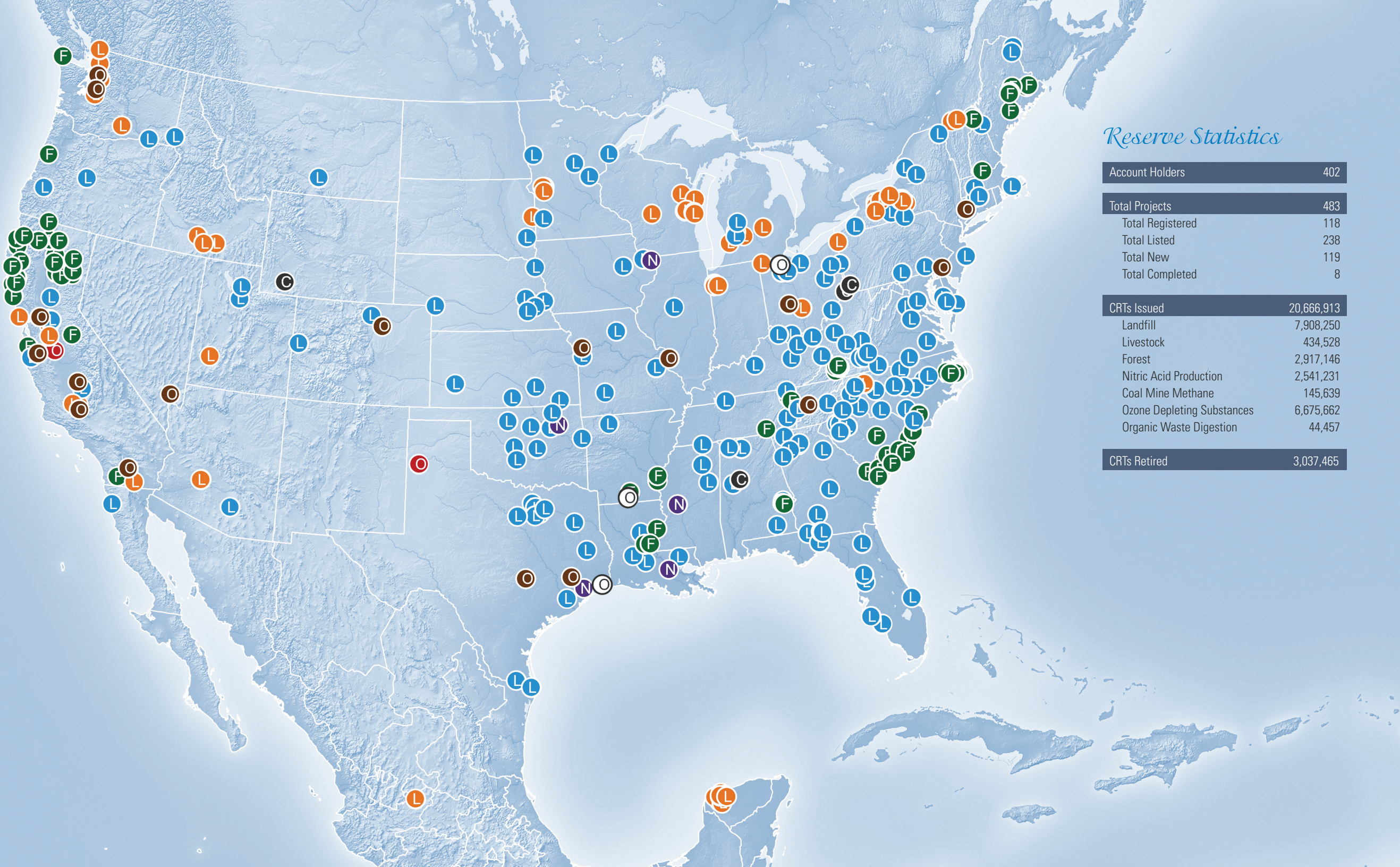
“The State of California and the global community have identified cropland agriculture as having the potential to reduce significant amounts of greenhouse gases from being emitted into the atmosphere. We are very pleased to adopt the Rice Cultivation Project Protocol and provide a tool for farmers to get incentives to reduce emissions.”

-Linda Adams, Chair, Climate Action Reserve Board of Directors

Project Map

Map Legend

- F Forest
- L Livestock
- O Organic Waste Digestion
- O Organic Waste Composting
- L Landfill
- O Ozone Depleting Substances (ODS)
- N Nitric Acid Production
- C Coal Mine Methane



Reserve Statistics

Account Holders	402
Total Projects	483
Total Registered	118
Total Listed	238
Total New	119
Total Completed	8
CRTs Issued	20,666,913
Landfill	7,908,250
Livestock	434,528
Forest	2,917,146
Nitric Acid Production	2,541,231
Coal Mine Methane	145,639
Ozone Depleting Substances	6,675,662
Organic Waste Digestion	44,457
CRTs Retired	3,037,465

Participation in CA Cap-and-Trade Program

2011 saw significant developments in both the California compliance market and the U.S. voluntary market, and the Reserve was proud to play integral roles in both. In October, the California Air Resources Board unanimously adopted the final draft of the state's cap-and-trade program, which will create the largest GHG market in North

America and the second largest in the world. The Reserve was proud to support this pioneering initiative as an expert source on the development of the offsets portion of the program. In 2011, the Reserve was still the only organization to have its standards for GHG reductions adopted into the cap-and-trade program.

“If California gets it right, others will see it's possible to regulate greenhouse gas emissions while protecting its economy and while fostering a new green economy and industry. People watch what California does and do emulate it. Future cap-and-trade programs are going to pick up a lot of the design features we are implementing here. You'll see regional programs develop. They will put pressure on the federal government. It will send out ripples around the country.”

-Gary Gero quoted in the Los Angeles Times, October 21, 2011,
“California becomes first state to adopt cap-and-trade program”

Growing use of CRTs in voluntary markets

The Reserve also was proud to play a growing role in the voluntary carbon market. While more businesses are analyzing their activities and reducing emissions where they can, it is often not realistic to completely eliminate 100 percent of emissions. Corporations, academic institutions and events voluntarily chose to

purchase CRTs to balance emissions produced for a variety of activities, including corporate operations and travel. Just a few of these voluntary buyers include UPS, Chevrolet, PG&E, 2011 ESPY Awards, Sony Pictures, Live Nation, Lollapalooza, Austin City Limits and a number of wineries.

“Transparency and legitimacy are important values of the PanEarth program. Having our offsets issued by a highly esteemed organization such as the Reserve supports these values.”

-Pan Pacific Hotel Seattle

“The Climate Action Reserve provides some of the highest quality carbon offset projects in the world. The Reserve is credible and also provides a selection of project types that CBRE was excited to support. The Reserve's domestic focus also gave us a means to make investments in local projects and economies, and participate in the system that will underpin the meaningful work of AB 32 in setting up California's cap-and-trade system.”

-CBRE

Navigating the American Carbon World 2011

Navigating the American Carbon World (NACW) 2011 marked the ninth consecutive year the Climate Action Reserve hosted this major carbon event and represented one of the most successful events in NACW's history. The Reserve welcomed a distinguished line up of speakers that included Gov. Arnold Schwarzenegger, Gov. Gray Davis, U.S. EPA Assistant Administrator Gina McCarthy, California EPA Secretary Linda Adams and California Air Resources Board Chair Mary Nichols. Living up to its reputation, NACW delivered the most comprehensive updates on the California cap-and-trade program and complementary state environmental initiatives, as well as details on other North American environmental policies and programs. In addition to hearing about the most pressing issues in the carbon community, delegates were able to network poolside in the southern California sunshine and enjoy the sustainable fare of renowned chef Wolfgang Puck. The conference earned rave reviews and set the stage for Navigating the American Carbon World 2012, the 10th anniversary of the event.



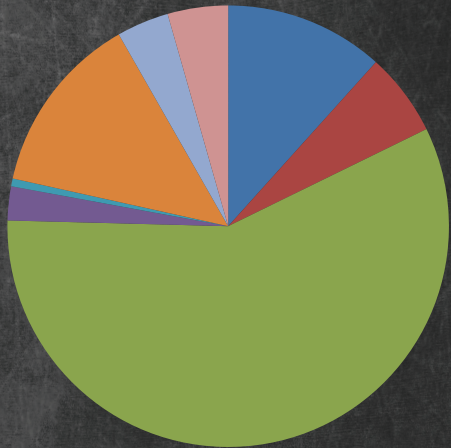
“This conference is a great opportunity for innovators and entrepreneurs to come together and turn good ideas into economically viable programs that can improve our world.”

-President Bill Clinton, 42nd President of the United States of America

Financial Summary

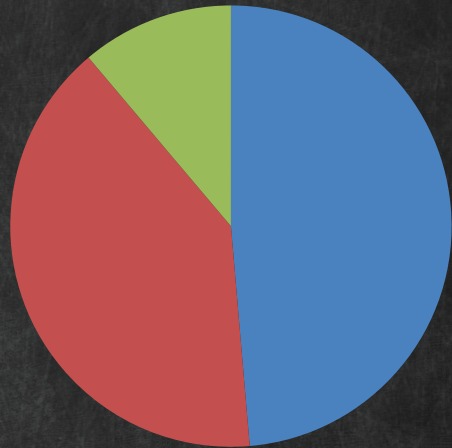
The Climate Action Reserve received a clean audit by an independent professional auditing firm for Fiscal Year 2010-2011.

Revenue and Support



Conference	12%
Contracts	6%
Reserve Fees	58%
Workshop Income	2%
Member Outreach	1%
Grants/Contributions	13%
Miscellaneous/Interest	4%
In-Kind	4%

Expenses



Program Services	49%
Management and General	40%
Fundraising	11%

Condensed Statement of Financial Position (as of June 30, 2011)

Total Assets	\$2,093,737
Liabilities	\$594,579
Net Assets	\$1,499,158
Total Liabilities and Net Assets	\$2,093,737
Total Revenues and Other Support	\$3,480,764
Expenses	\$3,400,829
Net Income	\$79,935

Our Fiscal Year 2010-2011 IRS Form 990 is available upon request. Please visit www.climateactionreserve.org to contact us.

Special thanks to the leadership and guidance of our Board of Directors

Linda Adams *Chair*

Former Secretary for Environmental Protection, California Environmental Protection Agency;
Founding President, R20

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Randy Armstrong

Environmental Issues Director, Shell Oil Company

Dr. Francisco Barnes

President, National Institute of Ecology (INE), Mexico

Steve Corneli

Senior Vice President, Market and Climate Policy, NRG Energy

Cynthia Cory

Director, Environmental Affairs, California Farm Bureau Federation

Peter Liu

Founder & Vice Chairman, New Resource Bank

James Mack

Head of the British Columbia Climate Action Secretariat, Ministry of Environment

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Director, Nicholas Institute for Environmental Policy Solutions;

Senior Associate Dean, Duke University

Dr. Stephan Schwartzman

Director, Tropical Forest Policy, Environmental Defense Fund

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