

BLUFOREST, INC.

Carbon Offset Firm Offers Tremendous Value

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BLUFOREST, INC. (OTC:QB – BLUF - \$1.25)	
Price Target: \$7.00	Rating: Speculative Buy

COMPANY SNAPSHOT

With a focus on reforestation, BluForest, Inc. is an early stage carbon offsets marketing company. The first stage of the Company's business model includes the sale of carbon offsets through our website to voluntary markets where no verification is required. Upon receiving the required verification, BluForest plans to sell verified carbon offsets through global restoration projects. The offsets will be validated and verified for sale to companies, foundations, and other entities that, for branding, policy and corporate social responsibility reasons, wish to offset their carbon footprints to support climate change mitigation efforts.

KEY STATISTICS

Price as of 8/8/13	\$1.25
52 Wk High – Low	\$179.70– 0.03
Est. Shares Outstanding	103.5M
Market Capitalization	\$129M
3 Mo Avg Vol	59,000
Exchange	OTC:QB

COMPANY INFORMATION

BluForest Inc.
Ave. Republica del Salvador y Shyris
Edificio Onix Piso 10-C
Quito Ecuador
855.509.5508
info@BluForest.com

INVESTMENT HIGHLIGHTS

With land assets in Ecuador valued at \$695M, BluForest, Inc. is poised to emerge as a major player in the sale of verified carbon offsets through reforestation, a multi-billion dollar industry as it achieves key milestones in 2014.

The Company is positioned to sell Verified Emission Reduction (VER) and Reduced Emissions from Deforestation and Degradation (REDD) carbon offsets through global restoration projects to companies, foundations, and other entities that, for branding, policy and corporate social responsibility reasons, wish to offset their carbon footprints to support climate change mitigation efforts.

BluForest has exclusive ownership of the rights to the El Juval property in Ecuador. This property consists of 135,000 hectares of pristine forested lands in Ecuador, on the border between the province of Monora Santiago and the provinces of Azuay, Canar and Chimborazo. Approximately 90% of El Juval belongs to the territory of Sangay National Park.

Certified through approved methods that validate the number of CO2 offset credits (CERs) per hectare, the basis for the \$695M estimated value on the Company's books for the property has been prepared by a noted 3rd party appraiser and approved by an SEC sanctioned auditor.

With some of the largest and most sought after property in the carbon offset arena, we believe that this carbon offset pure play is worth more than its \$6.72 book value. As VERs and REDDs are executed, BLUF's value should rise dramatically. In the near term, we expect these shares to at least reach the \$7.00 level and could surpass \$10.00 in 18 months. Thus, we rate BLUF Speculative Buy.



BLUFOREST, INC. (OTC:QB BLUF)

COMPANY OVERVIEW

With a focus on reforestation, BluForest, Inc. is an early stage pure play carbon offsets marketing company. A carbon offset is a reduction in emissions of carbon dioxide or greenhouse gases made in order to compensate for or to offset an emission made elsewhere. One carbon offset represents the reduction of one metric ton of carbon dioxide or its equivalent in other greenhouse gases. Following recent transactions in Ecuador, the Company appears poised to emerge as a leader in the space.

BluForest has acquired exclusive ownership of the rights to the El Juval property in Ecuador. This property consists of 135,000 hectares of pristine forested lands in Ecuador, on the border between the province of Monora Santiago and the provinces of Azuay, Canar and Chimborazo. Approximately 90% of El Juval belongs to the territory of Sangay National Park. It is one of the largest and likely sought after properties of its kind in South America which makes it a perfect property for the Company's objective which is to creating a sustainable, profitable business that protects the world's irreplaceable rain forests and its indigenous peoples.

Certified through approved methods that validate the number of CO₂ offset credits (CERs) per hectare, the value of the 135,000 hectare land is \$695 million, or \$5000/hectare. The Company submitted numerous filings and documents related to this property including an analysis prepared by a noted 3rd party appraiser which was subsequently approved by an SEC sanctioned auditor. Based on recent filings, the Company's book value stands at \$6.72 per share.

The first stage of the Company's business model includes the sale of carbon offsets to voluntary markets where no verification is required. Once the Company completes the U.N.-sanctioned verification process, BluForest plans to sell verified carbon offsets through other markets, which we believe we will occur in earnest in 2014. The Company will then market and sell Verified Emission Reduction (VER) and Reduced Emissions from Deforestation and Degradation (REDD) carbon offsets through global restoration projects. The offsets will be validated and verified for sale to companies, foundations, and other entities that, for branding, policy and corporate social responsibility reasons, wish to offset their carbon footprints to support climate change mitigation efforts.

CARBON OFFSET TRADING DEFINED

In order to fully understand the Company's model, a brief primer is useful. A carbon offset is a reduction in greenhouse gases (GHG) used to make up for an emission produced elsewhere. There are six categories of greenhouse gases which are measured in metric tons of carbon dioxide equivalents, or CO₂e. They are carbon dioxide, methane, nitrous oxide, perfluorocarbons, hydrofluorocarbons, and sulfur hexafluoride. Carbon offset trading, or emission trading, is a market oriented method to reduce GHG and has been broadly selected as the preferred tool to accomplish this goal versus carbon taxes, by most world regulatory and government agencies.



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This carbon market is traded via two methods: cap-and-trade programs, and credits that pay for GHG reductions. Credits are actually used in conjunction with most cap-and-trade programs.

Cap-and-trade programs are far and away the most popularly used in mandatory reduction markets such as the European Union in an effort to reduce GHG. Cap-and-trade programs are designed in the following manner. First, the governing body sets a cap on allowable GHG emissions and then sells or issues GHG emission allowances that are the sum of the total of the cap. Companies that do not have enough allowances can either make reductions or buy other companies spare credits. Conversely, firms that have excess allowances can sell them or hold them for future use. Ideally, the cost of allowances is an economic function of supply and demand and the cap-and-trade program decreases emissions over time with feasible and achievable caps. There must be a balance that will accomplish the goal of reduction of GHG gases, while not burdening companies with excessive costs. Caps that are too high can drive down the value of allowances, causing losses in firms with excess allowances, but if the cap is too low then allowances are overpriced and supply is low.

The Kyoto Protocol was established by the UN Framework Convention on Climate Change and designed as the framework for the European Union and 37 other industrialized nations committed to reduce GHG emissions on a mandatory level. The Protocol established offsets as a way entities (governments, companies, foundations, etc.) can earn carbon credits which can be traded in the open marketplace. Additionally, it established the Clean Development Mechanism, or CDM, which validates and measures projects for authentic GHG reductions. The CDM has identified 200+ projects which are suitable for generating carbon offsets. The table below illustrates the five major categories approved by the CDM. The most important category, reforestation, dovetails with the BluForest’s business model and strategy.

Table 1: Carbon Offsetting Project Categories

Carbon Offset Project Category	Types and Examples
Renewable Energy	Indirect Offsets Renewable Energy Credits (REC's) for wind, solar, biomass, and hydroelectric
Methane Abatement	Combustion or containment of methane gas from farm animals
Energy Efficiency	Decreases in energy demand with cogeneration, fuel efficiency, energy efficient buildings (light bulbs)
Reforestation	REDD (Reducing emissions from deforestation and forest degradation) <ul style="list-style-type: none"> • Reforestation – Re-growing a previous forest • Afforestation – Creating forests on land that was not a forest previously • Soil Management
Destruction of Industrial Pollution	Reduction of nitrous oxide, perfluorocarbons, hydrofluorocarbons, and sulfur hexafluoride

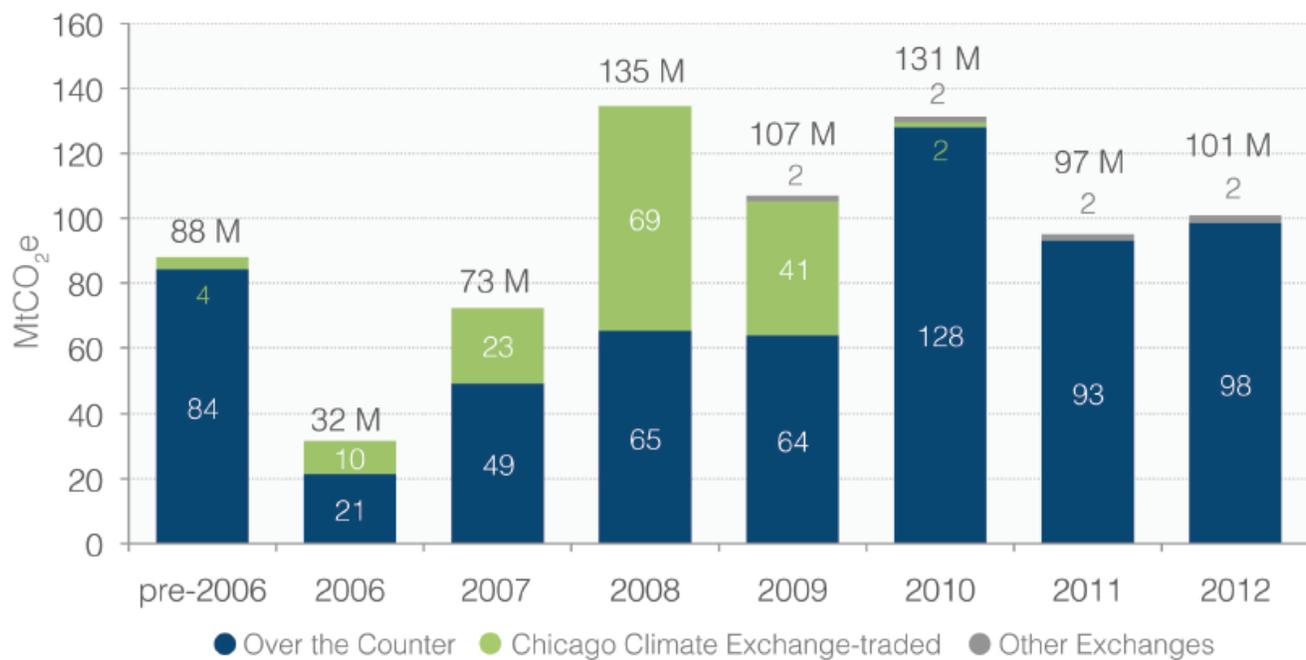
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Additionally, the CDM has established CER's, or Certified Emission Reductions as the primary market unit, representing 1 metric ton of GHG (or CO₂e) emissions that are traded on primary or secondary market.

Carbon Offset Markets

Figure 2 shows the historical transaction and volume of the voluntary CER market in terms of metric tons of CO₂ emissions (Mt CO₂e). It can be easily seen that the trend to OTC trading is dominating the market.

Figure 2: Historical Transaction Volume, Voluntary Markets



Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.

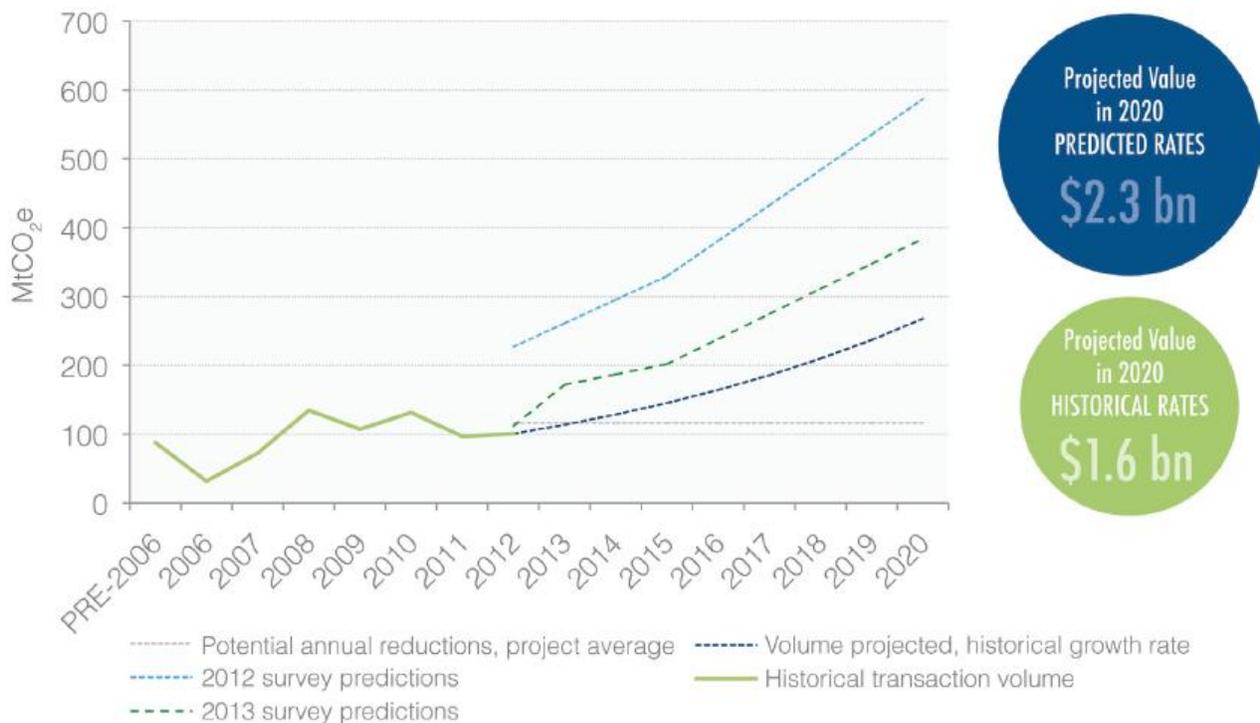
As mentioned above, the European Union has developed an active and growing market for carbon offsetting, and is the largest 'mandatory' cap-and-trade market in the world. The European Union Emission Trading Program (EU ETS) has also established the Emission Reduction Unit (ERU) or European Allowance Unit (EUA) as an equivalent to CER's in Europe. The total trade value of EU ETS rose 11% in 2011 from 2010 to an equivalent of \$171 billion dollars. Figure 3 illustrates the historic price and volume trend in the European Market from 2008 thru 2011.

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The second phase of the EU regulation is being implemented in 2013 with a heavy emphasis on the airline industry. Trading and selling in this market should only increase. Other countries in Africa, Asia, North America, and South America have begun initiatives to begin phasing into the 'mandatory' market with government compliance to the Kyoto Protocol.

The United States, India, and China are the world's three largest producers of GHG and to date only have 'voluntary' GHG initiatives. The CRE's for this market are still measured at 1 metric ton of GHG (or CO₂e), but are named Verified Emission Reduction units or VRE's, to indicate a 'voluntary' market. The Chicago Climate Exchange (CCX) was founded in 2003 and was a voluntary vehicle for organizations to trade CFI's (Carbon Financial Units – the CER or VER unit of the exchange, still equivalent to 1 metric ton of GHG (or CO₂e).

Debate over climate change and the effects of regulation to curb any potential risks to long term GHG emissions versus balancing economic growth in the United States is a hot topic to say the least. As a result, this, the CCX closed in 2011. At a minimum, there has already been a vehicle put in place to trade the CER units if and when more stringent environmental regulation and cap-and-trade programs ever come to fruition. Finally, on a side note, California is set to enter into a trading program in 2013 and Vietnam just approved carbon trading to begin an effort to cut GHG emission to under 10% of 2010 levels by 2020. The figure below illustrates the predicted market reduction in carbon gases through year 2020.



Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2013*.



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BLUFOREST LEADERSHIP

Charles Miller, Chief Executive Officer and Director

During the past thirty years, Mr. Miller has been involved in both real estate development and the oil and gas industry. Mr. Miller has been a project development specialist leading multiple large-scale developments from the concept and design stages to their completions in both the tourism and oilfield industries.

RISK FACTORS

In our view, there are several risk factors associated with BluForest. These primarily include the timing of the sale of carbon offset credits, the cost with which to achieve highest verification in order to market and sell VER and REDD in large quantities and favorable prices. Given the substantial size of the underlying property, BluForest should be able to compete for sizable deals in the space, despite competition from other, larger players, which is a typical concern that is consistent with firms of BluForest's size and standing. Separately, the Company is subject to swings in carbon offset pricing, given the fluid nature of the nascent industry. Still, at this stage, we do not believe that these issues appear to be serious threats to the Company's future, or meaningful dilution from future fundings in order to achieve its goals. We should note that earlier this week it was announced that a private investor has filed suit against BluForest alleging that the Company has participated in a pump and dump scheme with respect to investor outreach activities. We do not believe this suit has a bearing on the valuation (see company's stockholder's equity/book value from its 5/15/13 filing for 1Q13) as we have outlined nor will it have a material impact on the share performance. Nonetheless, investors should be aware of the suit in the event it does impair any prospective share price appreciation.

CONCLUSION

In our view, there is tremendous value in BluForest's shares, as evidenced by its \$6.72 per share in book value. As the Company does not have material sales with which to report to date, we have elected not to produce an operating model at this early juncture. We will likely revisit operating forecasts once material revenue has been booked as more accurate estimates can be projected at that time. At present, we believe that this pure play carbon offset marketing company will achieve a number of critical milestones in the coming quarters including the receipt of VER and REDD verification, along with a series of meaningful, executed transactions.

As VERs and REDDs are executed and announced, BLUF's value should rise dramatically. In the near term, we expect these shares to at least reach the \$7.00 level and could surpass \$10.00 in 18 months, following more clarity on the size and profitability future deals. Thus, we rate BLUF Speculative Buy.

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Recent Trading History For BLUF

(Source: Stockta.com)





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Senior Analyst: Robert Goldman

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

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