



**NatureBank Asset Management Inc.**

Management’s Discussion & Analysis  
for the years ending December 31, 2017 and 2016

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## Preface

Prepared in accordance with National Instrument 51-102 *Continuous Disclosure Obligations*, the following Management's Discussion and Analysis ("MD&A") of NatureBank Asset Management Inc. (the "Company" or "NatureBank") should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017 and 2016, and the notes thereto. This MD&A is prepared as of April 30, 2018.

The consolidated financial statements of the Company are prepared in accordance with IAS 27 unless otherwise stated. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, ERA Ecosystem Restoration Associates Inc., Era Ecosystem Services U.S., Offsetters Clean Technology Inc., Forest Finest Consulting GmbH, Nature Ventures GmbH, Carbon Credit Corp and Naturebank Technology Inc. The financial statements are reported in Canadian dollars (unless otherwise stated), which is the functional currency of the Company and all its Canadian and U.S. subsidiaries is the Canadian Dollar ("CAD"). The functional currency of its European subsidiaries is the Euro ("Euro" or "€") and was translated to Canadian Dollar ("CAD") for consolidation purpose, according to IAS 21.

The consolidated financial statements and the MD&A have been reviewed and approved by the board of directors of the Company.

## Forward looking statements

This MD&A includes forward-looking statements including in particular forward-looking statements regarding working capital, access to financing, the ability of the Company's projects with recurring verifications to retain their validation status within the scope of changes in voluntary or regulated standards or guidance, the ability of counterparties to sale or purchase contracts to remain going concerns, and possible changes in greenhouse gas emissions regulation in the United States, Canada, Europe or other jurisdictions. Where forward-looking statements are included, the material assumptions underlying them and the risk factors affecting them are referenced. Except for historical information contained in this MD&A, the following disclosures are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and forward-looking information within the meaning of applicable Canadian provincial securities laws or are future oriented financial information and, as such, are based on an assumed set of economic conditions and courses of action. Please refer to the cautionary note regarding the risks associated with forward-looking statements at the back of this MD&A and the "Business Risks and Uncertainties" section of this MD&A.

The Company does not intend, and does not intend to assume any obligation, to update these forward-looking statements or information to reflect changes in assumptions or circumstances or any other events affecting such statements or information other than as required by applicable law. Where a material change to forward-looking statements occurs and its disclosure is required by applicable law, that material change is disclosed as soon as practicable in a news release and material change report and, when applicable, is included with future MD&A and other continuous disclosure documents. All material changes to forward-looking statements are made available on SEDAR at [www.sedar.com](http://www.sedar.com)

## What happened to ERA and Offsetters?

ERA Carbon Offsets Ltd. established operations in 2004 and was listed on the TSX Venture Exchange (“TSX-V”) through the reverse takeover of Interim Capital Corp. in 2008.

In December, 2012, ERA acquired Offsetters Clean Technology Inc. and Carbon Credit Corp.

ERA Carbon Offsets Ltd. changed its name to Offsetters Climate Solutions Inc. in March 2013, to capitalise on the strong customer-facing branding of Offsetters.

In November 2013, the Company incorporated a wholly owned subsidiary in Nevada, USA, Era Ecosystem Services U.S. Inc.

In August, 2014, the Company incorporated a wholly owned subsidiary, Naturebank Asset Management, Inc. in British Columbia. On October 6, 2015, the subsidiary Naturebank Asset Management was renamed to Naturebank Technology, Inc.

In July, 2015 the Company acquired Forest Finest Consulting GmbH, a German company.

On October 20, 2015, Offsetters Climate Solutions Inc. was formally rebranded and changed its name to NatureBank Asset Management “NatureBank” and continues to trade under the ticker symbol “COO” on the TSX Venture Exchange. The Offsetters retail brand, which focuses on the voluntary carbon offset market, continues to operate under Offsetters.

On April 14, 2016, the Company incorporated a wholly owned subsidiary in Switzerland, Nature Ventures GmbH.

In this MD&A, we refer to Offsetters Clean Technology Inc. as “OCT”, Carbon Credit Corp. as “CCC”, ERA Ecosystem Restoration Associates Inc. as “ERA”, Era Ecosystem Services US Inc. as “ESU”, Naturebank Technology Inc. as “NBT”, Forest Finest Consulting GmbH as “Forest Finest” or “FFC”, and Nature Ventures GmbH as “NVG”.

## Overview of our business

NatureBank focuses on the sourcing, financing, development, and commercialization of sustainable commodity projects across the agro-forestry and carbon sectors, in addition to offering advisory, technology and impact investment services to leading public and private organizations worldwide.

The Company's core expertise lies in the development of commodities such as UTZ certified sustainable cocoa and FSC certified timber. NatureBank projects are located across multiple jurisdictions including Peru, Panama, Vietnam and Africa, and they deliver high quality commodities while improving the ecological, environmental and social circumstances of the project areas.

In addition to agro-forestry, NatureBank has world leading expertise in the development of carbon offset projects, particularly those involving forestry and agriculture land-use. The Company has developed some of the largest and most sophisticated carbon offset projects in the world, including those completed in Canada, the United States, South America, and in the Democratic Republic of the Congo.

The Company is growing its portfolio of projects across the agro-forestry and carbon space by exploring opportunities for strategic joint ventures with sustainable and impact investment funds and through the deployment of equity capital. Future investments will focus on sustainable development of natural assets where long-term investment returns are maximized and climate change risk is mitigated.

In July 2015, the Company completed its acquisition of certain assets from Forest Finance Service GmbH ("Forest Finance"), significantly expanding the technical expertise and scope of offerings of NatureBank. Forest Finance is a German based company that has focused on "investing" in forests for more than 20 years, establishing and sustainably managing diverse mixed forests and cacao plantations for 15,000 client investors. Having managed the deployment of more than \$100 million USD in Panama, Colombia, Peru and Vietnam, Forest Finance has become the leading direct forest investment provider in Europe, managing more than 16,000 hectares of forest and agro-forest areas, with a strong emphasis on blending economy with social impact and ecology. The acquisition merged Forest Finance's consulting and natural asset management capacity, a company operating as Forest Finest Consulting GmbH ("Forest Finest") with NatureBank's ecosystem management business, expanding the Company's platform of ecosystem expertise. In addition, the acquisition included Forest Finest's European retail voluntary carbon offset brand, CO<sub>2</sub>OL Natural Carbon Collection, which complements NatureBank's carbon retail presence in North America.

This acquisition created an international company focused on sustainable commodities spanning from agro-forestry to carbon, with firm ties to both European and North American markets, and project experience that spans North and South America, Central America, Southeast Asia and Africa.

On June 1, 2016, NatureBank announced that it signed an MOU with Anholt Services (USA) Inc. to invest over USD \$11 million in multi-year sustainable cocoa development in the Dominican Republic. Under the terms of the MOU, NatureBank would both invest in the project and be responsible for the overall planning and development of the project, as well as the ongoing management of the portfolio of both operating cocoa projects and new, undeveloped cocoa projects. The project is to be operated through its wholly owned subsidiary, Forest Finest Consulting GmbH.

In July 2016, NatureBank announced that wholly owned subsidiary Forest Finest Consulting GmbH acquired the carbon offset client portfolio of Forest Carbon Group GmbH (“FCG”) of Frankfurt, Germany. FCG operated in the European markets offering clients tailor made solutions for climate neutral products and processes. It helped companies reduce their emissions voluntarily or through compensation programs utilizing carbon offsets resulting from reforestation, improved forest management or avoided conversion projects including REDD (Reduced Emissions from Deforestation and Degradation). The client portfolio representing thirteen customers was integrated into the existing carbon client portfolio of CO<sub>2</sub>OL Natural Carbon Collection, which is wholly owned by NatureBank and operated by Forest Finest.

On May 5, 2017, NatureBank announced that it had concluded the MOU as announced on June 1, 2016, and signed an Agreement of Limited Partnership effective January 1, 2017, which will see at least USD \$14 million invested into sustainable cocoa development in the Dominican Republic, focused on both greenfield cocoa opportunities and operating cocoa fields. NatureBank’s wholly owned subsidiary Forest Finest Consulting GmbH also entered into an exclusive three (3) year management agreement to oversee the implementation and development of these cocoa assets for the Limited Partnership. As up the date of issuance of this MD&A there was no cash contributions.

NatureBank currently generates a significant portion of its revenue through the development and sale of emissions reductions (carbon offsets) that are marketed to both voluntary (non-compliance) and regulated (compliance) buyers. Compliance buyers are regulated by provincial, state level or federal policy, and required to reduce emissions, which in many cases allows for the use of compliant grade carbon offsets. Voluntary buyers often choose to reduce their emissions impact by buying offsets to compensate for their emissions as part of a corporate social sustainability agenda. Additionally, the company generates meaningful revenue from a corresponding suite of advisory services delivered to companies along the offset supply chain which includes large private landowners, First Nations, international governments, non-governmental organisations (NGOs) and a variety of small, medium and large corporations. The Company intends to grow its existing revenue streams in the carbon sector as compliant markets continue to mature, and expects to grow its advisory services revenue in tandem. Following the acquisition of Forest Finest, the Company is increasingly focused on establishing and growing revenue generation from the implementation, development and commercialization of a variety of agro-forestry projects, specifically within the sustainable cocoa and timber sectors.

## MARKETS

The Company has established a leadership position in two core sectors - the sustainable agro-forestry sector, with specific expertise in cocoa and timber, and the international carbon market (for both voluntary and compliant carbon offsets).

Agriculture and Farmland funds raised more than USD \$3.9 billion in private equity in 2015, matching the \$3.9 billion raised in 2014. Timberland brought in \$1.1 billion. Both sectors continue to see robust investment. Data indicates that agriculture and farmland have attracted increasing funding since 2009, growing from \$0.5 billion to more than \$3.9 billion. While the main focus of investment has been North America (37%), roughly 27% was allocated to funds focused on several regions, while Asia attracted 11%, Australasia 7% and Latin America 6%. Since 2010, approximately 59% of capital invested has been directed to North America, with Latin America attracting 19%, Australasia 11%, and Africa, Asia and Europe each pulling in about 2%.

NatureBank has focused its agroforestry expertise in Latin America and Asia, on the sustainable development of cocoa projects and renewable timber. The key driver for NatureBank’s growing focus on cocoa is the increasing

international demand for cocoa, especially sustainably produced cocoa. The International Cocoa Organization (“ICCO”) suggests that the supply and demand for cocoa between 2013 and 2023 will grow from just over 4 million tonnes to over 4.7 million tonnes. The expected growth in annual demand necessitates increasing output by the equivalent of the present production of Cote d’Ivoire, the world’s current leading cocoa producer. Sustainability of production and supply chain has become very important – twelve of the world’s largest chocolate and cocoa companies have signed agreements to make cocoa farming more sustainable in Africa, while companies such as Mars, Hershey and Ferrero aim to source 100% certified cocoa by 2020. If you look at macro trends, organic products presently account for just 5% of US food sales in 2015, but that 5% is growing annually, and is already worth over \$39 billion.

The voluntary carbon market continues to show resilience and has demonstrated its maturity by serving as a valued early supplier of offsets to multiple jurisdictions that have gradually adopted compliance based emissions reduction policies over time. According the 2015 report, “Ahead of the Curve: State of the Voluntary Carbon Markets 2015”, companies, governments and individuals have spent just under USD \$4.5 billion over the last 10 years on conservation and clean energy by purchasing more than 1 billion carbon offsets. As of 2016, offsets equivalent to 1.1 billion metric tonnes of carbon dioxide emissions have been transacted voluntarily. While the market for voluntary offsets has grown and contracted over the last decade, it has average roughly 85 million tonnes a year in transactions with an average value of approximately \$414 million, a trend that is expected to be consistent over the coming years.

The voluntary market is largely driven by corporations who engage in a process of reducing their environmental footprints through a process of measuring, reducing and offsetting their greenhouse gas emissions. These buyers use the offsetting process as a way to demonstrate a social or environmental commitment, and to engage employees, customers and stakeholders in a discussion of the impacts of climate change on our environment. The voluntary social responsibility market has traditionally been a source of innovation in carbon projects and standards development, as well as a path to supporting environmentally and socially beneficial projects that are excluded from regulated/compliant schemes, such as REDD+ projects (which actively protect large areas of tropical rainforest while delivering tangible economic and social benefits to vulnerable communities). Increasingly, as numerous jurisdictions around the world adopt emissions reduction policies, soon-to-be regulated buyers often find themselves supporting specific voluntary carbon standards that are made fungible as early action options for their respective compliance schemes. California is a great example, where certain voluntary Climate Action Reserve projects were adopted by the Air Resource Board for use under their now operating compliance cap and trade system.

To date, NatureBank has commercialized in excess of 2.5 million tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) into the voluntary markets since inception in 2005. The Company has developed a wide selection of projects across a variety of jurisdictions, using a number of internationally recognized protocols including those from the Verified Carbon Standard, the Gold Standard, the Climate, Community and Biodiversity Alliance Standard, the California Air Resource Board (now compliant), the Alberta Specified Gas Emitters Regulation (compliant), and the British Columbia Emissions Offset Regulation (pre-complaint). Collectively, these projects will deliver in excess of 200 million tonnes of carbon offsets over their projected lives.

Compliance carbon markets are established by legislation at either a provincial or state level, and from time to time, at a federal level. Policy that puts a cap on overall greenhouse gas emission (GHG) levels generally take the form of a cap and trade system, where emissions are capped, and certain market based systems are employed to allow those regulated companies some flexibility in dealing with their obligations over time. Such policy compels companies (often referred to as “large final emitters” or “LFE’s”) to reduce their greenhouse gas emissions through a system

that employs “emissions permits” (often called “allowances”), which gives the LFE a permit to emit a certain volume of GHG’s. Those LFE’s that find ways to reduce their emissions more quickly than others have the ability to sell excess emission reductions to other emitters that need them (this is the “trade” part of “cap and trade”). The compliance market also provides additional opportunities for companies like NatureBank to create emissions reductions in unregulated sectors (sectors that are not covered by the cap and trade policy). These carbon offsets represent real emissions reductions that can be used by LFE’s who cannot economically reduce their emissions to permitted levels (and don’t have enough permits/allowances to satisfy their needs). Although the LFE may not have reduced its emissions at the source of those emissions, it paid to reduce emissions elsewhere to achieve the necessary emission reduction.

The largest of the North American compliance carbon markets exists in California (under the Air Resource Board – “ARB”), the Regional Greenhouse Gas Initiative in the northeast United States (“RGGI”), and the province of Alberta in Canada. NatureBank is active in both California and Alberta, where it has continued to invest and develop a pipeline of carbon offset projects.

The California market has existed since January 2013, and is worth in excess of \$1 billion annually. The offset market has been growing, despite early challenges and constraints within this new system. Offsets are currently trading for roughly USD \$15 per tonne, a price that is expected to increase incrementally out to 2020 and beyond. To service this market, the Company has been developing a portfolio of carbon project opportunities by identifying project owners across the United States to partner with, while developing a comprehensive technical service offering to assist with the commercialisation of offset projects, particularly land based projects involving avoided deforestation and improved forest management.

In Alberta, the Specified Gas Emitters Regulation (“SGER”) has existed since 2007 and more than 190 offset projects have been developed and registered, creating more than 12 million tonnes of offsets selling for prices averaging roughly \$10 and up per tonne. With recent updates to carbon pricing in Alberta and updates to regulations beyond SGER, carbon offsets now trade from \$20 per tonne and above. NatureBank helped aggregate a portfolio of more than 3 million tonnes from agriculture related projects, and continues to explore opportunities in Alberta as markets evolve there as the current provincial government endeavours to update the regulations around carbon within the Province. As of January 1, 2018, the SGER framework transitions to the Carbon Competitiveness Incentive Regulation (“CCIR”) which aims to reduce emissions from large industrial emitters, which attracting investment in clean tech and creating new jobs. Under the CCIR, offsets will continue to play a role, with a focus on the development of new offset credits for the market (which may include forestry).

Additionally, NatureBank has established a leadership position in British Columbia, a province that currently has a modest “pre-compliance” market driven by a government directed climate neutrality strategy. As a leading developer and seller into this system, the Company is well positioned as the province further regulates the market, in response to forthcoming liquefied natural gas LNG development, should that occur.

## **FUTURE MARKETS**

The last decade has seen rapid growth of agroforestry projects, specifically those that are developed and managed in a sustainable fashion, where environmental, social and economic development of the project area is managed as well as the agronomy of the commodity. Particular interest has been paid to commodities such as cocoa, coffee, and sustainably harvested timber, where growing demand and unsustainable histories have produced negative impacts for the people, ecology and economy of affected areas. NatureBank has a history of success in developing very sustainable, productive, profitable cocoa and timber developments, where environmental stability and social progress is on par with investment returns.

Demand for sustainably certified cocoa has grown by over 700% in the last three years. Demand for cocoa in general is expected to grow by at least 2% per year moving forward, meaning at least one million metric tons of additional supply will be needed by 2020. The acquisition of Forest Finest ensures the Company will be able to leverage its agro-forestry expertise to exploit the present and future opportunities in carbon, cocoa and timber markets to the benefit of the Company and its shareholders.

In addition, the Company has entered into a Strategic Partnership Agreement with Taking Root, a leading Canadian NGO supplying extensions services to small holders in Latin America. This Partnership is intended to gain the Company access to a greater market share of sustainable commodity investments over the coming years.

While still not as robust a market (or as understood) as cocoa perhaps, the carbon market is also growing at an enviable pace. California's three year old cap and trade market has become the largest regulated market for emissions reductions in the Western hemisphere. And in the last two years, we have also witnessed the province of Quebec pass legislation and align itself with California, gradually integrating its cap and trade operations with California as it matures. In May 2016 the province of Ontario passed legislation creating a cap and trade system in an effort to address carbon emissions, joining both Quebec and California, potentially creating the largest carbon market in the world. Ontario officially launched the program in January 2017. While the market has launched, it is not yet in a position to develop or accept carbon offset projects, as protocol development is still underway. It is expected that initial protocols will be in place by late 2017, but likely that a full suite of protocols may not be available until the end of 2018. Carbon offsets will none-the-less play an important role and NatureBank will be well positioned to participate across each jurisdiction, given our existing experience and track record. These markets will include forestry based carbon offset projects, which is a core area of expertise of NatureBank.

Alberta has indicated its intention to continue to operate a carbon reduction system for the foreseeable future, while planning to do more to address the GHG emissions profile of the province over time. The new CCIR framework launches in January 2018, and continues to allow for the use of offset credits in the market, up to 40% as a base limit, but with an additional allowance for new credits starting at 10% in 2018, rising to 15% in 2019 and 20% through 2020-2012. Additional information on the CCIR can be found here: [CCIR Offset Presentation](#).

In British Columbia, the Provincial Government has implemented the Greenhouse Gas Industrial Reporting and Control Act which legislates emissions targets in the potential future LNG projects (and their corresponding emissions impact) in the province. As a leading offset developer in BC, NatureBank is very well positioned to play an active role in a future system which utilizes made-in-BC offsets, having developed some of the largest projects in BC to date. To date, no significant LNG project has been committed to by any project proponent (some smaller projects are in varying states of progress), so a larger carbon market is not imminently expected within BC.

In October of 2016, Canada's Federal government announced that it intends to establish a carbon price for all of Canada. The government has directed each of Canada's provinces and territories to either adopt a carbon tax or cap and trade plan in order to establish a pan-Canadian system for dealing with carbon emissions. The Federal government will impose the levy on non-conforming jurisdictions. The carbon price is to start at \$10 per tonne in 2019 growing by \$10 per tonne per year until it reaches \$50 per tonne by 2023. On May 18, 2017, the Federal Government of Canada released a "Technical Paper: Federal Carbon Pricing Backstop" outlining how it intends on establishing a 'backstop' for provinces/jurisdictions who choose not to have a carbon reduction program in place by the time the federal carbon pricing requirement takes effect. This technical paper indicates that offsets will be a component of the federal backstop plan. While overall, the action being taken at the Federal level can be considered a positive sign for carbon markets, it is too early to determine whether the plan as proposed will come to fruition, or involve additional carbon offsets market opportunities for NatureBank. In 2018 and 2019, Ontario and Alberta

will have provincial elections, and current opposition parties have indicated a desire to remove carbon policy from their jurisdictions. Given the Federal mandate for carbon pricing, it is yet to be seen if and how this might happen, so the election outcomes will be critical in determining the longevity of current carbon policy within these provinces. The Company will be closely following these events and progress on such policy initiatives.

## Corporate developments

### ACQUISITION OF OCT AND CCC

On December 14, 2012, the Company purchased all of the issued and outstanding shares of OCT and CCC (the "Acquisition") from the three holders of those shares: Dr James Tansey ("Tansey"), Donovan Woollard ("Woollard") and a third party seller (the "3rd Party Seller"). The Company believed the Acquisition would provide more consistent cash flows to the organization in the future, increase its customer base and expand its current product offering allowing it to grow the revenues of the Company.

In consideration of the purchase of the 3rd Party Seller's OCT and CCC shares, the Company issued to the 3rd Party Seller share purchase warrants to purchase 2,000,000 common shares of the Company, exercisable at a price of \$0.40 per common share until March 31, 2017 and paid \$500,000 to the 3rd Party Seller. As further consideration, the Company shall also make cash payments to the 3rd Party Seller, as follows:

1. on or before December 30, 2013, the Company will pay the 3rd Party Seller the greater of (A) \$1,500,000 or (B) the sum of 15% of the net cash it receives from projects unrelated to its current operations (the "Net Cash Received" and the "15% Payment") in 2013 and 35% of commission revenues received from the Great Bear Project (a "GBI Payment") in 2013;
2. on or before December 30, 2014, the Company will pay the 3rd Party Seller the greater of either (A) \$500,000 or (B) the sum of the 15% Payment for the Net Cash Received in 2014 and the GBI Payment for 2014;
3. on or before December 30, 2015, the Company will pay the 3rd Party Seller the greater of (A) \$500,000 or (B) the sum of the 15% Payment for the Net Cash Received in 2015 and the GBI Payment for 2015;
4. on or before December 30, 2016, the Company will pay the 3rd Party Seller the greater of (A) \$500,000 (the "Fifth Cash Payment") or (B) the sum of the 15% Payment for the Net Cash Received in 2016 and the GBI Payment for 2016; and
5. 15% of Net Cash Received and GBI Payments during the period of December 31, 2016 and March 31, 2017 attributable to revenues accrued in 2016 to the extent that the sum of (A) such amount and (B) 15% of the Net Cash Received in 2016 and the GBI Payment for 2016, exceeds the Fifth Cash Payment.
6. 20% of any equity financings unrelated to the Company's current operations. The total of all cash payments above, including the \$500,000 paid on closing, will not be less than \$3,500,000 and not more than \$6,000,000.

The Company was unable to make all its required payments. The terms of these payments have been amended: See *"Restructuring of OCT and CCC Purchase Agreement with the Third Party Seller"*;

As consideration for the purchase of Woollard's shares of OCT, the Company issued to Woollard a total of 200,000 of its common shares.

The Company purchased Tansey's shares in OCT in exchange for the assignment to the Company of Tansey's management agreement with an affiliate of the 3rd Party Seller and OCT and the issuance of 2,000,000 Common shares of the Company to Tansey.

### **INTEREST IN MAI NDOMBE REDD+ JOINT VENTURE**

On March 12, 2012, the Company entered into a 50/50 Joint Venture agreement with Wildlife Works Carbon LLC (WWC) of San Francisco, California, in order to bring the 299,645 hectare Mai Ndombe REDD+ project in the Democratic Republic of the Congo to verification.

On October 22, 2013, the Company entered into an agreement to sell to WWC its interest in the JV Project in the Democratic Republic of the Congo.

Effective January 1, 2012, the Company entered into 50/50 joint venture agreement with Wildlife Works LLC ("WWC"), in order to bring the Mai Ndombe Reduced Emissions from Forest Destruction or Degradation ("REDD+") project in the Democratic Republic of Congo ("DRC") to verification.

In October 2013, the Company entered into an agreement to sell its interest in the Mai Ndombe Joint Venture Project to WWC. WWC was to pay a total of US\$1,800,000 as follows:

1. US \$250,000 within ten days of closing, being December 17, 2013 (received)
2. US \$310,000 on or before April 1, 2014 (received)
3. US \$310,000 on or before July 1, 2014 (received)
4. US \$310,000 on or before October 1, 2014 (received)
5. US \$620,000 on or before January 1, 2015 (amended – see below)

In 2014 the Company applied US\$50,000 against a payable to WWC and applied US\$100,000 against certain DRC Government fines levied against the joint venture. The remaining US\$470,000 was amended whereby WWC paid US\$50,000 in March 2015, US\$20,000 in April 2016 and a further US\$400,000 was to be paid in installments throughout 2016. The Company and WWC signed an amendment agreement, effective July 31, 2016. It extended the due date to October 31, 2016. WWC failed to make the full scheduled payment to the Company and instead paid \$10,000, leaving an outstanding balance of US\$390,000. The amending agreement stated that interest shall accrue with ten percent (10%) simple annual interest payable on any amounts remaining unpaid until the date of full payment of the outstanding amount.

As at December 31, 2016, the Company recorded a provision of \$623,354 (US\$464,255) to write the consideration receivable down to \$1 as the amount was determined to be uncollectible.

On November 2, 2017, WWC repaid the full principal balance of \$497,195 (US\$390,000) and accrued interest of \$136,190 (US\$106,775). On the transaction, the Company recorded a gain on the recovery of consideration receivable in the amount of \$633,385. The proceeds received from WWC were used to pay \$564,982 to 3<sup>rd</sup> Party Seller and applied as follows: \$221,300 to overdue interest payments and \$343,665 against the amounts owing.

## RESTRUCTURING OF OCT AND CCC PURCHASE AGREEMENT WITH THIRD PARTY SELLER

The Company was unable to make the minimum required payment of \$1.5 million to the seller of OCT and CCC during 2013. Effective December 15, 2013, the Company restructured certain payment terms related to the acquisition.

Under the terms of the Share Purchase Agreement, NatureBank was scheduled to remit a \$1.5 million cash payment to the Seller by December 30, 2013. The Company and the Seller agreed to amend this payment schedule effective December 16, 2013. The amended payment schedule, totalling CDN \$1.5 million, was scheduled to occur as follows:

1. \$250,000 on or before December 31, 2013 (paid)
2. \$250,000 on or before April 30, 2014 (paid)
3. \$250,000 on or before July 31, 2014 (paid)
4. \$250,000 on or before October 31, 2014 (paid)
5. \$500,000 on or before January 31, 2015 (\$91,390 paid in the prior year, see amendment below)\*

During the years ended December 31, 2017 and 2016, the Company entered into multiple amending agreements whereby the maturity dates of the payments were extended as the Company was unable to meet its obligations. As per the most recent amendments dated March 17, 2016, July 31, 2016, April 28, 2017 and October 16, 2017 the payments were extended and as at December 31, 2017, the Company owes \$1,564,945 as follows:

- i) \$64,945 of the \$1,500,000 due on or before December in 2013, which was extended to December 31, 2017.\*
- ii) \$500,000 due on or before December 31, 2014 was extended to December 30, 2017.\*
- iii) \$500,000 due on or before December 31, 2015 was extended to December 30, 2017.\*
- iv) \$500,000 due on or before December 31, 2016 was extended to December 30, 2017.\*

In November 2017, the Company made payments totaling \$564,998 to the Third Party Seller. These payments came as a result of the payments received by NatureBank from WWC as noted above. The payments were applied as follows: \$221,316 applied to overdue interest payments recorded in accounts payable and accrued liabilities; \$343,682 applied against the Second Cash Payment originally due on or before December 30, 2013 and extended to December 30, 2017.

In addition to the above amendments, the Company issued 3,000,000 warrants exercisable into common shares at a price of \$0.10 per share expiring March 31, 2018 as consideration for extending the loan. The fair value of the warrants of \$23,954 was recorded as transaction costs. Subsequent to year end, the warrants expired unexercised.

\*Beginning January 1, 2014, outstanding payment amounts under the amended schedules carry a 10% annual interest.

As at the time of writing, third party seller and the Company are discussing a further extension or restructuring of the agreement. The Company is currently in default under the terms of that agreement.

## ACQUISITION OF FOREST FINEST

Under the terms of an LOI announced on February 5, 2015, and the subsequent Share Exchange Agreement (the "SEA") between NatureBank and Forest Finance, NatureBank completed the acquisition of 100% of Forest Finest (including CO<sub>2</sub>OL Natural Carbon Collection) and 15% of Forest Finance France SAS from Forest Finance Service GmbH of Bonn, Germany.

The first tranche of 11,633,500 shares were issued by NatureBank out of treasury to Forest Finance on the Closing Date following the signing of the SEA. The second tranche of 5,181,500 common shares of the Company were issued

to Forest Finance on June 22, 2016 as required under the SEA, based on the acquired assets meeting required 2015 cash flow performance targets.

## **CONVERTIBLE DEBENTURES**

On July 27, 2015, the Company entered into a convertible debenture agreement (“Debenture A”). Debenture A is between WBZ GmbH (“WBZ”), a German company, and Naturebank Technology, Inc. (“NBT”), a wholly owned subsidiary of the Company. The Debenture calls for WBZ to lend a total of \$280,000 to NBT.

The Debenture bears interest of 5% per annum, simple interest payable annually and can be converted at any time at the lesser of: (i) \$3.50 of Principal Amount and applicable interest per common share of NBT; or (ii) the last price paid by any arm’s length party for common shares of NBT, subject to the requirement that conversion of the Debenture cannot result in issuance of shares representing more than a 7.5% interest in NBT. The Debenture may be converted at any time by WBZ but WBZ cannot demand repayment for a period of two years. The Debenture can be re-paid by NBT at any time. WBZ is an existing shareholder of the Company, and is controlled by two directors of the Company.

Debenture A matured on July 27, 2017 but due to liquidity constraints, the Company was unable to pay both the principal (\$280,000) and the interest (\$14,000).

On November 6, 2015 the Company announced its intention to raise up to \$750,000 of convertible debentures. The first tranche of \$361,575 closed in December 2015. The first tranche is made up of two debentures (“Debenture B” and “Debenture C”). Debenture B is for \$111,575 and is held by WBZ, and Debenture C is for \$250,000 and is held by Gravitas Ventures Inc. Both have a term of two years. Debenture C is secured by a carbon project within the Company’s portfolio of carbon assets being developed for the Californian carbon market.

The first tranche debentures bear interest of 6% per annum, simple interest payable semi-annually, and can be converted at any time at a conversion price of \$0.10.

In the first quarter of 2016, the Company entered into three additional convertible debentures (“Debenture D”, “Debenture E” and “Debenture F”) for a total of \$350,000. Debentures D & F are for \$50,000 each and are both held by Phil Swift. Debenture E was for \$250,000 and is held by WBZ. On September 23, 2016, an early re-payment of principal of \$125,000 was made towards Debenture E. These three debentures are three years in term bearing 6% simple interest, payable semi-annually in arrears, and convertible at any time into shares of the Company at a conversion price of \$0.10 per share.

Due to liquidity constraints, the Company has not made all the scheduled interest payments due to WBZ for Debenture B or Debenture E. A total of \$22,787 of interest payments is overdue.

## PRIVATE PLACEMENT

On January 20, 2017, the Company closed a non-brokered private placement and issued 2,900,000 units at a price of \$0.10 per unit with a total value of \$290,000. Proceeds of \$290,000 were collected during the year ended December 31, 2016 and were reclassified from subscriptions received on the closing of the transaction. Each unit consisted of one common share of the Company and one whole share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.15 per share for a period of 12 months. The Company has recognized a residual value of \$145,000 on the warrants that were granted which is recorded in reserves.

## Management

As at December 31, 2017, the Company's senior management team consisted of:

|                     |  |
|---------------------|--|
| Phil Cull*          | Co-CEO   |
| Dirk Walterspacher* | Co-CEO and CEO of subsidiary Forest Finest Consulting GmbH |
| Rosita Morandin*    | Chief Financial Officer, Corporate Secretary               |
| Dr James Tansey     | Chief Investment Officer - Americas                        |
| Oliver Hanke        | Chief Investment Officer - Europe                          |
| Steve Baczko        | Managing Director, North America                           |
| David Rokoss        | Director, Investor and Government Relations                |

\* Officers of the company

On September 1, 2017 Rosita Morandin was appointed CFO, replacing Phil Cull.

As of February 1, 2017, James Tansey resigned as President and CEO of the Company and assumed the role of Chief Investment Officer, Americas. Mr. Tansey will continue to serve as a Director. The Board appointed Phil Cull and Dirk Walterspacher as Co-Chief Executive Officers of NatureBank. Mr. Cull is based in Canada, while Mr. Walterspacher heads NatureBank's wholly owned German-based subsidiary, ForestFinest Consulting.

## DIRECTORS

The Board of Directors consists of:

| Director                       | Independent | Audit Committee | Compensation Committee* |
|--------------------------------|-------------|-----------------|-------------------------|
| 1. James Tansey                | No          | No              | No                      |
| 2. John Poulter                | Yes         | No              | No                      |
| 3. Alexander Zang              | No          | Yes             | Yes                     |
| 4. Eduard Weber-Bemnet         | No          | No              | No                      |
| 5. Jim Logan                   | Yes         | Yes             | No                      |
| 6. Dirk Walterspacher          | No          | No              | No                      |
| 7. Harry Assenmacher, Chairman | No          | No              | Yes                     |
| 8. Phil Cull                   | <b>No</b>   | <b>Yes</b>      | <b>No</b>               |

On July 18, 2017, Phil Cull was appointed as a Director of the Company. As of January 31, 2018 John Poulter resigned from his role as director of the Company.

## Results of operations

### OVERVIEW OF FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2017

|                                       | 2017        | 2016        | 2015        |
|---------------------------------------|-------------|-------------|-------------|
|                                       | \$          | \$          | \$          |
| Revenue                               | 4,521,258   | 3,672,056   | 3,666,381   |
| Gross profit                          | 2,705,916   | 2,073,662   | 2,517,072   |
| Loss before other items               | (40,862)    | (1,278,246) | (1,029,535) |
| Comprehensive profit/loss             | 370,968     | (1,927,899) | (2,250,384) |
| Total assets                          | 2,329,272   | 2,140,936   | 2,386,778   |
| Working capital                       | (2,132,939) | (2,683,461) | (533,948)   |
| Shareholders' equity (deficiency)     | (2,303,131) | (2,792,437) | (1,540,974) |
| Long-term liabilities                 | 275,148     | 265,654     | 1,109,883   |
| Cash dividend                         | -           | -           | -           |
| Basic/diluted profit/(loss) per share | 0.01        | (0.040)     | (0.060)     |

During the year ended December 31, 2017 the Company generated \$4,521,258 in sales revenue as compared to sales of \$3,672,056 in the same period in 2016. The increase of \$849,202, or 23.1%, was due to Forest Finance (~\$600k) and Offsetters (~200k).

Gross profit was \$2,705,916 compared to \$2,073,662 for the year ended 2016. For the year ended December 31, 2017, 49% of revenue was retail offset sales to corporate CSR customers and 51% was advisory/consulting, project services & management services. In 2016, the ratios were 44% retail offset sales, and 56% advisory/consulting, project services & management consulting services.

Gross margin as a percentage of revenue is slightly higher at 59.8%, compared to 56.5% for the same period last year. The Company's consulting, project & management services in general have a higher gross margin percentage than our VER sales. For the year ended 2017 the company was able to recognize VER sales by using carbon offsets at favourable price.

Operating expenses for the year ended December 31, 2017 were \$2,746,778 compared to \$3,351,910 for same period in 2016. The decrease in operating expenses of \$605,132 or 18.05% is due to NatureBank's restructuring measures including: reductions in salaries/benefits (\$343,094), selling/general/admin (\$95,804) and Professional, Investor, Agent Fees (\$120,860). Due to favourable changes in foreign exchange rates, foreign exchange expenses decreased by \$20,109.

The Company delivered an operating loss before finance and other items of \$40,862 during the year ended December 31, 2017 (2016: \$1,278,246).

For the year ended December 31, 2017, accretion expense was \$22,727, same amount as the year ended December 31, 2016. Accretion expense relates to the 10% discount rate applied to the Provision and it remained the same since the provision amount, rate and remaining period have not changed.

Finance costs were \$101,214 for the year 2017, compared to \$122,041 for the year 2016. Finance costs are made up of both accretion (15%) and interest (6%) on debentures. Finance costs were slightly lower in the first quarter of 2017 compared to the same period of 2016, due to repayment of \$125,000 for Debenture E.

Interest expense for the year ended December 31, 2017 was \$210,143 compared to \$167,020 for the year ended 2016. Beginning January 1, 2016, the Company started incurring interest on an additional outstanding payment due to the 3<sup>rd</sup> Party Seller of OCT and CCC that was originally due on December 31, 2015. Additionally, beginning June 2016, the Company began incurring interest on delayed payment commitments related to the purchase of VERs from a supplier.

Interest income for the year ended December 31, 2017 was \$nil compared to \$54,263 for the same period in 2016. The majority of the 2017 interest represents 10% interest on the Consideration Receivable due to the Company since April 2015. The Consideration Receivable was written down in 2016, thus no longer earning interest income in 2017.

Other income was \$103,167 for year ended December 31, 2017 compared to \$154,356 in the same period last year. In 2015, the Company started sub-letting some of its excess office space contributing \$81,931 in other income during the year ended, versus \$98,895 in 2016. Other income was lower in 2017 over 2016 because 2016 included a one-time payment of \$37,208 related to a reimbursement of some prior project costs.

Total comprehensive income was \$370,968 for the year ended December 31, 2017, compared to comprehensive loss of \$1,927,899 for the year ended December 31, 2016.

Significant changes in operating expenditures in year 2017 versus year 2016 are categorized in the table below.

| Item                                 | Year ended<br>December 31, 2017<br>Increase (decrease)<br>in expense | Comment   |
|--------------------------------------|--|---|
| Consulting Fees                      | 51,338   | Increase in consulting fees was to restructuring measures resulting in reduction of employees and hours worked and engagement in consulting agreements.   |
| Professional, Investor, Agent Fees   | (120,860)  | Decrease is due to lower legal fees which arose in prior years from debt and equity restructuring, plus the reduction of investor relation fees.  |
| R&D and project cost                 | (47,042)   | Decrease is because development of the Naturebank software platform project has been discontinued and no further R&D expense is being incurred in 2017  |
| Salaries, benefits & management fees | (343,094)  | Decrease is due to restructuring measures taken by the Company, reflected in lower salaries, benefits, executive management fees and fewer employees  |
| Selling, general and administrative  | (95,804)   | Decrease is due to restructuring measures resulting in elimination and/or reduction of some general expenses not essential to the business, such as various subscriptions and marketing expenses. |
| Share-based compensation             | 16,849   | Increase due to options being issued and fully vesting in 2017 versus no options being issued in 2016   |

## SUMMARY OF QUARTERLY RESULTS

|                                       | 2017        |             |             |             |
|---------------------------------------|-------------|-------------|-------------|-------------|
|                                       | Q4          | Q3          | Q2          | Q1          |
| Three months ending:                  | Dec 31      | Sep 30      | Jun 30      | Mar 31      |
| Revenue                               | 1,838,643   | 1,029,951   | 1,162,106   | 490,558     |
| Comprehensive income (loss)           | 668,027     | (148,697)   | 11,926      | (160,288)   |
| Total assets                          | 2,329,272   | 2,066,733   | 1,830,402   | 1,829,953   |
| Working capital                       | (2,179,939) | (2,886,814) | (2,745,545) | (2,827,216) |
| Shareholders' equity (deficiency)     | (2,350,131) | (3,041,111) | (2,893,415) | (2,952,725) |
| Long-term liabilities                 | 275,148     | 276,062     | 281,090     | 269,806     |
| Cash dividend                         | -           | -           | -           | -           |
| Basic/diluted profit/(loss) per share | 0.013       | (0.003)     | (0.0002)    | (0.003)     |

|                                       | 2016        |             |             |             |
|---------------------------------------|-------------|-------------|-------------|-------------|
|                                       | Q4          | Q3          | Q2          | Q1          |
| Three months ending:                  | Dec 31      | Sep 30      | Jun 30      | Mar 31      |
| Revenue                               | 1,307,187   | 708,760     | 1,039,813   | 616,296     |
| Comprehensive income (loss)           | (846,663)   | (465,589)   | (435,372)   | (344,238)   |
| Total assets                          | 2,140,936   | 2,883,655   | 2,824,505   | 2,608,608   |
| Working capital                       | (2,683,461) | (1,113,724) | (744,789)   | (508,220)   |
| Shareholders' equity (deficiency)     | (2,792,437) | (2,212,422) | (2,078,148) | (1,806,739) |
| Long-term liabilities                 | 265,654     | 1,326,781   | 1,426,485   | 1,394,164   |
| Cash dividend                         | -           | -           | -           | -           |
| Basic/diluted Income/(loss) per share | (0.039)     | (0.022)     | (0.014)     | (0.008)     |

The Company's quarterly revenue was \$1,838,643 in the fourth quarter of 2017, compared to \$1,307,187 in the same quarter of 2016. The Company's quarterly revenue continues to be variable and is dependent on the scheduling of transactions within sales contracts and the delivery and billing of advisory services. However, the second quarter of the year commonly generates higher revenues because offset sales to Municipalities in British Columbia occur mainly during the second quarter of the year. The third quarter of this year included some new advisory and project services contracts.

Revenues from sales of offsets and consulting services can be variably dependent on seasonal demand from customers as well as dependent on when deferred revenues are recognized. The Company expects sales revenue to remain inconsistent on a quarterly basis.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's operating, investing and financing activities for year ended December 31, 2017 resulted in an increase in cash of \$125,495 (2016: increase of \$216,384).

As at December 31, 2017, the Company had an available cash balance of \$529,995 (December 31, 2016: \$404,500) to settle current liabilities of \$4,404,255 (December 31, 2016: \$4,667,719). The Company's current monetary

liabilities of \$3,205,597 (consisting of payables & accrued liabilities and short term provisions) exceed its current monetary assets of \$1,495,877 (consisting of cash and receivables), by \$1,709,720.

The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity or obtaining debt financing.

The Company's current liabilities mature as follows:

1. Accounts payables and accrued liabilities of \$1,542,043 (Dec 31, 2016: \$1,571,941) are primarily overdue, with some payables due within three months and some accruals due within 12 months. Payables sixty days past their invoice date are considered overdue.
2. Expected project maintenance, monitoring and reporting of \$22,609 (Dec 31, 2016: \$53,450) have been delayed and plan to be undertaken within the next 12 months.

Current future purchase consideration of \$1,564,945 is made up of 4 payments and the present value of 5th payment.

During the years December 31, 2016 and December 31, 2015, the Company entered into multiple amending agreements whereby the maturity dates of the payments were extended as the Company was unable to meet its obligations. Subsequent to year-end, on April 28, 2017 and October 16, 2017, the Company entered into the most recent amendments whereby the payments were extended and outstanding amounts owed are as follows:

- i) \$64,945 of the \$1,500,000 due on or before December in 2013 was extended to December 30, 2017.
- ii) \$500,000 due on or before December 31, 2014 was extended to December 30, 2017.
- iii) \$500,000 due on or before December 31, 2015 was extended to December 30, 2017.
- iv) \$500,000 due on or before December 31, 2016 was extended to December 30, 2017.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. In late 2015 and the first quarter of 2016, the Company borrowed cash, in the form of convertible debentures, from WBZ, Gravitas and Phil Swift in order to manage its working capital deficiency. These debentures have increased the Company's liabilities by \$846,630 (short-term \$641,575 and long-term \$205,055) not including accrued interest, as of December 31, 2017.

The Company had an obligation to purchase 41,000 VERs at US\$5.85 from Up Energy Group Inc. This obligation totalling US\$239,850 was initially due on May 31, 2016 then extended until August 31, 2016. The Company agreed to pay 8% interest on the delayed payments retroactive to the date the payments were initially due. At this point there is no formal extension agreement, the company lowered the liability by purchasing 2,000 VERs in April 2017 and another 2,000 VERs in June 2017. The Company continues accruing interest on the outstanding commitment.

The Company is currently experiencing cash flow and working capital difficulties. These are expected to continue until the Company is able to finalise some large one off revenue items currently delayed by regulatory review by the California Air Resources Board and is able to identify new revenue opportunities, specifically in the sustainable agro-forestry space. The Company is working to address the cash flow and working capital difficulties. The Company has (i) diversified its revenue streams through the purchase of Forest Finest and (ii) entered into borrowing arrangements. The Company will continue to (i) secure business or equity financing transactions which would improve its immediate financial and working capital position and (ii) negotiate restructuring payment terms with the

third party seller of OCT and CCC. In addition the Company has implemented significant cost reduction strategies including work force and salary restructuring.

## RELATED PARTY TRANSACTIONS

During the year ended December 31, 2017, the Company was involved in the following related party transactions which are recorded at fair value:

- (a) Management fees of \$55,000 (2016: \$240,000) were incurred to James Tansey, the Company's CIO. Due to Dr Tansey and included in accounts payable and accrued liabilities at December, 2017 is \$141,891 (Dec 31, 2016: \$286,465), including management fees and expenses.
- (b) Salary compensation of \$102,308 (2016: \$93,654 and \$2,533 RRSP contributions) was incurred to Phil Cull, the Company's current Co-CEO. Due to Mr. Cull and included in accrued liabilities at December 31, 2017 is \$41,369 (Dec 31, 2016: \$20,800). Mr. Cull became CFO on December 1, 2015, and Co-CEO on February 1, 2017. He ceased being CFO on September 1, 2017 and continued on as Co-CEO.
- (c) Salary compensation of \$89,876 (2016: \$96,615 and \$4,139 in RRSP contributions) was incurred to Rosita Morandin, the Company's CFO and Corporate Secretary. Due to Ms. Morandin and included in accrued liabilities at December 31, 2017 is \$17,621 (Dec 31, 2016: \$18,653). Ms. Morandin became Corporate Secretary on December 1, 2015 and CFO on the September 1, 2017.
- (d) Total compensation of \$252,428 (2016: \$111,416 salary and \$20,134 RRSP) was paid to Dirk Walterspacher, the Co-CEO of NatureBank. Due to Mr. Walterspacher and included in accrued liabilities in December 31, 2017 is \$1,718 in expenses (Dec 31, 2016: \$110).
- (e) Salary compensation of \$210,000 (2016: \$191,500) was incurred to Oliver Hanke, a director of the subsidiary Nature Ventures GmbH. Due to Mr. Hanke and included in accrued liabilities is \$29,926 (Dec 31, 2016: \$43,557)
- (f) Revenues of \$180,941 (2016: \$701,183) were recognized from Forest Finance Service GmbH (and its related companies), who has one director in common and is a significant shareholder of the Company. At December 31, 2017, \$nil (Dec 31, 2016: \$126,639) was due from Forest Finance and its related companies and is recorded in receivables; \$136,656 (Dec 31, 2016: \$nil) was due to Forest Finance and its related companies and is recorded in payables.
- (g) Revenues of \$187,100 (2016: \$nil) were recognized from 12Tree GmbH which has two owners that are Directors of the Company, one of which is a significant shareholder of the Company.
- (h) Included in payables is \$21,254 incurred from BCC Business Communications Consulting GmbH, whom is owned by two directors of the company.
- (i) No consulting fees were incurred from Forest Finance Switzerland AG in 2017 (2016: \$17,500), whose significant shareholder is a director of the Company. At December 31, 2017, \$95,430 (Dec 31, 2016: \$95,430) was recorded in accounts payable and accrued liabilities.

- (j) On the July 27, 2015, the subsidiary NBT borrowed \$280,000 from WBZ with terms described on page 13 of this MD&A. In July 2016, the Company paid \$14,000 in annual interest related to this debenture.

WBZ is a significant shareholder of the Company and is owned by two directors of the Company, Alexander Zang and Eduard Weber-Bemnet.

- (k) On November 6, 2015, the Company borrowed a further \$111,575 from WBZ on terms described on page 13 of this MD&A. In May 2016, the Company paid \$3,347 in semi-annual interest payments related to this debenture.

- (l) On March 22, 2016, the Company borrowed a further \$250,000 from WBZ on terms described on page 13 of this MD&A. On September 23, 2016 the Company re-paid \$125,000 of this debenture and on March 29, 2017 paid \$3,750 in semi-annual interest.

Total accrued interest to WBZ on the three debentures is \$42,848

- (m) Interest expense of \$185,337 (2016 - \$107,443) was incurred from the 3rd Party Seller's OCT and CCC shares. At December 31, 2017, \$23,040 (Dec 31, 2016 - \$59,019) was recorded in accounts payable.

## OFF BALANCE SHEET ARRANGEMENTS

The Company did not enter into any off-balance sheet arrangements during the period.

## Outstanding shares

The following table summarizes the outstanding share capital as of the date of the MD&A.

|                     |            |
|---------------------|------------|
| Common Shares       | 52,631,076 |
| Options outstanding | 2,725,000  |
| Warrants            | -          |

## COMMON SHARES

Authorized Share Capital consists of an unlimited number of common shares without par value.

On January 19, 2017, the Company closed a private placement of 2,900,000 units for \$290,000 at \$0.10 per unit. Each unit consists of one common share and one full share purchase warrant entitling the holder to purchase one additional common share of the company at a price of \$0.15 per share for a period of twelve months.

The Company issued 200,000 common shares at a fair value of \$0.04 to Small Cap Invest Ltd to settle a trade payable valued at \$10,000.

### ***OPTIONS***

In March 2015, the shareholders approved a new stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares. In addition the term was reduced to five years.

The stock option plan will be used to provide an incentive to the directors, officers, employees, and consultants as additional compensation and as an opportunity to participate in the growth of the Company. Options vest immediately unless granted to an optionee performing investor relations activities or if the Board agrees with the optionee on vesting provisions.

On July 15, 2016, 300,000 options were granted to employees of the Company with an exercise of \$0.10 and expiry date of July 14, 2021.

On April 5, 2017, 1,075,000 options were granted to employees of the Company and one consultant, with an exercise price of \$0.10 and expiry date of April 4, 2022.

### ***WARRANTS***

On January 20, 2017, 2,900,000 were issued with an exercise price of \$0.15 and an expiry date of January 20, 2018 as part of the Private Placement described on page 14.

On March 31, 2017, 2,000,000 warrants issued to the 3<sup>rd</sup> Party Seller of OCT & CCC expired.

As consideration for granting the Company deferred payments as described on page 13, on July 21, 2017, 3,000,000 warrants were issued with an exercise price of \$0.10 and an expiry date of March 31, 2018.

## **Events After the Reporting Date**

On March 1, 2018, the Company announced that Slavica Leporis was appointed as Interim CFO, following the maternity leave of absence of current CFO Rosita Morandin. Additionally, Oliver Hanke, CIO of Nature Ventures Inc, a wholly owned subsidiary of NatureBank in Switzerland, resigned.

On March 28, 2018, NatureBank announced the proposed sale of an 80% interest in Forest Finest Consulting GmbH (“FFC”) to the management team of FFC, which includes Dirk Walterspacher, the current managing director of FFC and co-CEO of NatureBank. The transaction is subject to TSX Venture approval.

On April 5, 2018, NatureBank announced that co-CEO Dirk Walterspacher would be stepping down to focus his attention on the acquisition of FFC from NatureBank. The Company appointed Phil Cull to the position of CEO.

## Financial instruments and risk management

### (a) Fair Values

The Company's financial instruments are classified as follows. Unless otherwise disclosed their carrying values approximate their fair values due to the short term nature of these instruments.

| December 31, 2017                        | Loans and receivables | Fair Value through Profit or Loss | Other financial liabilities |
|--|-----------------------|-----------------------------------|-----------------------------|
| <b>Financial assets</b>                  |                       |                                   |                             |
| Cash                                     | -                     | \$ 529,955                        | -                           |
| Accounts and other receivables           | \$ 965,882            | -                                 | -                           |
| Consideration receivable                 | -                     | -                                 | -                           |
| <b>Financial liabilities</b>             |                       |                                   |                             |
| Accounts payable and accrued liabilities | -                     | -                                 | \$ 1,542,043                |
| Taxes Payable                            |                       |                                   | \$ 57,000                   |
| Provisions                               | -                     | -                                 | \$ 1,664,742                |
| Convertible debentures                   | -                     | -                                 | \$ 846,630                  |
|  | \$ 965,882            | \$ 529,995                        | \$ 4,110,415                |

The Company uses the following hierarchy for determining and disclosing fair value of financial instruments:

Level 1 — quoted prices in active markets for identical assets and liabilities.

Level 2 — observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 — unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

At December 31, 2017, the Company's cash is measured at fair value using level 1.

## CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's credit risk to its financial assets is summarized below:

| December 31, 2017              |              |
|--------------------------------|--------------|
| Cash                           | \$ 529,995   |
| Accounts and other receivables | 965,882      |
|                                | \$ 1,495,877 |

### *Cash*

The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. Management assesses credit risk of cash as very low.

### *Accounts and other receivables*

The majority of the Company's accounts receivables consists of amounts due from customers from completed sales.

The Company monitors its accounts receivables through standard credit and reference checks. Subsequent to year end the company collected \$403,600 from outstanding accounts receivable.

## Liquidity risks

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As of December 31, 2017, the Company had a cash balance of \$529,995 (2016 - \$404,500) to settle current liabilities of \$4,404,255 (2016 - \$4,667,719).

Management is currently restructuring contracts in order to ensure sufficient liquidity throughout 2017 and onward.

The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity or obtaining additional debt financing.

## MARKET RISK

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency rate risk, interest rate risk and other price risk.

### *Foreign Exchange Rate Risk*

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company is exposed to foreign currency risk on the cash, accounts receivable, accounts payable and accrued liabilities balances denominated in US dollars, Euro's, Swiss Francs and British

Pounds. As at December 31, 2017, the Company had net monetary assets of €271,660 held in Euro's, \$29,613 held in US dollars and a net liability of 40,182 in CHF. A fluctuation in the exchange rates between the Canadian and US dollar of 10% would result in \$3,715 change in the profit and loss of the Company. A fluctuation in the exchange rates between the Canadian dollar and Euro of 10% would result in \$40,890 change in the profit and loss of the Company. A fluctuation in the exchange rates between the Canadian dollar and Swiss Franc of 10% would result in \$5,165 change in the profit and loss of the Company.

Management maintains cash accounts denominated in US dollars, Euros, Swiss Francs and British Pounds to complete foreign currency purchases and considers this practice adequate to mitigate significant foreign currency fluctuations for transaction of this nature.

In 2017, a significant proportion of the Company's sales commitments were in US and Euro's. Those sales commitments are from our company's regular sales to US and international customers and from German subsidiary and the funds received from those sales are used in its operating activities. The Company did not engage in hedging contracts to manage exposure to foreign exchange risk in 2017, but may in the future if sales commitments in US dollars increase.

### ***Interest Rate Risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company currently has cash balances, accounts receivable, other receivables and payables that are not subject to interest rate risk due to their short-term to maturity. The Company does not rely on interest income from cash accounts or short term loans to maintain operations.

### ***Price risk***

The Company's finished goods inventory may be exposed to price risk with respect to voluntary carbon credit prices. Carbon credit price risk is defined as the potential adverse impact on the Company's earnings due to movements in price for carbon offsets in the voluntary market. Most of the Company's inventory and VER production for 2017 is committed to customers under contract. Price risk at the present time is not material to the Company. If the Company were to carry inventory in the future beyond its sales requirements, the price risk to the Company relating to fluctuations in the price of carbon credits could be material.

## Business Risks and Uncertainties

The Company is in the business of developing sustainable agro-forestry projects and supplying carbon offsets and technical advisory services to the carbon markets. Due to the nature of the business, the legal and economic climate in which the Company operates and the present state of development of its business, the Company may be subject to significant risks that could have a material adverse effect on the Company's business, operating results or financial condition. The Company's actual operating results in the future may be different from those expected as at the date of this MD&A.

The Company's future revenues are dependent on the demand for sustainable agro-forestry products (such as cocoa and timber) and the demand for carbon offsets, the market price for these commodities and the Company's ability to supply these commodities to the market.

While the historical demand and pricing for commodities such as cocoa are well documented, there is no guarantee that current trends indicating a growth in demand for sustainably grown cocoa will continue into the future. Cocoa projects can be costly to develop and are long term in nature (25-30 years), and while certain mitigation strategies to reduce commodity pricing risk can be employed from time to time; there is no guarantee that future pricing will be adequate to ensure consistent profitability. Furthermore, agriculture is susceptible to certain natural events and risks (such as weather and disease) that can also have a detrimental effect on the Company's ability to produce sufficient and consistent yields.

Additionally, while the Company endeavours to undertake sufficient due diligence before investing in a foreign country, there are always risks when doing business in foreign jurisdictions. These risks can be political in nature, economic, environmental, or social. There are no guarantees that foreign governments will not alter current laws and practices that could impact the overall viability of the Company's business interests, nor are there guarantees that current operating dynamics will continue into the future, given the long term nature of the projects we undertake.

Regarding carbon offsets, the voluntary carbon market consists of two segments: the corporate (or individual) social responsibility segment and the compliance segment. The demand for offsets in the social responsibility segment is driven by stakeholder or organisational concern about climate change and its impact on the natural environment. Variation and change in the levels of awareness of the climate change problem and acceptance of scientific evidence among corporate stakeholders and customers is a significant driver of carbon offset demand and cannot be significantly influenced by the Company.

Carbon offset demand in the compliance market segment is driven by regulatory action by governments that require emitters of greenhouse gasses to purchase allowances or carbon credits to meet imposed caps or limits on emissions. This demand is largely influenced by regulatory measures introduced by governments including adoption and observance of the Kyoto Protocol and post-Kyoto mechanisms, AB32 legislation in California related to the California Air Resources Board, the introduction of new jurisdictional legislation (or the lack or delay thereof) and possible legal or challenges to regulatory intention or legislation and is subject to sudden change. The Company takes steps to positively influence policy making and raise awareness of the importance of offsetting as an essential mitigation measure within climate change regulation and policy in its operating jurisdictions. The Company's influence is limited in scale and scope within the large number of interests seeking to influence policy and regulation.

Carbon offset pricing is largely dependent on supply and demand in the market. Current and future projects undertaken by the Company which produce offsets which are and will be tradable in the wider markets for pre-compliance offsets will be more susceptible to market pricing impacts driven by supply and demand. Supply, demand and pricing cannot be significantly influenced by the Company.

The demand for, and the market price of carbon offsets may also be adversely affected by invention of new technology that assists in the reduction of emissions, increased use of alternative fuels, a decrease in the price of conventional fossil fuels, increased use of renewable energy, and the introduction of carbon tax systems.

The carbon offset industry is competitive. The Company will compete with numerous other participants in the search for, and the acquisition of carbon offset projects and in the marketing of the sale of offsets and related services. The Company's competitors will include companies that may have substantially greater financial resources, staff and facilities than those of the Company.

The majority of contracted sales to our customers are made in Canadian dollars. Trade in the wider markets for carbon offsets takes place in US dollars and Euros. The profitability of the Company may be adversely affected by fluctuations in the rate of exchange of the Canadian dollar and other currencies the Company may do business in.

The Company's operations in Canada or internationally may be subject to controls and regulations imposed by various levels of government that may be amended from time to time.

The operations of the Company may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out development of its projects or regular operations.

Conflicts of interest may arise as a result of the directors, officers and promoters of the Company also holding positions as directors or officers of other companies. Some of those individuals have held and will continue to hold positions as directors or officers of other companies operating in the same industry of which the Company operates in, and situations may arise where the directors and officers of the Company will be in direct competition with other companies in which these individuals are also involved.

## Critical Accounting policies and Estimates

### CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies are presented in Note 3 of our audited annual consolidated financial statements. As described in Note 3, we are required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Our estimates are based on our experience and our interpretation of economic, political, regulatory and other factors that influence our business. These estimates, including the most material ones as listed below, have a significant effect on the financial statements and actual results may differ from our estimates.

- impairment of goodwill and intangibles;
- valuation of inventory;
- estimation of maintenance, and
- estimation of future payments to the third party seller of OCT and CCC.
- Future changes in accounting policies not yet adopted

### FUTURE CHANGES IN ACCOUNTING POLICIES NOT YET ADOPTED

#### *IFRS 9 – Financial Instruments (“IFRS 9”)*

In July 2014, the IASB issued the final version of IFRS 9 which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity’s business model and the contractual cash flow of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. IFRS 9 amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on financial liabilities and de-recognition of financial instruments. The amended standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has determined that the adopting of IFRS 9 will not have a material impact on its consolidated financial statements.

#### *IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”)*

In May 2014, IASB issued IFRS 15 to replace IAS 18 – Revenue, which establishes a new single five-step control-based revenue recognition model for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has determined that the adopting of IFRS 15 will not have a material impact on its consolidated financial statements.

#### *IFRS 16 – Leases (“IFRS16”)*

On January 13, 2016, the IASB issued IFRS 16, Leases, according to which, all leases will be on the statement of financial position, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has not yet completed the process of assessing the impact that IFRS 16 will have on its consolidated financial statements, or whether to early adopt the new requirements.

## History of the Company

The Company was incorporated under the provisions of *British Columbia Business Corporation Act* (the “BCBCA”) on July 6, 2005 under the name “Interim Capital Corp.” and commenced trading on April 24, 2006 under the trading symbol “INA.P” on the TSX-V. Until July 24, 2008, it had been classified as a Capital Pool Company (“CPC”) as defined in the TSX-V Policy 2.4. As a CPC, the principal business of the Company was to identify and evaluate businesses and assets with a view to completing a qualifying transaction and, once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval, if necessary, and acceptance by regulatory authorities to represent its qualifying transaction.

On February 14, 2008, the Company announced that it had entered into a definitive arrangement agreement (the “Agreement”) with ERA to acquire all of ERA’s issued and outstanding shares (the “Qualifying Transaction”). The transaction constitutes the Company’s qualifying transaction pursuant to TSX-V Policy 2.4.

Subject to a court-ordered plan of arrangement, effective July 24, 2008, the Company completed its Qualifying Transaction through the acquisition of ERA. Pursuant to the plan of arrangement, the Company effected a 2.5 (old) for 1.0 (new) share consolidation before issuing a total of 15,705,233 shares to the ERA shareholders to acquire all of the issued and outstanding shares of ERA. As a result of the Qualifying Transaction, ERA is now a wholly owned subsidiary of the Company.

Based in Vancouver, ERA was incorporated on June 4, 2004 under the BCBCA. The principal business of ERA was to produce carbon offsets through community ecosystem restoration projects. The offsets are validated and verified to ISO 14064-2 standard 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. ERA has the capacity to assess carbon resource potentials, prescribe and implement ecosystem restorations to develop those resources, and thereby generate carbon offset products for sales directly with customers, or through brokers and re-sellers with whom ERA has established agreements.

In order to support potential business activity in the U.S., on June 20, 2008, ERA created a wholly owned subsidiary in the State of Hawaii, USA, under the name of ERA Ecosystem Restoration Associates Hawaii Inc. (“ERA Hawaii”). On August 6, 2009, the Company incorporated a wholly owned subsidiary in British Columbia under the name of Ecobalance Offsets Ltd. (“Ecobalance”). Both ERA Hawaii and Ecobalance were inactive operations. ERA Hawaii was sold as part of the disposal of the Company’s Joint Venture interest in 2013. Ecobalance Offsets was dissolved in January 2013.

On March 12, 2012, the Company entered into a 50/50 Joint Venture agreement with WWC of Mill Valley, California, in order to bring the 299,645 hectare Mai Ndombe REDD+ project in the Democratic Republic of the Congo to verification. On October 22, 2013, the Company entered into an agreement to sell its interest in the JV Project to WWC for total cash payments of \$1.8 million and other consideration.

On December 14, 2012, the Company acquired OCT and CCC. Established in 2006, CCC is a leader in agricultural and forest carbon, as well as climate software and technology solutions. Established in 2007, OCT is a leader in technology offset development and commercialization, and sustainability consulting.

In November 2013, the Company incorporated a subsidiary in Nevada, US, ESU. It began operations in May 2014.

In August 2014, the Company incorporated a subsidiary in BC, NBT.

In July, 2015, the Company acquired Forest Finest from Forest Finance Service GmbH.

In April 2016, the Company incorporated a wholly owned subsidiary in Switzerland, Nature Ventures GmbH.

On June 1, 2016, the Company announced an MOU with Anholt Services (USA) Inc. to partner on the investment and development of USD \$11 million worth of cocoa projects in the Dominican Republic.

In July 2016, the Company completed the acquisition of the carbon client portfolio of Forest Carbon Group GmbH of Frankfurt Germany, which was absorbed into the existing voluntary carbon client portfolio of wholly owned brand CO<sub>2</sub>OL, which is operated by Forest Finest in Bonn, Germany.

The Company is trading on the TSX-V as a Tier 2 issuer under the trading symbol “COO” and changed its name to NatureBank Asset Management Inc. on October 20, 2015.

More information about the Company may be found online at [www.NatureBank.com](http://www.NatureBank.com) or at [www.sedar.com](http://www.sedar.com).

## Cautionary note regarding forward looking statements

CERTAIN OF THE STATEMENTS AND INFORMATION IN THIS MD&A CONSTITUTE “FORWARD-LOOKING STATEMENTS” WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND “FORWARD-LOOKING INFORMATION” WITHIN THE MEANING OF APPLICABLE CANADIAN PROVINCIAL SECURITIES LAWS RELATING TO THE COMPANY AND ITS OPERATIONS. ALL STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACT MAY BE FORWARD-LOOKING STATEMENTS. WHEN USED IN THIS MD&A THE WORDS “BELIEVES”, “EXPECTS”, “INTENDS”, “PLANS”, “FORECAST”, “OBJECTIVE”, “OUTLOOK”, “PROJECTED”, “ANTICIPATED”, “BUDGET”, “LIKELY” AND SIMILAR WORDS OR EXPRESSIONS IDENTIFY FORWARD-LOOKING INFORMATION OR STATEMENTS. THESE FORWARD-LOOKING STATEMENTS OR INFORMATION RELATE TO, AMONG OTHER THINGS: WORKING CAPITAL, ACCESS TO FINANCING, THE ABILITY OF COUNTERPARTIES TO SALE OR PURCHASE CONTRACTS TO REMAIN GOING CONCERNS AND GREENHOUSE GAS EMISSIONS REGULATION IN THE UNITED STATES, CANADA, EUROPE OR OTHER JURISDICTIONS.

THESE STATEMENTS REFLECT THE COMPANY’S CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND ARE NECESSARILY BASED UPON A NUMBER OF ASSUMPTIONS AND ESTIMATES THAT ARE DISCLOSED IN THOSE PORTIONS OF THE MD&A DEALING WITH THEM AND, WHILE CONSIDERED REASONABLE BY THE COMPANY, ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, COMPETITIVE, POLITICAL AND SOCIAL UNCERTAINTIES AND CONTINGENCIES. MANY FACTORS, KNOWN AND UNKNOWN, COULD CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM THE RESULTS, PERFORMANCE OR ACHIEVEMENTS THAT ARE OR MAY BE EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS CONTAINED IN THIS MD&A AND THE COMPANY HAS MADE ASSUMPTIONS AND ESTIMATES BASED ON OR RELATED TO MANY OF THESE FACTORS. SUCH FACTORS MAY INCLUDE: THE ENVIRONMENT FOR BORROWING AND LENDING, POSSIBLE DOWNTURN IN BRITISH COLUMBIA’S RESOURCE ECONOMY, THE POSSIBLE RECESSION OF THE NORTH AMERICAN ECONOMY AND REDUCTION IN DEMAND FOR PRODUCTS AND SERVICES RELATED TO SUSTAINABILITY AND ENVIRONMENTAL PERFORMANCE, THE PERFORMANCE OF THE VENTURE MARKET FOR SECURITIES, WHETHER THE INTERNATIONAL COMMUNITY WILL RALLY AROUND REDD PROJECTS AS A WAY TO PROTECT ENDANGERED RAINFORESTS WITHIN THE MANAGEMENT OF CLIMATE CHANGE, THE STABILITY OF GOVERNMENT AND THE RULE OF LAW IN LESS DEVELOPED COUNTRIES, SPECIFICALLY THE DEMOCRATIC REPUBLIC OF THE CONGO, THE ABILITY OF THE COMPANY’S PROJECTS WITH RECURRING VERIFICATIONS TO RETAIN THEIR VALIDATION STATUS WITHIN THE SCOPE OF POTENTIAL CHANGES IN VOLUNTARY OR REGULATED STANDARDS OR GUIDANCE, AND POSSIBLE CHANGES IN GREENHOUSE GAS EMISSIONS REGULATION IN THE UNITED STATES, CANADA, EUROPE OR OTHER JURISDICTIONS.