



NatureBank Asset Management Inc.

Consolidated Financial Statements
(Expressed in Canadian dollars)

For the year ended December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
NatureBank Asset Management Inc.

We have audited the accompanying consolidated financial statements of NatureBank Asset Management Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of NatureBank Asset Management Inc. as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about NatureBank Asset Management Inc.'s ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

April 30, 2018

NATUREBANK ASSET MANAGEMENT INC.
Consolidated Statements of Financial Position
At December 31, 2017 and 2016
(Expressed in Canadian dollars)

	Notes	2017	2016
ASSETS			
Current Assets			
Cash		\$ 529,995	\$ 404,500
Accounts and other receivables	5	965,882	816,853
Inventory	6	498,353	483,715
Prepaid expenses	7	230,086	279,189
Consideration receivable	10	-	1
Total Current Assets		2,224,316	1,984,258
Deposits	8	33,025	29,674
Property and equipment	9	42,269	43,238
Intangible assets	11	29,662	83,766
Total Long-term Assets		104,956	156,678
Total Assets		\$ 2,329,272	\$ 2,140,936
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current Liabilities			
Accounts payable and accrued liabilities	12	\$ 1,542,043	\$ 1,571,941
Taxes payable		57,000	53,021
Provisions	13	1,606,554	1,939,333
Deferred revenue		557,083	499,640
Convertible debentures	14	641,575	603,784
Total Current Liabilities		4,404,255	4,667,719
Provisions	13	58,188	58,188
Convertible debentures	14	205,055	188,419
Deferred revenue		11,905	19,047
Total Long-term Liabilities		275,148	265,654
Total Liabilities		4,679,403	4,933,373
Shareholders' Deficiency			
Share capital	15	14,654,255	14,501,255
Subscriptions received	15	-	290,000
Reserves	17	2,699,081	2,490,743
Equity component of convertible debenture	14	74,048	74,048
Accumulated other comprehensive income		10,289	(8,501)
Deficit		(19,787,804)	(20,139,982)
Total Shareholders' Deficiency		(2,350,131)	(2,792,437)
Total Liabilities and Shareholders' Deficiency		\$ 2,329,272	\$ 2,140,936

Nature and continuance of operations (note 1)
Commitments (note 20)
Events after the reporting period (note 26)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

"Phil Cull"

Phil Cull, Director

"James Tansey"

James Tansey, Director

NATUREBANK ASSET MANAGEMENT INC.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the Year Ended December 31, 2017 and 2016

(Expressed in Canadian dollars)

	Note	2017	2016
Revenue	19	\$ 4,521,258	\$ 3,672,056
Cost of goods sold		1,815,342	1,598,394
Gross profit		2,705,916	2,073,662
Operating Expenses			
Accounts receivable write-down		623	9,706
Amortization	9	13,067	12,827
Amortization of intangible assets	11	82,740	114,979
Consulting fees		227,814	176,476
Foreign exchange		(11,346)	8,763
Inventory write-down		-	5,328
Professional, investor and agent fees		145,511	266,371
Research & development, and project costs		-	47,042
Salaries, management fees and benefits		1,521,791	1,864,885
Selling, general, and administrative		727,194	822,998
Share-based compensation	17	39,384	22,535
Total Operating Expenses		2,746,778	3,351,910
		(40,862)	(1,278,248)
Accretion expense	13	(22,727)	(22,727)
Consideration receivable write-down	10	-	(623,354)
Finance costs	14	(101,214)	(122,041)
Gain (loss) on disposal of property and equipment	9	5,215	(3,566)
Gain on early redemption of convertible debenture	14	-	2,236
Gain on provision estimate revision	13	11,612	25,303
Gain on settlement of payables		54,699	3,301
GST Recovery		-	42,994
Interest expense		(210,143)	(167,020)
Interest income		-	54,263
Other income		103,167	154,356
Recovery of consideration receivable	10	633,385	-
Transaction costs	13	(23,954)	-
		450,040	(656,255)
Income (loss) before income taxes for the year		409,178	(1,934,504)
Current income tax	23	(57,000)	-
Deferred tax recovery	23	-	20,396
Net income (loss) for the year		352,178	(1,914,107)
Other Comprehensive Income			
Exchange gain (loss) on translation of foreign operations		18,790	(13,792)
Comprehensive income (loss) for the year		\$ 370,968	\$ (1,927,899)
Income (loss) per share, basic		\$ 0.01	\$ (0.04)
Income (loss) per share, diluted		\$ 0.01	\$ (0.04)
Weighted average number of shares outstanding		52,631,076	46,119,027

NATUREBANK ASSET MANAGEMENT INC.

Consolidated Statements of Changes in Shareholders' Deficiency
 For the Year Ended December 31, 2017 and 2016
 (Expressed in Canadian dollars)

	Share Capital		Subscriptions received	Reserves	Equity component of debentures	Accumulated other comprehensive income	Deficit	Total
	Number	Amount						
Balance at December 31, 2015	42,475,052	\$ 14,169,940	\$ -	\$ 2,468,208	\$ 41,489	\$ 5,291	\$ (18,225,875)	\$ (1,540,947)
Issuance of shares for asset acquisition	1,874,524	149,962	-	-	-	-	-	149,962
Issuance of shares for 2015 business combination	5,181,500	181,353	-	-	-	-	-	181,353
Subscriptions received	-	-	290,000	-	-	-	-	290,000
Share-based compensation	-	-	-	22,535	-	-	-	22,535
Equity component of convertible debenture	-	-	-	-	32,559	-	-	32,559
Exchange gain on translation of foreign operations	-	-	-	-	-	(13,792)	-	(13,792)
Loss for the year	-	-	-	-	-	-	(1,914,107)	(1,914,107)
Balance at December 31, 2016	49,531,076	14,501,255	290,000	2,490,743	74,048	(8,501)	(20,139,982)	(2,792,437)
Issuance of shares for private placement	2,900,000	145,000	(290,000)	145,000	-	-	-	-
Issuance of shares to settle debt	200,000	8,000	-	-	-	-	-	8,000
Share-based compensation	-	-	-	39,384	-	-	-	39,384
Fair value of warrants issued on provision amendment	-	-	-	23,954	-	-	-	23,954
Exchange loss on translation of foreign operations	-	-	-	-	-	18,790	-	18,790
Income for the year	-	-	-	-	-	-	352,178	352,178
Balance at December 31, 2017	52,631,076	\$ 14,654,255	\$ -	\$ 2,699,081	\$ 74,048	\$ 10,289	\$ (19,787,804)	\$ (2,350,131)

NATUREBANK ASSET MANAGEMENT INC.
Consolidated Statements of Cash Flow
For the Year Ended December 31, 2017 and 2016
(Expressed in Canadian dollars)

	2017	2016
Cash provided by (used in) continuing operating activities:		
Net income (loss) for the year	\$ 352,178	\$ (1,914,107)
Items not involving cash:		
Accounts receivable write-down	623	9,706
Accretion expense	22,727	22,727
Accrued interest expense	210,143	165,709
Amortization	13,067	12,827
Amortization of intangible assets	82,740	114,979
Consideration receivable write-down	-	623,354
Deferred tax recovery	-	(20,396)
Finance costs on convertible debt	101,214	122,041
(Gain) loss on disposal of property and equipment	(5,215)	3,566
(Gain) loss on settlement of payables	(54,699)	3,301
Gain on early redemption of convertible debenture	-	(2,236)
Gain on provision estimate revision	(11,612)	(25,303)
Income tax expense	57,000	-
Interest income	-	(54,188)
Inventory write-down	-	5,328
Recovery of consideration receivable	(633,385)	-
Share-based compensation	39,384	22,535
Transaction costs	23,954	-
Unrealized loss on foreign exchange	10,829	25,757
Changes in non-cash operating working capital (note 25):	(87,770)	749,229
Net cash flows provided by (used in) operating activities:	121,178	(135,171)
Investing activities provided by (used in):		
Acquisition of property and equipment	(12,507)	(15,920)
Cash paid for distribution rights	(25,000)	(25,000)
Disposition of equipment	5,215	900
Consideration received from WWC	68,421	-
Net cash provided by (used in) investing activities	36,129	(40,020)
Financing activities:		
Interest paid on provisions	-	(83,748)
Proceeds from convertible debentures, net of issuance costs	-	350,000
Repayment of convertible debt (principal)	-	(125,000)
Repayment of convertible debt (interest)	(24,320)	(35,347)
Shares subscriptions received	-	290,000
Net cash provided by (used in) financing activities	(24,320)	395,905

NATUREBANK ASSET MANAGEMENT INC.
Consolidated Statements of Cash Flow
For the Year Ended December 31, 2017 and 2016
(Expressed in Canadian dollars)

Impact of exchange rate changes on cash	(7,492)	(4,330)
Increase in cash	125,495	216,384
Cash, beginning of year	404,500	188,116
Cash, end of year	\$ 529,995	\$ 404,500

Supplemental disclosures and non-cash transactions relating to financing and investing activities:

	2017	2016
Accrued interest on convertible debt	\$ 45,949	\$ 23,481
Consideration receivable repayment applied to provisions	343,665	37,574
Consideration receivable repayment applied to accounts payable and accrued liabilities	221,300	-
Equity component of convertible debt	-	32,559
Residual value of warrants recognized in share capital	145,000	-
Shares issued to settle debt	8,000	-
Transfer of subscriptions received to share capital	290,000	-

NATUREBANK ASSET MANAGEMENT INC.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2017 and 2016
(Expressed in Canadian dollars)

1. Nature and Continuance of Operations

NatureBank Asset Management Inc. (the “Company”) was incorporated on July 6, 2005 under the Business Corporations Act (BC). The Company was classified as a Capital Pool Company and completed an initial public offering and commenced trading on the TSX Venture Exchange (“TSX-V”) on April 25, 2006.

The Company’s head office, principal address, and registered and records office is located at Unit 300-948 Homer Street, Vancouver, British Columbia, V6B 2W7, Canada.

The Company’s primary business is the sourcing, financing, development, and commercialization of sustainable commodities across the agro-forestry and carbon sectors.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business and continue operations for the next twelve months.

The Company’s ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The Company has negative working capital at December 31, 2017, and it will require securing additional funding and/or profitable operations for the upcoming year. Material uncertainties related to the Company’s ability to secure additional funding or deliver profitable operations may cast significant doubt on the entity’s ability to continue as a going concern. Realizable values may be substantially different from carrying values as shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. Basis of Preparation

a) Statement of Compliance

These consolidated financial statements including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

b) Basis of Consolidation

Company	Jurisdiction of Incorporation	2017 Ownership %	2016 Ownership %	Status
Offsetters Clean Technology Inc. (“OCT”)	British Columbia, Canada	100%	100%	Operating
ERA Ecosystem Restoration Associates Inc.	British Columbia, Canada	100%	100%	Operating
ERA Ecosystem Services U.S., Inc.	Nevada, United States	100%	100%	Operating
Forest Finest Consulting GmbH	Bonn, Germany	100%	100%	Operating
Nature Ventures GmbH	Zurich, Switzerland	100%	100%	Operating
NatureBank Technology, Inc.	British Columbia, Canada	100%	100%	Operating
Carbon Credit Corp. (“CCC”)	British Columbia, Canada	100%	100%	Inactive

Significant intercompany balances and transactions, including any unrealized income and expenses arising from inter-company transactions are eliminated in preparing the consolidated financial statements.

c) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and liabilities measured at fair value.

d) Functional Currency

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 “€”). The presentation currency of the financial statements is the CAD.

e) Approval of the Financial Statements

The financial statements of the Company for the years ended December 31, 2017 and 2016 were approved and authorized for issue by the Board of Directors on April 30, 2018.

3. Significant Accounting Policies

a) Project development expenditures

The Company incurs project expenditures to research properties, conduct pre-feasibility evaluation activities, scope projects, acquire carbon rights and develop carbon rights to project validation either intended for sale or use from an independent third party. The Company records project expenditures as either research costs, which are expensed as incurred, or development expenditures, which are either included in inventory or capitalized as an intangible asset depending on whether the carbon offset credits from the project are intended for sale or use.

The costs to develop the projects include directly attributable labor, overhead, materials and consulting fees. The Company will capitalize costs to develop a project intended for use that it legally holds the carbon rights to, as long as the Company:

- (i) maintains assurance over the technical feasibility of completing the project
- (ii) has the intention to have the project validated and sell or use the Verified Emission Reduction units ("VERs").
- (iii) has the ability to use or sell the VERs.
- (iv) can demonstrate the project has probable future economic benefits.
- (v) has adequate technical and financial resources to complete the development to sell the VERs.
- (vi) has the ability to reliably measure the expenditure attributable to the project during its development.

If the development costs do not meet these requirements or the Company does not hold the carbon rights to the project, the Company will expense the costs as incurred. Costs are capitalized on projects intended for use until the commencement of production and are then amortized over the expected life of the project on a units of production basis.

Expenditures incurred in connection with developing a project to which the Company holds with the intent to sell are considered work in process costs of inventory which are intangible in nature. If a project cannot be validated, the Company will review it for impairment based on its recoverability. The Company will assess projects for impairment on a regular basis to ensure the carrying value does not exceed the recoverable value for a project. Where the carrying value does exceed the recoverable value, the Company will record the impairment by writing down the project to its recoverable value, less estimated costs to complete the project.

b) Inventories

The Company's inventory consists of project development costs and finished goods. Project development cost inventory consists of carbon rights, labor and material costs incurred to advance the projects through validation and verification. Finished goods are VERs ready for sale and they are recognized when registered with an official VER registry company. The registry process means the inventory is registered in the name of the Company and available for sale.

Inventory is measured at the lower of cost or net realizable value. Inventory is valued using the weighted average method for each specific project.

3. Significant Accounting Policies (cont'd)

c) Revenue Recognition

The Company recognizes revenue from the sales of VERs, carbon management, project development consulting services and other environmental consulting.

Revenue from the sale of VERs is recorded when the VERs have been retired, collectability is assured and the sales price is determinable. Retirement of VERs is done at an official VER registry company, either in the name of the buyer or in the name of the Company, in which case the Company retires the VERs on behalf of its clients. VERs are retired so that no other party can claim the benefits from the VERs.

Deferred revenue is derived from the sale of carbon offsets when the client has been invoiced or the cash has been collected, but the VERs have not yet been transferred to or retired on behalf of the customer. Deferred revenue is recognized as revenue upon the retirement of the VERs. In situations where the customer desires specific project VERs, revenue may be deferred for more than twelve months.

Revenue from carbon management advising and project development services is recognized as earned, based on performance according to the specific terms of the contract or on the basis of percentage of completion method where the revenue is reconcilable to services performed as a proportion of total services.

d) Property and Equipment

Property and equipment are recorded at cost less accumulated impairment losses and amortization.

Where an item of property and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment.

The Company amortizes its assets on a declining balance basis over the estimated useful lives of the assets as follows:

Computer equipment	45%
Furniture and equipment	20%

e) Intangible assets

Intangible assets include development costs directly related to new projects. Costs are capitalized until the project is ready for commercial purposes and are then amortized over the expected life of the project. Sales, marketing and distribution rights have an expected life equal to the term of the contract, typically five years.

3. Significant Accounting Policies (cont'd)

f) Impairment of non-financial assets

The Company's non-financial assets are reviewed for indications of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash generating unit ("CGU"), exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

g) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are recognized at present value by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in comprehensive loss.

Provisions related to future validation, maintenance and monitoring of projects are estimated in cost of goods sold at the time the related sale of carbon rights and VERs is recognized, and are estimated on an individual basis. As the Company performs maintenance activities its provision is reduced. Over time, the actual costs of the maintenance liabilities may differ from the original estimate or the estimate may need to be revised. When better information becomes available that leads to a revised estimate or the results differ, the Company recognizes the effect as an expense adjustment in that period.

3. Significant Accounting Policies (cont'd)

h) Income (loss) per share

Basic income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted income (loss) per share is computed similar to basic income (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

For the year ended December 31, 2017, there were no "in the money" dilutive instruments that impacted the calculation of dilutive income per share. For the year ended December 31, 2016, all options and warrants were excluded from the calculation as they are considered anti-dilutive.

i) Foreign exchange

Transactions in currencies other than the functional currency of the entity are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in determination of comprehensive loss.

Where applicable, the functional currency is translated into the presentation currency using the period-end rates for assets and liabilities while the operations and cash flows are translated using average rates of exchange. Exchange adjustments arising when net assets and profit or loss are translated into the presentation currency are taken into a separate component of equity and reported in other comprehensive income or loss.

j) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded by providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

3. Significant Accounting Policies (cont'd)

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize the asset.

k) Share-based payments

The Company grants stock options to directors, officers, employees and consultants. The fair value of stock options is measured on the grant date, using the Black-Scholes option pricing model and is recognized over the vesting period of the related options. Consideration paid for the shares on the exercise of stock options is credited to share capital.

l) Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories as follows:

Fair value through profit or loss – This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognised in profit or loss.

Loans and receivables – These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. They are carried at amortized cost using the effective interest method less any provision for impairment.

Held-to-maturity investments – These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

Available for sale – Non-derivative financial assets not included in the above categories are classified as available for sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss) and recognised profit or loss.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that event has an impact on the future estimated cash flows of the financial asset or the group of financial assets.

Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss – This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognised in profit or loss.

3. Significant Accounting Policies (cont'd)

Other financial liabilities – This category consists of liabilities carried at amortized cost using the effective interest method.

m) Business combinations

The acquisition method of accounting is used to account for business combinations by the Company. The consideration transferred for the acquisition of a business is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

n) Critical accounting estimates, judgments and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the annual consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the annual consolidated financial statements are:

(i) Provisions

The Company must estimate its provisions for maintenance and monitoring activities for some of its projects. These provisions are measured based on the requirements of the scope and development plan of each individual project, as well as historical experience and planned budgeted expenditures. Each project is unique in nature and past experience may not be indicative of the maintenance requirements for a different project.

In determining the value of each provision, assumptions are made with respect to discount rates, the expected cost of future project maintenance and monitoring and the expected timing of those costs, to the extent that a reliable estimate can be made.

Management revises estimates as better information becomes available. To the extent that the estimate cannot be reliably determined beyond the next twelve months, no provision is accrued.

The Company must also estimate the provision for future payments to the third party seller of Offsetters Clean Technology Inc. ("OCT") and Carbon Credit Corp. ("CCC") (notes 4 & 13). This provision is based on discounted future cash flows estimated by management, based on expectations of future

3. Significant Accounting Policies (cont'd)

contracts and sales. Management considers current market demand, general trends and expected costs, and customer contracts when estimating future cash flows. An increase in future sales beyond expectations would result in an increase in this liability.

(ii) Inventory valuation

The Company values all finished goods inventory at the lower of cost and net realizable value. Management reviews the market and pricing for carbon credits held in inventory in order to estimate net realizable value on a quarterly basis.

(iii) Property and Equipment

Property and equipment are recorded at cost less accumulated impairment losses and amortization. Where an item of property and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment.

The Company amortizes its assets on a declining balance basis over the estimated useful lives of the assets as follows:

Computer equipment	45%
Furniture and equipment	20%

(iv) Intangible Assets

Intangible assets include development costs directly related to new projects. Costs are capitalized until the project is ready for commercial purposes and are then amortized over the expected life of the project. Sales, marketing and distribution rights have an expected life equal to the term of the contract, typically five years.

q) 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 will be effective for annual periods beginning on or after January 1, 2018. The Company has determined that adopting 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 will be effective for annual periods beginning on or after January 1, 2018.

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3. Significant Accounting Policies (cont'd)

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) (cont'd)

The Company has determined that adopting 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 requirement.

4. Acquisitions

OCT and CCC

On December 14, 2012, the Company purchased all 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”). In consideration, the Company paid cash of \$500,000, issued 2,000,000 share purchase warrants at a value of \$237,680 and issued 2,200,000 common shares at a value of \$440,000.

As further consideration, the Company was required to make cash payments to the 3rd Party Seller, as follows:

- (i) 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 revenue received from the Great Bear Project (a “GBI Payment”) in 2013;
- (ii) on or before December 30, 2014, 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 2014 and the GBI Payment for 2014;
- (iii) 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;
- (iv) 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
- (v) 15% of Net Cash Received and the GBI Payments during the period of December 31, 2016 to 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.
- (vi) The Company shall pay to the 3rd party seller 20% of any equity financings of projects unrelated to the Company’s current operations.

The total of all cash payments above including the \$500,000 paid on closing, shall not be less than \$3,500,000 and not more than \$6,000,000. At December 31, 2012, the Company estimated the future cash consideration to be \$3,110,546 which represented the discounted expected future value of annual cash payments that will be made to the 3rd Party Seller. The Company estimated the fair value of the future cash payments as the net present value of

4. Acquisitions (cont'd)

future cash payments based upon its expectations of future cash revenues from OCT and CCC's current operations, commissions from the Great Bear Project and the Company's future potential projects and operations. A discount rate of 10% was used and the future annual minimum payments of \$3,000,000 and maximum payments of \$5,500,000 formed the basis for the range of estimates. These terms have been amended as detailed in Note 13.

Forest Carbon Group

On April 1, 2016, the Company's wholly owned subsidiary Forest Finest Consulting GmbH signed a Purchase Agreement with Forest Carbon Group GmbH ("FCG") that contemplated the purchase of certain assets necessary to continue the business operations of FCG for 1,874,524 common shares of the Company. FCG was owned by WBZ GmbH, a significant shareholder of the Company and owned by two directors of the Company. The purchase was completed on July 6, 2016.

The amount of total acquisition consideration is as follows:

Consideration:	Fair Value
Fair value of 1,874,524 shares at \$0.08 per share	\$ 149,962

The fair value of shares issued was determined by multiplying the number of shares issued by the share price of the Company on July 6, 2016.

The purchase price was allocated as follows:

	Allocation of Purchase Price	Note:
Fixed assets	\$ 3,601	(i)
Inventory	4,435	(ii)
Intangible assets	141,926	(iii)
	\$ 149,962	

- (i) Fixed assets includes furnishings.
- (ii) Inventory includes all the rights to the VERs existing on the date of sale that are listed in the Markit Environmental Registry.
- (iii) Intangible assets include all of FCG's existing customer contracts and related data.

5. Accounts and Other Receivables

	2017		2016	
Trades receivables	\$	817,870	\$	737,557
Income tax receivable		59,969		50,122
Other receivables		88,043		29,174
	\$	965,882	\$	816,853

6. Inventory

	2017		2016	
Work-in-Process				
Project development costs	\$	484,189	\$	411,691
Finished Goods				
VERs		14,164		72,024
	\$	498,353	\$	483,715

7. Prepaid Expenses

	2017		2016	
Prepaid operating expenses	\$	32,896	\$	62,703
Prepaid VER purchases		190,917		208,948
Advances		6,273		7,538
	\$	230,086	\$	279,189

8. Deposits

	2017		2016	
Premises lease	\$	21,525	\$	18,174
Credit card collateral		11,500		11,500
	\$	33,025	\$	29,674

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9. Property and Equipment

	Computer Equipment	Furniture and Equipment	Total
Balance at December 31, 2015	16,988	73,508	90,496
Additions	15,856	3,665	19,521
Disposals	(3,253)	(3,665)	(6,918)
Balance at December 31, 2016	29,591	73,508	103,099
Additions	10,067	2,440	12,507
Disposals	(1,659)	-	(1,659)
Balance at December 31, 2017	37,999	75,948	113,947
Balance at December 31, 2015	10,160	39,326	49,486
Amortization	6,000	6,827	12,827
Disposals	(2,452)	-	(2,452)
Balance at December 31, 2016	13,708	46,153	59,861
Amortization	7,423	5,644	13,067
Disposals	(1,250)	-	(1,250)
Balance at December 31, 2017	19,881	51,797	71,678
Carrying Amounts			
Balance at December 31, 2016	\$ 15,883	\$ 27,355	\$ 43,238
Balance at December 31, 2017	18,118	24,151	42,269

During the year ended December 31, 2017 the Company sold certain old computer equipment and furniture and recorded a gain on disposal of \$5,215 (2016 – loss of \$3,566).

10. Consideration Receivable

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

10. Consideration Receivable (cont'd)

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 3rd Party Seller and applied as follows: \$221,300 to overdue interest payments and \$343,665 against the Second Cash Payment (Note 13).

11. Intangible Assets

	Sales, Marketing & Distribution Rights (i)		Contracts and Brand Value (ii)		Total
Balance at December 31, 2015	\$	32,200	\$	-	\$ 32,200
Acquisition		25,000		141,926	166,296
Amortization		(57,200)		(57,779)	(114,979)
Foreign exchange effect		-		(381)	(381)
Balance at December 31, 2016		-		83,766	83,766
Acquisition		25,000		-	25,000
Amortization		(25,000)		(57,740)	(82,740)
Foreign exchange effect		-		3,636	3,636
Balance at December 31, 2017	\$	-	\$	29,662	\$ 29,662

- (i) In September 2011, CCC entered into a 5-year agreement for the exclusive right to distribute, market, purchase and sell certain carbon credits from a specific project. The Company acquired these rights as part of the acquisition of CCC.

The original agreement expired in 2016. The rights were fully amortized over the initial 5 year term. The Company received commissions from the sale and distribution of credits generated by this project.

11. Intangible Assets (cont'd)

- (ii) On July 6, 2016, the Company completed the purchase of certain assets of FCG including existing client contracts. The terms of the customer contract vary with the fixed term contracts ending in 2018 at the latest. The contracts are being amortized based on the pattern of benefits expected to be received from the projected net income of the contracts according to the following schedule:

2016	40%
2017	40%
2018	20%

12. Accounts Payable and Accrued Liabilities

	2017		2016	
Trade payables	\$	848,435	\$	795,701
Accrued liabilities		602,621		693,678
Government sales tax payable and value added tax		90,987		82,562
Total	\$	1,542,043	\$	1,571,941

13. Provisions, Long and Short Term

	2017			2016		
	Short term	Long term	Total	Short term	Long term	Total
Maintenance, monitoring, & reporting (i)	\$ 41,609	\$ 58,188	\$ 99,797	\$ 53,450	\$ 58,188	\$ 111,638
Future purchase consideration (ii)	1,564,945	-	1,564,945	1,885,883	-	1,885,883
Total	\$1,606,554	\$ 58,188	\$1,664,742	\$1,939,333	\$ 58,188	\$1,997,521

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13. Provisions, Long and Short Term (cont'd)

	Maintenance, Monitoring & Reporting	Future Purchase Consideration	Total
Balance, December 31, 2015	146,451	1,900,730	2,047,181
Incurring for the year	(9,510)	-	(9,510)
Revision of estimate	(25,303)	-	(25,303)
Payments	-	(37,574)	(37,574)
Interest accretion	-	22,727	22,727
Balance, December 31, 2016	111,638	1,885,883	1,997,521
Incurring for the year	(229)	-	(229)
Revision of estimate	(11,612)	-	(11,612)
Payments	-	(343,665)	(343,665)
Interest accretion	-	22,727	22,727
Balance, December 31, 2017	99,797	1,564,945	1,664,742

- (i) Maintenance relates to obligations to ensure planted trees reach a free growing state and have out-competed surrounding vegetation. Given the estimation uncertainty inherent in this provision, the Company accrues only the costs that can be reliably measured. Monitoring refers to the Denman Island Project and related obligations to monitor the project area over a total of 30 years. During the year ended December 31, 2017 the Company incurred \$229 in expenses related to the obligation and reduced the estimated future obligation by \$11,612.

The present value of the maintenance and monitoring obligations using an effective discount rate of 2.34% (2016 – 2.34%) is currently estimated at \$99,797 (2016 - \$111,638) reflecting anticipated cash flows over the next 25 years. The undiscounted value of these obligations is \$155,797 (2016 - \$166,150)

- (ii) As part of the purchase consideration for the acquisition of OCT and CCC (as described in note 4), the Company was required to make minimum cash payments of \$1,500,000 in 2013 and \$500,000 in each of 2014 – 2016. The total amount of the payment is dependent on certain revenue outcomes, subject to maximum of cash payments of \$5,500,000 from 2013 – 2016. This provision is discounted at 10%. During the year Company paid \$343,665 against the amounts owing.

During 2013, the Company was unable to make its required minimum payment of \$1,500,000. The Company entered into a waiver and standstill agreement to waive and amend the terms of the 2013 payment due in December 2013 of \$1,500,000 as follows:

- i) \$250,000 due on or before December 31, 2013 (*paid*)
- ii) \$250,000 due on or before April 30, 2014 (*paid*)
- iii) \$250,000 on or before July 31, 2014 (*paid*)
- iv) \$250,000 on or before October 31, 2014 (*paid*), and
- v) \$500,000 on or before January 31, 2015 (*of which \$91,390 was paid in the prior year – see amendment below*)

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13. Provisions, Long and Short Term (cont'd)

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 at December 31, 2017, the Company owed \$1,564,945 as follows:

- i) \$64,945 of the initial \$1,500,000 due on or before December in 2013, which was extended to December 31, 2017 (previously October 31, 2016 and July 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*

*As of January 1, 2014 the unpaid portion of the payments shall bear interest at a rate of 10% per annum. Maturity dates for the above listed payments were not met and full provision of \$1,564,945 was classified as current. The Company is in the process of renegotiating terms. The provision is secured by the assets of OCT and CCC.

In addition to the above amendments, the Company issued 3,000,000 warrants exercisable 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 (Note 16).

During the year ended December 31, 2017 the Company incurred \$185,337 in interest expense on the outstanding loans of which \$23,040 remains outstanding in accounts payable and accrued liabilities. The Company applied \$221,316 to overdue interest from the proceeds received from WWC (Note 10).

14. 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"). 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.

Since the conversion feature is not a 'fixed for fixed' conversion it is considered an embedded derivative. The convertible debenture collectively is a hybrid instrument for which the debt component should be represented separately. The difference between the fair value of the derivative and the face value of the debt will be allocated to the debenture liability. Upon initial recognition, the fair value of the derivative was determined to be immaterial. At year end the fair value was also determined to be immaterial.

As at December 31, 2017 Debenture A was fully accreted up to its face value of \$280,000.

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

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14. Convertible Debentures (cont'd)

\$250,000 and held by Gravitass 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. The debentures matured on November 10, 2017 and December 8, 2017 respectively.

Debenture B and C are both compound financial instruments. At the date of issuance of Debenture B \$17,070 was attributed to the equity component and \$94,504 to the liability component. At the date of issuance of Debenture C \$38,249 was attributable to the equity component and \$211,751 to the liability component. Both were calculated using an effective interest rate of 15%. As at December 31, 2017 Debenture B and C were fully accreted up to their face values of \$111,575 and \$250,000 respectively.

In March 2016 the Company closed the second and final tranche of its non-brokered private placement of convertible debentures. The second tranche consists of three debentures ("Debenture D", "Debenture E" and "Debenture F"). Debentures D and F, worth \$50,000 each, are held by Philip C. Swift and Debenture E, worth \$250,000, is held by WBZ. All Debentures issued have a term of three years from the date of issuance and bear interest at a rate of 6.00% per annum, payable on each 6 month anniversary. The outstanding principal and interest of each Debenture are convertible at the option of the subscriber, at any time prior to the maturity date being January 21, 2019, March 14, 2019, and March 23, 2019 respectively, into common shares of the Company at a conversion price of \$0.10 per common share. A total of \$125,000 of these second tranche Debentures are secured by a security interest granted on a receivable contract that the Company is currently developing. The remainder of the Debentures are unsecured.

Debenture D, Debenture E, and Debenture F are all compound financial instruments. At the date of issuance of Debenture D \$11,207 was attributed to the equity component and \$38,793 to the liability component. At the date of issuance of Debenture E \$56,033 was attributable to the equity component and \$193,970 to the liability component. At the date of issuance of Debenture F \$11,207 was attributable to the equity component and \$38,973 to the liability component. On September 23, 2016, an early re-payment of principal of \$125,000 was made towards Debenture E. As a result of the early redemption, the carrying value of the debenture was reduced by \$101,743 and the equity component was reduced by \$25,492. The Company recognized a gain on settlement of debt of \$2,236. All three debentures were calculated using an effective interest rate of 15%. The accreted value of Debenture D, Debenture E and Debenture F as at December 31, 2017 are \$46,053, \$113,577 and \$45,425.

WBZ is a significant shareholder of the Company and is owned by two directors of the Company

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14. Convertible Debentures (Cont'd)

	Debenture A	Debenture B	Debenture C	Debenture D	Debenture E	Debenture F	TOTAL
Balance, December 31, 2015	\$ 242,204	\$ 95,533	\$ 213,960	\$ -	\$ -	\$ -	\$ 551,697
Second Tranche Amount at date-of- issue	-	-	-	38,793	193,970	38,793	271,556
Accretion	24,456	8,700	18,932	3,528	12,182	2,896	70,694
Payments	-	-	-	-	(125,000)	-	(125,000)
Equity component adjustment	-	-	-	-	25,492	-	25,492
Gain on early redemption	-	-	-	-	(2,236)	-	(2,236)
Balance, December 31, 2016	266,660	104,233	232,892	42,321	104,408	41,689	792,203
Accretion	13,340	7,342	17,108	3,732	9,169	3,736	54,427
Balance, December 31, 2017	\$ 280,000	\$ 111,575	\$ 250,000	\$ 46,053	\$ 113,577	\$ 45,425	\$ 846,630

During the year ended December 31, 2017, the Company recorded finance costs of \$101,214 (2016 - \$122,041) which includes accretion of \$54,427 (2016 - \$70,694) and accrued interest of \$46,787 (2016 - \$51,347).

15. Share Capital

(a) Authorized:

Unlimited common shares without par value.

(b) Issued

2016

In July 2016 the Company issued an additional 5,181,500 shares at \$181,353 representing the second tranche of the consideration for a business combination that completed in fiscal 2015. This was previously recorded as an obligation to issue shares at December 31, 2015.

On July 6, 2016, the Company completed an asset acquisition where by the Company acquired certain assets of FCG (Note 4). As consideration, the Company issued 1,874,524 shares valued at \$149,962.

2017

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

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15. Share Capital (cont'd)

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.

On April 21, 2017, the Company issued 200,000 common shares with a fair value of \$0.04 per share to settle debt worth \$10,000. On the transaction, the Company recognized a gain on settlement of debt of \$2,000.

16. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of Warrants	Weighted average exercise price
Outstanding, December 31, 2015	3,488,000	\$0.30
Expired	(1,488,000)	0.17
Outstanding, December 31, 2016	2,000,000	\$0.40
Issued	2,900,000	0.15
Issued	3,000,000	0.10
Expired	(2,000,000)	0.40
Outstanding, December 31, 2017 *	5,900,000	\$0.12

At December 31, 2017, the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
2,900,000	\$0.15	January 20, 2018*
3,000,000	0.10	March 31, 2018*

* Subsequent to year end, the outstanding warrants expired unexercised.

During the year ended December 31, 2017, the Company granted 3,000,000 warrants as part of an amending agreement for the provisions booked on the OCT and CCC acquisition (Note 13). The warrants can be exercised into common shares at a price of \$0.10 per common share and expire March 31, 2018. The warrants were assigned a fair value of \$23,954 which has been included in transaction costs. The fair value of the warrants was estimated using the Black-Scholes option pricing model using the following assumptions:

	2017	2016
Risk-free rate	1.24%	-
Expected life (in years)	1	-
Expected volatility	125.92%	-
Fair Value per warrant	\$0.01	-

17. Share 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 may be granted with such vesting provisions as 25% on date of grant and 25% every six months thereafter such that options shall be fully vested and exercisable over a period of 18 months.

The following table summarizes the continuity of the Company's share options at December 31, 2017:

	Number of options	Weighted Average exercise price
Outstanding, December 31, 2015	3,475,000	0.10
Granted	300,000	0.10
Forfeited or expired	(850,000)	0.10
Outstanding, December 31, 2016	2,925,000	\$ 0.10
Granted	1,075,000	0.10
Forfeited or expired	(300,000)	0.10
Outstanding, December 31, 2017	3,700,000	\$ 0.10

During the year ended December 31, 2017, the Company recognized \$39,384 (2016 - \$22,535) in share-based compensation for 1,075,000 share options (2016 – 300,000) that were granted in the year.

The fair value for share options granted have been estimated using the Black-Scholes option pricing model using the following weighted average assumptions

	2017	2016
Risk-free interest rate	1.08%	0.64%
Expected life (in years)	5	5
Expected volatility	175.04%	171.27%
Expected dividend rate	-%	-%
Fair value per option	\$0.04	\$0.08

17. Share Options (cont'd)

Options outstanding and exercisable as at December 31, 2017 were as follows:

Expiry Date	Number of Options Outstanding	Exercise Price 2016	Number of Options Outstanding and Exercisable	Remaining Life (years)
January 10, 2018 *	700,000	0.10	700,000	0.03
January 23, 2018 *	275,000	0.10	275,000	0.06
September 30, 2018	150,000	0.10	150,000	0.75
April 8, 2019	1,300,000	0.10	1,300,000	1.27
July 14, 2021	200,000	0.10	200,000	3.54
April 4, 2022	1,075,000	0.10	1,075,000	4.31
	3,700,000		3,700,000	
Weighted Average Fair Value of Options Granted			2016 - \$0.08	
			2017 \$0.04	

* Subsequent to year end, these options expired unexercised.

18. Related Party Transactions and Balances

The remuneration of directors and key management personnel during the year ended December 31, 2017 and 2016 are as follows:

	2017	2016
Salaries, management fees and benefits	\$ 442,154	\$ 777,491
Share-based payments (i)	\$ 23,813	\$ -

- (i) Share-based payments are the fair value of options granted to key management personnel that vested during the year.

Amounts due to/from related parties at December 31, 2017 and 2016 included in accounts and other receivables, and accounts payable and accrued liabilities are as follows:

	2017	2016
Due from related parties	\$ 228,400	\$ 126,836
Due to related parties	712,956	598,400
Accrued debenture interest due to related party	42,848	20,149

During the year ended December 31, 2017, sales revenues of \$nil (2016 - \$67,373) was recognized from a customer who has two directors in common and is a significant shareholder of the Company. Included in accounts payable at December 31, 2017 is \$nil (2016 - \$74,366).

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18. Related Party Transactions and Balances (cont'd)

During the year ended December 31 2017, sales revenues of \$180,941 (2016 - \$701,183) was recognized from a customer who has one director in common and is a significant shareholder of the Company. Included in receivables at December 31, 2017 is \$nil (2016 - \$126,639).

During the year ended December 31, 2017, sales revenue of \$187,100 (2016 - \$nil) was recognized from a customer who has two directors as significant shareholders of the Company. Included in receivables at December 31, 2017 is \$23,979 (2016 - \$nil).

Included in accounts payable and accrued liabilities at December 31, 2017 is \$95,430 (2016 – \$95,430) due to a company whose significant shareholder is a director of the Company and \$137,656 (2016 – \$nil) due to a customer who has one director in common and is a significant shareholder of the Company.

Included in accounts payable and accrued liabilities at December 31, 2017 is \$141,891 (2016 - \$286,465) due to a company who has a director in common and is the former CEO of the Company.

19. Revenues

Year Ended December 31	2017	2016
Sale of VERs	\$ 2,230,385	\$ 1,627,132
Consulting	2,290,853	2,018,774
Management fees	20	26,150
Total	\$ 4,521,258	\$ 3,672,056

20. Commitments

- a) In October 2017, the Company entered into a premises lease agreement until March 31, 2019 with minimum annual payments as below:

2018	\$ 80,800
2019	\$ 21,000

- b) On April 1, 2011, the Company signed an agreement to purchase certain VERs over a five-year period. An amending agreement was signed effective August 31, 2015 which restructured the delivery and payment schedule of the VERs. A second amending agreement was signed effective June 13, 2016 which further restructured the delivery and payment schedule of the remaining 41,000 VERs to be purchased, extending the final delivery and payment of US\$239,850 (CDN \$322,047) to August 31, 2016. In addition, the Company agreed to pay 8% interest on the delayed payments starting from the date they were initially due. As of December 31, 2017, interest totaling US\$18,018 (CDN\$23,488) has been accrued.

21. Capital Management

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company, upon approval from its Board of Directors, will maintain or adjust the capital structure through the issuance of shares, the acquisition or disposition of assets or adjustment of the amount of cash. The Board of Directors does not establish quantitative returns on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

21. Capital Management (cont'd)

The Company's objectives are to safeguard the Company's ability to continue as a going concern in order to support the Company's normal operating requirements, continue the development of carbon offset projects and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary.

At December 31, 2017, the Company's capital structure consists of shareholders' deficiency.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2017.

22. 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	<i>Loans and receivables</i>	<i>Fair Value through Profit or Loss</i>	<i>Other financial liabilities</i>
Financial assets			
Cash	\$ -	\$ 529,995	\$ -
Accounts and other receivables	965,882	-	-
Financial liabilities			
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 cash is measured at fair value using Level 1 inputs.

22. Financial Instruments and Risk Management (cont'd)

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:

		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.

(a) Liquidity

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.

(b) 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: interest rate risk, foreign currency risk and other price risk.

(i) Foreign Currency 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 and Swiss Francs. As at December 31, 2017, the Company had net monetary assets of

22. Financial Instruments and Risk Management (cont'd)

(i) Foreign Currency Risk (cont'd)

\$29,613 held in US dollars, €271,660 held in Euros, and had net monetary liabilities of CHF 40,182 held in Swiss Francs. 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 the 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 to complete foreign currency and considers this practice adequate to mitigate significant foreign currency fluctuations for US dollar transactions

In 2017, a significant proportion of the Company's sales commitments were in foreign currencies. The Company did not engage in hedging contracts to manage exposure to foreign exchange risk in 2017, but may in the future.

(ii) 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.

(iii) 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.

23. Income Taxes

A reconciliation of current income and deferred taxes at statutory rates with reported taxes follow:

	2017		2016	
Income (loss) for the year	\$	409,178	\$	(1,914,107)
Expected income tax (recovery)		119,000		(485,000)
Change in statutory, foreign tax, foreign exchange rates and other		(38,000)		(16,396)
Permanent differences		(66,000)		5,000
Adjust to prior years provision versus statutory tax returns		152,000		20,000
Expiry of non-capital losses		-		13,000
Changes in unrecognised deductible temporary differences		(110,000)		443,000
Total income tax expense (recovery)	\$	57,000	\$	(20,396)
Current income tax	\$	57,000	\$	-
Deferred tax recovery	\$	-	\$	(20,396)

In September 2017, the British Columbia (BC) Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on October 26, 2017. The relevant deferred tax balances have been remeasured to reflect the increase in the Company's combined Federal and Provincial (BC) general corporate income tax rate from 26% to 27%.

In December 2017, the United States Government proposed changes to the Federal corporate income tax rate to reduce the rate from 34% to 21% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on December 22, 2017. The relevant deferred tax balances have been remeasured to reflect the decrease in the Company's Federal income tax rate from 34% to 21% applicable to the Company's US subsidiary.

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2017		2016	
Deferred tax assets (liabilities)				
Convertible debenture	\$	-	\$	(20,936)
Non-capital losses		-		20,936
Net deferred tax liability	\$	-	\$	-

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23. Income Taxes (cont'd)

The significant components of the Company's temporary differences and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

Temporary Differences	2017	Expiry date range	2016	Expiry date range
Scientific Exploration & Experimental Development expenditures	\$ 117,000	No expiry date	\$ 117,000	No expiry date
Property and equipment	182,000	No expiry date	217,000	No expiry date
Provisions	89,000	No expiry date	89,000	No expiry date
Allowable capital losses	9,000	No expiry date	9,000	No expiry date
Other	252,000	No expiry date	252,000	No expiry date
Non-capital losses available for future periods				
Canada	13,566,000	2025 to 2037	14,626,000	2017 to 2036
USA	811,000	2034 to 2037	671,000	2034 to 2036
Switzerland	622,000	2023-2034	117,000	2033

Tax attributes are subject to review, and potential adjustment, by tax authorities.

24. Segmented Information

The Company has one reportable segment operating in Canada, United States and Germany, being that of development and sale of VERs and advisory services.

Revenues

Geographic information is as follows:

Year Ended December 31	2017	2016
Canada	\$ 1,620,976	\$ 1,449,613
Europe	1,653,851	1,163,075
USA	338,105	431,444
South & Central America	817,866	593,252
Other	90,730	34,672
Total	\$ 4,521,258	\$ 3,672,056

24. Segmented Information (cont'd)

The Company had concentrated revenues as follows:

Year Ended December 31	2017	2016
Forest Finance Service GmbH & related Co's	7%	21%
Customer A	10%	9%
Customer B	8%	12%
Other	75%	58%
Total	100%	100%

The Company is actively working to diversify its product and customer base in order to mitigate the risk of economic dependency.

25. Supplemental Disclosures with respect to cash flows

Changes in non-cash operating working capital:

	December 31, 2017	December 31, 2016
Accounts and other receivables	\$ (105,968)	\$ (117,835)
Inventory	(12,404)	(30,964)
Prepaid expenses and deposits	50,044	(13,094)
Accounts payable and accrued liabilities	(10,273)	669,923
Deposits	(3,351)	-
Taxes payable	(53,020)	(54,591)
Provisions	(229)	(9,510)
Deferred revenue	47,431	305,300
Total	\$ (87,770)	\$ 749,229

26. Events After the Reporting Date

- On March 28, 2018, NatureBank entered into a letter of intent for 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.