



## **NatureBank Asset Management Inc.**

Management's Discussion & Analysis  
for the years ending December 31, 2019 and 2018

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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, 2019 and 2018, and the notes thereto. This MD&A is prepared as of July 15, 2020.

The consolidated financial statements of the Company are prepared in accordance with IFRS 10 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. Inc., 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 subsidiaries, except for Forest Finest Consulting GmbH which 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.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

## 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. Forward-looking Statements may be identified by the use of words such as "will", "may", "plan", "could", "should" and other similar wording or meanings. 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, and traded under the ticker symbol "ERA".

In December, 2012, ERA acquired Offsetters Clean Technology Inc. and Carbon Credit Corp. pursuant to a share purchase agreement (the "Share Purchase Agreement") with a third party seller (the "Seller").

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 conjunction with the name change, the Company changed its trading symbol to "COO".

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") but retained its "COO" trading symbol. 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.

On March 27, 2018, the Company entered into a binding LOI to sell a majority interest of its wholly owned subsidiary, Forest Finest Consulting GmbH.

On May 31, 2019 the Company sold 100% of the issued and outstanding shares of Nature Ventures GmbH.

On June 12, 2019 the Company completed the sale of 82% of its subsidiary Forest Finest Consulting, GmbH, retaining an 18% ownership stake.

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 projects across the carbon and agro-forestry sectors, in addition to offering advisory, technology and impact investment services to leading public and private organizations worldwide.

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 by exploring opportunities for strategic joint ventures with landowners, governments, first nation communities and sustainable investment funds and through the deployment of equity capital.

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 March 28, 2018, NatureBank announced the proposed sale of an 82% interest in Forest Finest Consulting GmbH (“FFC”) to the management team of FFC, which includes Dirk Walterspacher, the current managing director of FFC and former co-CEO of NatureBank. The transaction was subject to TSX Venture approval which was received on April 22, 2019. The share purchase agreement for this transaction was entered into and notarized on May 24, 2019.

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 are 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.

## MARKETS

The Company has established a leadership position in two core sectors - the international carbon market (for both voluntary and compliant carbon offsets), and the sustainability consulting sector where we work with small, medium and large enterprises on programs and strategies related to reporting, operations and climate risk management.

The voluntary carbon market continues to evolve. 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 previous 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. According to the 2019 report “Financing Emission Reductions for the Future: State of the Voluntary Carbon Markets 2019”, the volume of carbon credits transacted in the voluntary market was the equivalent of 98.4 MtCO<sub>2e</sub> in 2018, representing a value of just under USD \$300 million. The voluntary market has continued to evolve, and has shown significant resilience, despite the uncertainty and slower evolution of compliance based carbon policy.

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 means of demonstrating 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 compliance cap and trade system.

To date, NatureBank has commercialized in excess of 2.5 million tonnes of carbon dioxide equivalent (CO<sub>2e</sub>) 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 (now called Verra), the Gold Standard, the Climate, Community and Biodiversity Alliance Standard, the California Air Resource Board (now compliant), the Alberta Specified Gas Emitters Regulation (compliant – now called the Carbon Competitiveness Incentive Regulation), 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, and more recently in Quebec, 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 system. Offsets are currently trading for roughly USD \$15 per tonne, a price that is expected to increase incrementally as the allowance cost increases. 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”) existed since 2007 and more than 190 offset projects were developed and registered, creating more than 12 million tonnes of offsets selling for prices averaging roughly \$10 and up per tonne. With updates to carbon pricing in Alberta and updates to regulations beyond SGER, carbon offsets are traded in the \$20 per tonne range 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 transitioned to the Carbon Competitiveness Incentive Regulation (“CCIR”) which aimed to reduce emissions from large industrial emitters, while attracting investment in clean tech and creating new jobs. Under the CCIR, offsets continue to play a role, with a focus on the development of new offset credits for the market. As of January 1, 2020, the CCIR transitions to TIER, which is the Technology Innovation and Emissions Regulation. With the transition to TIER, there is also an update to Version 3 of the “Standard for Greenhouse Gas Emission Offset Project Developers” that takes place on January 1, 2020. Offsets continue to play an important role within the TIER system.

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 precipitate market demand.

## **FUTURE MARKETS**

The carbon market is growing at an enviable pace. California’s cap and trade market has become the largest regulated market for emissions reductions in the Western hemisphere. And in the last few 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. In June 2018, Ontario held provincial elections and a new Premier was elected. One of the new Premier's campaign promises was to cancel Ontario's cap and trade program in addition to pulling out of the Federal government's requirement to price carbon. As of date of this filing, the new government has cancelled Ontario's cap and trade program, and took the federal government to court to challenge their mandatory carbon pricing requirement. While the courts upheld the federal carbon pricing law, Ontario remains in a state of flux. This has not affected the ongoing programs within Quebec and California. Given the creation of Canada's federal 'backstop' program (see below), whereby the Federal Government would regulate jurisdictions without self-imposed carbon reduction program, it is expected that the federal government would regulate Ontario, should Ontario fail to establish its own program. Ontario's present leadership has also indicated its intention of creating a made-in-Ontario approach, but nothing to date has been formalized. None-the-less, it is expected that carbon offsets will play an important role in these programs and NatureBank will be well positioned to participate across each jurisdiction where offset apply, 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 CCIR framework launched in January 2018, continued 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. The election in early 2019 resulted in the formation of a new government, which is not as supportive of carbon markets. The current leadership has put measures in place to eliminate certain consumer facing carbon taxes, but has not drastically altered existing GHG policy for large emitters in the province. As noted above, beginning January 1, 2020, the CCIR program becomes the TIER program, and the goal of reducing carbon intensity remains in place. Like all Provinces, Alberta too is 'negotiating' with the federal government to ensure their forthcoming system meets the requirements under forthcoming federal regulations, otherwise they have indicated they are open to pursuing legal action against the federal mandate.

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. There has been progress over the last year related to LNG development in BC, with construction underway in Kitimat, from the LNG Canada consortium. To date, this remains the primary LNG facility being developed, while a few projects remain in varying states of progress.

In October of 2016, Canada's Federal government announced that it intended 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. Under the "Output Based Pricing System" the carbon price is to start at \$20 per tonne in 2019 reaching \$50 per tonne by 2022. 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. Since then, continued debate around stringency and pricing have

occurred, with movement on both accounts. In October 2019, as a result of the Federal election, Canada was left with a Liberal minority government. This was a positive development for climate policy in Canada, as it ensured there would be continued progress with climate policy introduced to date. There is expected to be steady progress towards finalizing policy around the pan-Canadian approach, the backstop program and offset policy in 2020. The Company is confident that these developments will provide market opportunities for NatureBank. While certain provinces have taken up legal challenges to the Federal policy, there has also been indications that provinces are looking to work within the framework of current policy to ensure they meet or exceed requirements, so as to not be governed by the backstop program. 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").

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 would 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 by the due dates (see "Restructuring of OCT and CCC Purchase Agreement with Third Party Seller" for further details on restructuring of future payments).

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

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 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 owed \$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 31, 2017.\*
- iii) \$500,000 due on or before December 31, 2015 was extended to December 31, 2017.\*
- iv) \$500,000 due on or before December 31, 2016 was extended to December 31, 2017.\*

\*As of January 1, 2014, the unpaid portion of the payments bore 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 provision is secured by assets of OCT and CCC

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 31, 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. During the year, these warrants expired unexercised.

On July 5, 2019 the Company entered into the Eighth Amending Agreement (the "Amending Agreement") restructuring the above noted debt with the Third Party Seller. The agreement is based on the indebted balance as of July 5, 2019 of \$1,824,321 (\$1,564,945 principal and accrued interest of \$259,376). Under the terms of the agreement, 50% of the debt was converted into common shares of the Company at a price of \$0.10 per share (the "Converted Debt"). On July 22, 2019, 9,121,603 common shares were issued to satisfy the outstanding debt of \$912,160. The remainder of the debt was to be serviced by cash instalment payments, beginning with three payments totalling \$677,480 from the proceeds from the proposed sale of FFC completed on June 12, 2019. The first three payments were made by August 1, 2019. The remainder of the payments (the "Restructured Debt") were to occur in two instalments over two years on the anniversary of date of the debt for share conversion. The Restructured Debt of \$243,112 was to continue to accrue interest at a rate of 10% per annum calculated and

payable monthly. In the event of any default of debt payments, the Company was to pay an amount equal to the amount of the Converted Debt, plus interest of 10% payable monthly from the date of default.

On March 20, 2020, an assignment of debt agreement was entered into whereby the Remaining Debt was assigned from the third-party lender to a director of the Company in a transaction the Company was not a party to. Effective May 11, 2020, the Company and the director finalized the Ninth Amending Agreement extending the due dates of the principal payments of the Restructured Debt to July 22, 2021 and July 22, 2022 respectively with \$121,556 due on July 22, 2021 and \$121,556 due on July 22, 2022. Upon making of these two debt payments, the Restructured Debt will be fully and finally paid and settled.

### **SALE OF FOREST FINEST**

On March 27, 2018 the Company signed a letter of intent (“LOI”) to sell 82% of its wholly owned subsidiary, FFC. The Company received conditional approval from the TSX Venture Exchange in February of 2019, and the transaction was approved by shareholders at the Company’s AGM on April 22, 2019. The share purchase agreement for this transaction was entered into and notarized on May 24, 2019. The Buyers agreed to purchase 82% of the issued and outstanding shares of FFC for a total of \$442,800 with the following details:

- \$216,000 - First Payment due on the closing date
- \$226,800 - Second Payment due three months after closing date

In addition, on June 6, 2019, the Company received full payment of \$250,000 for the intercompany loan owed by FFC. The Company completed the sale of FFC upon receipt of the First Payment on June 12, 2019 at which time the shares and right to shares were transferred to the Buyers. On July 31, 2019, the Company received the second and final instalment payment related to the sale of Forest Finest Consulting GmbH.

### **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 due.

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 for \$250,000, was held by Gravitas Ventures Inc. On October 8, 2019 Gravitas Ventures Inc. assigned the debenture to Ridley Park Capital Inc. (“RPC”). Both debentures had 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 were both held by Phil Swift. On February 11, 2020, Debentures D and E were assigned to Guy O’Loughnane, a director of the Company. 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.

During the year ended December 31, 2019, the Company recorded finance costs of \$51,005 (2018 - \$64,734) which includes accretion of \$3,108 (\$2018 - \$16,837) and accrued interest of \$47,897 (2018 – \$47,897).

On February 11, 2020, an assignment and assumption of debt agreement was entered into whereby Debentures D and F were assigned from the holder to a director of the Company in a private transaction the Company was not party to.

## Management

As at December 31, 2019, the Company's senior management team consisted of:

Phil Cull*	Chief Executive Officer
Rosita Morandin*	CFO and Corporate Secretary

\* Officers of the Company

### DIRECTORS

The Board of Directors consists of:

Director	Independent	Audit Committee	Compensation Committee*
1. Harry Assenmacher	No	No	Yes
2. Phil Cull	No	Yes	No
3. Guy O'loughnane	Yes	Yes	No
4. James Tansey	Yes	No	No
5. Dirk Walterspacher	No	No	No
6. Eduard Weber-Bemnet	No	No	No
7. Alexander Zang	No	Yes	Yes

On March 20, 2020 Candace Alderson resigned from her role as Director of the Company.

## Results of operations

### OVERVIEW OF FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2019\*

\*Financial results and notes in this section reflect net income from continuing operations and comparatives have been restated to exclude income from discontinued operations.

The revenue, gross profit and income (loss) before other items, in the below schedule, include only financial results from continuing operations.

	2019 \$	2018 \$	2017 \$
Revenue	2,850,768	2,755,464	2,147,139
Gross profit	1,557,575	1,828,032	1,523,440
Income (loss) before other items	(63,275)	472,571	(268,325)
Income from continued operations	786,205	237,055	160,890
Comprehensive income	561,890	767,475	370,968
Total assets	1,631,543	3,154,746	2,329,272
Working capital	(828,094)	(1,565,504)	(2,179,939)
Shareholders' deficiency	(838,334)	(1,582,656)	(2,350,131)
Long-term liabilities	211,559	62,951	275,148
Income per share from continuing operations, basic and diluted	0.014	0.004	0.003

During the year ended December 31, 2019 the Company generated \$2,850,768 in sales revenue as compared to sales of \$2,755,464 in the same period in 2018. Overall revenues remained stable with an increase of \$95,304, or 3%.

Gross profit was \$1,557,575 compared to \$1,828,032 for the year ended 2018. For the year ended December 31, 2019, 61% of revenue was retail offset sales to corporate CSR customers and 39% was advisory/consulting, project services & management services. In 2018, the ratios were 58% retail offset sales, and 42% advisory/consulting, project services & management consulting services. Some advisory, consulting and project management projects span after year-end with revenue being recorded only upon completion of the performance obligations under the contract terms. A number of projects started in 2019 will not complete until 2020, thus affecting the revenue mix so that consulting revenue made up a smaller percentage of total revenue in 2019.

Gross margin as a percentage of revenue is lower at 55%, compared to 66% for the same period last year. Economic factors have put downward pressures on offset prices reducing our gross margin on offset sales. Additionally higher project related travel costs and higher costs of external consultants reduced the gross margin on consulting services.

Operating expenses for the year ended December 31, 2019 were \$1,620,850 compared to \$1,355,461 for same period in 2018. The increase in operating expenses of \$265,389 or 16% is due to an increase in consulting fees (\$55,198) because of an increase in business development, the adoption of IFRS 16 and related amortization of right-of-use asset (\$57,920) and due to unfavourable changes in foreign exchange rates, which resulted in foreign exchange loss of \$36,284.

The Company delivered an operating loss before finance and other items of \$63,275 during the year ended December 31, 2019 (2018 profit: \$472,571). The decrease in revenue coupled with the increase in cost of sales, coupled with the increase in operating costs brought the company from an operating profit to an operating loss in 2019.

For the year ended December 31, 2019, the Company had a total \$117,282 in accounts payable write-downs compared to \$nil for the same period in 2018.

Finance costs were \$51,005 for the year ended December 31, 2019, compared to \$64,734 for the same period in 2018. Finance costs are made up of both accretion (15%) and interest (6%) on debentures. Finance costs were slightly lower in 2019 compared to 2018, due to three debentures reaching maturity and no longer incurring accretion expense.

Interest expense for the year ended December 31, 2019 was \$117,011 (2018: \$177,011). 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. In July 2019, the principal incurring interest was reduced from \$1,564,945 to \$243,112 significantly reducing the interest expense incurred during the year. Additionally, beginning June 2016, the Company began incurring 8% interest on delayed payment commitments related to the purchase of VERs from a supplier. The amount of the delayed payment commitments did not change during the year and interest incurred was \$18,659.

Other income was \$30,171 for year ended December 31, 2019 compared to \$6,076 in the same period last year. \$22,000 of other income was earned in 2019 from a strategic partnership agreement whereby various services including sharing office space and supplies were provided.

Total comprehensive income was \$561,890 for the year ended December 31, 2019, compared to comprehensive income of \$767,475 for the year ended December 31, 2018.

Significant changes in operating expenditures in year 2019 versus year 2018 are categorized in the table below.

Item	Year ended December 31, 2019 Increase (decrease) in expense	Comment
Amortization of right-of-use asset	\$57,920	2019 was the first year where lease payments were capitalized as a right-of-use asset and amortization taken
Consulting Fees	55,198	Increase due to an increase in consultants used for business and project development that was not attributable to cost of sales
Foreign Exchange	85,915	Due to unfavourable foreign exchange rate from sales to US and international customers, the purchase of goods and services from US and international suppliers, and from the translation of the financial results of operations of the US subsidiary.
Professional, Investor, Agent Fees	(14,410)	Decrease is due to the decrease in use of legal services related to the sale of FFC. The majority of the legal fees related to the sale were incurred in 2018.
Salaries, benefits & management fees	56,160	Increase is related to the hiring of additional staff in to meet the needs related to growing the business in the Canadian subsidiary.
Selling, general and administrative	31,437	Increase is related to higher IT and travel costs.

## SUMMARY OF QUARTERLY RESULTS

	2019			
	Q4	Q3	Q2	Q1
Three months ending:	Dec 31	Sep 30	Jun 30	Mar 31
Revenue	1,426,076	362,912	645,153	416,627
Income (loss) from continuing operations	450,915	490,041	10,523	(165,274)
Comprehensive income (loss)	208,195	490,041	44,741	(181,087)
Total assets	1,631,543	1,930,021	2,488,444	2,620,467
Working capital	(828,094)	(1,054,466)	(1,871,590)	(1,757,014)
Shareholders' deficiency	(838,334)	(1,046,529)	(1,719,002)	(1,763,743)
Long-term liabilities	211,559	247,983	126,419	62,951
Income (loss) per share from continuing operations, basic and diluted	0.0033	0.006	0.0002	(0.003)

	2018			
	Q4	Q3	Q2	Q1
Three months ending:	Dec 31	Sep 30	Jun 30	Mar 31
Revenue	701,150	629,350	862,615	562,349
Income (loss) from continuing operations	92,630	17,262	162,833	(35,670)
Comprehensive income (loss)	428,486	(67,036)	513,111	(107,086)
Total assets	3,154,746	2,523,267	2,727,433	1,957,621
Working capital	(1,565,504)	(2,003,908)	(1,954,471)	(2,498,565)
Shareholders' deficiency	(1,582,656)	(2,011,142)	(1,944,106)	(2,457,217)
Long-term liabilities	62,951	77,236	77,236	70,093
Basic/diluted Income per share	0.004	0.003	0.003	0.001

The Company's revenue in the fourth quarter of 2019 was \$1,426,076, compared to \$701,150 in the same quarter of 2018. 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 fourth quarter of this year included a large offset sale to a U.S. customer.

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, 2019 resulted in an increase in cash of \$213,871 (2018: increase of \$195,912) from continuing operations.

As at December 31, 2019, the Company had an available cash balance of \$565,925 (December 31, 2018: \$509,725) to settle current liabilities of \$2,258,318 (December 31, 2018: \$4,674,451). The Company's current monetary liabilities of \$702,150 (consisting of payables & accrued liabilities and short term provisions) exceed its current monetary assets of \$695,282 (consisting of cash and receivables), by \$6,868.

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 \$561,124 (Dec 31, 2018: \$842,033) with 3% overdue, 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 \$19,470 (Dec 31, 2018: \$22,609) have been delayed indefinitely.

As of December 31, 2018 the Company had current future purchase consideration of \$1,564,945, consisting of 4 payments that were all due on December 30, 2017.

The Company was unable to meet payment deadlines and on July 5, 2019 it signed Eighth Amending Agreement for the restructure of indebted balance of \$1,824,321 owed to the Third Party Seller – debt principal \$1,564,945 and interest owed \$259,376. The repayment terms are as follows:

- 50% of the debt to be converted into common shares of the company at \$0.10 per share – 9,121,603 shares were issued on July 22, 2019 to satisfy the debt of \$912,160
- \$442,800 to be settled with the proceeds from the sale of FFC – First and Second Payment of \$221,400 each were paid on July 22, 2019 and August 1, 2019 respectively and
- \$469,361 to be paid in three separate cash payments equal to:
  - o 50% to be paid on the date of receipt of the second payment from the FFC Deal (\$234,680 paid on July 22, 2019);
  - o 25% on July 22, 2020 (subsequent to December 31, 2019, extended to July 22, 2021); and
  - o 25% on July 22, 2021 (subsequent to December 31, 2019, extended to July 22, 2022)

The interest that continued to accrue (\$8,341) between July 5, 2019 and July 31, 2019 was added to the remaining principal (\$234,681) to become the restructured debt (\$243,112).

The Remaining Debt will, while it remains outstanding, accrue interest at a rate of 10% per annum calculated and payable monthly. In the event of any default of debt payments, the Company will pay an amount equal to the amount of the Converted Debt, plus interest of 10% payable monthly from the date of default.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

The Company had an obligation to purchase 41,000 VERs at US\$5.85 from Up Energy Group Inc., totalling US\$239,850. This obligation 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. As of the date of this MD&A, there is no formal extension agreement and since August 2016 the company lowered the liability by purchasing total of 11,000 VERs and continues accruing the interest.

While the Company has made great strides in dealing with liquidity issues, it can experience cash flow and working capital difficulties on a quarter to quarter basis. Such liquidity concerns are expected to continue until the Company is able to finalise some large unique revenue projects currently delayed by regulatory review by the California Air Resources Board, or until the Company is able to identify new revenue opportunities, either in the carbon or sustainable agro-forestry space. The Company is continually working to address the cash flow and working capital difficulties. The Company has been diligently working on addressing (i) diversification of its revenue streams and (ii) reducing or removing debt from its balance sheet. The Company will continue to (i) secure business or equity financing transactions which would improve its immediate financial and working capital position and (ii) repay remaining debt to the third party seller of OCT and CCC, and its other debtholders.

### RELATED PARTY TRANSACTIONS

During the year ended December 31, 2019, the Company was involved in the following related party transactions which are recorded at fair value:

- (a) Salary compensation of \$153,420 (2018: \$149,195) was incurred to Phil Cull, the Company's CEO and a Director of the Company. Due to Mr. Cull and included in accrued liabilities at December 31, 2019 is \$13,926 (Dec 31, 2018: \$14,859). Mr. Cull became CFO on December 1, 2015, Co-CEO on February 1, 2017 and took over his current CEO role on March 30, 2018.
- (b) Salary compensation of \$67,836 (2018: \$59,124) was incurred to Rosita Morandin, the Company's CFO and Corporate Secretary, who was on leave of absence until March 2019. Due to Ms. Morandin and included in accrued liabilities at December 31, 2019 is \$6,784 (Dec 31, 2018: \$18,290). Due from Ms. Morandin and included in other receivables at December 31, 2019 is \$567 (Dec 31, 2018: \$nil). Ms. Morandin became originally became CFO on the September 1, 2017. She resigned as CFO while on leave of absence and was re-appointed on May 1, 2019.
- (c) Salary and compensation of \$31,495 (2018: 92,058) was incurred to Slavica Leporis, the Company's interim CFO, up until April 2019.
- (d) Referral fees of \$25,000 (2018: Management fees \$15,000) were incurred to Dr. James Tansey, a Director of the Company. Due to Dr. Tansey and included in accounts payable and accrued liabilities at December, 2019 is \$5,129 (Dec 31, 2018: \$18,590).
- (e) Total compensation of \$51,844 (\$39,195 salary and \$12,649 pension contributions) (2018: \$185,352) was paid to Dirk Walterspacher, a director and former Co-CEO of the Company and current CEO of the subsidiary FFC. Due to Mr. Walterspacher and included in accrued liabilities in December 31, 2019 is \$Nil in expenses (Dec 31, 2018: \$5,650).
- (f) Revenues of \$Nil (2018: \$162,869) 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, 2019, \$nil (Dec 31, 2018: \$162,225) was due to Forest Finance and its related companies

and is recorded in payables and \$nil (Dec 31, 2018: \$152,313) was due from Forest Finance and its related party companies and is recorded in

- (g) Revenues of \$Nil (2018: \$166,130) 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 \$18,507 (Dec 31, 2018: \$23,420) incurred from BCC Business Communications Consulting GmbH, whom is owned by two directors of the company.
- (i) At December 31, 2019, \$43,750 (Dec 31, 2018: \$95,430) was recorded in accounts payable and owed to Forest Finance Switzerland AG, whose significant shareholder is a director of the Company.
- (j) On July 27, 2015, the subsidiary NBT borrowed \$280,000 from WBZ. WBZ is a significant shareholder of the Company and is owned by two directors of the Company, Alexander Zang and Eduard Weber-Bemnet.

On November 6, 2015, the Company borrowed a further \$111,575 from WBZ. During the year ended December 31, 2019, the Company repaid \$10,042 in interest.

On March 22, 2016, the Company borrowed a further \$250,000 from WBZ. On September 23, 2016 the Company re-paid \$125,000 of this debenture and during the year ended December 31, 2019 the Company repaid \$7,500 in interest.

Total accrued interest to WBZ on the three debentures is \$54,467 (2018: \$45,109).

- (k) Interest expense of \$98,352 (2018: \$156,589) was incurred from the 3rd Party Seller's OCT and CCC shares. At December 31, 2019, \$2,065 (Dec 31, 2018: \$179,645) was recorded in accounts payable.
- (l) During the year ended December 31 2019, sales revenues of \$40,153 (2018 - \$162,869) was recognized from a customer who has one director in common and is a significant shareholder of the Company.

#### **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	61,752,679
Options outstanding	325,000
Warrants	-

### **COMMON SHARES**

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

### **OPTIONS**

The Company has a “rolling” stock option plan for its directors, officers, employees and consultants. The terms of the plan provide for options to be granted to a maximum of 10% of the issued and outstanding common shares of the Company at the time of grant of the stock options, subject to receipt of annual shareholder approval. The exercise price of each option shall not be less than the minimum price permitted by the policies of the TSX-V, and the options may be granted for a maximum term of five years from the date of grant. The Company records the fair value of all options granted using the Black-Scholes model as share-based payment expense of the vesting period of the options. Options shall be granted as fully vested, unless a vesting schedule is imposed by the Board, then such options will vest in stages over at least a one-year period and no more than 25% every three months

Options outstanding and exercisable as at December 31, 2019 were as follows:

Expiry Date	Number of Options		Number of Options Outstanding and Exercisable	Remaining Life (years)
	Outstanding	Exercise Price		
April 4, 2022	475,000	0.10	475,000	2.31
	475,000		475,000	

Subsequent to year end a total of 150,000 options were cancelled such that only 325,000 remain outstanding at the date of the MD&A.

### **WARRANTS**

The Company had no warrants outstanding as at December 31, 2019 and as of the date of the MD&A.

## Financial Instruments and Risk Management

### 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, 2019	<i>Amortized cost</i> <i>(financial assets)</i>	<i>Fair Value through</i> <i>Profit or Loss</i>	<i>Amortized cost</i> <i>(financial liabilities)</i>
<b>Financial assets</b>			
Cash	\$ -	\$ 565,925	\$ -
Accounts and other receivables	129,357	-	-
Investment	-	87,480	-
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	-	-	561,123
Provisions	-	-	352,585
Convertible debentures	-	-	866,575
Lease liability			81,631
	\$ 129,357	\$ 653,405	\$ 1,861,914

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, 2019, the Company's cash is measured at fair value using Level 1, and the Company's investment is measured at fair value using Level 3 inputs.

## 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, 2019	
Cash	\$ 565,925
Accounts and other receivables	129,357
	\$ 695,282

### *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.

## 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, 2019, the Company had a cash balance of \$565,925 (2018 - \$509,725) to settle current liabilities of \$2,258,318 (2018 - \$4,674,451).

Management is currently restructuring contracts in order to ensure sufficient liquidity throughout 2019 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 and Euros. As at December 31, 2019, the Company had net monetary assets of \$308,147 held in US dollars, and had net monetary liabilities of €12,301 held in Euros. A fluctuation in the exchange rates between the Canadian and US dollar of 10% would result in \$40,022 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 \$1,794 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 2019, 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 2019, but may in the future.

### ***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. There is minimal interest rate risk on interest bearing debt, as the Company's lease liability, convertible debentures, and provisions are not subject to floating interest rates.

### ***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 2019 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.

The Company's may be exposed to price risk with respect to its investment. The maximum risk resulting from financial instruments is equivalent to their fair value. The Partnership's investment is susceptible to price risk arising from uncertainties about future prices of the instruments.

## Business Risks and Uncertainties

The Company is in the business of developing carbon offset projects, selling offsets and supplying technical advisory services to the carbon and sustainability 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 carbon offsets, the market price for these commodities and the Company's ability to supply these commodities to the market.

While the Company endeavours to undertake sufficient due diligence before investing in a project, or in a foreign country, there are always risks when doing so. These risks can be political in nature, economic, environmental, or social. There are no guarantees that 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.

Our business and activities may be adversely affected by potential medical pandemic issues, such as the novel coronavirus (COVID-19), and may result in potential related impact to employees, disruption to operations, supply chain delays, travel and trade restrictions and impact on economic activity in affected countries or regions. Such pandemics or diseases also represents a threat to maintaining a skilled workforce and could be a health-care challenge for the Company. There can be no assurance that the Company's personnel will not be impacted by these pandemic diseases and ultimately see its workforce productivity reduced or incur increased medical costs/insurance premiums as a result of these health risks. As well, there can be no assurance that the Company will not be impacted by adverse consequences that may be brought about by pandemics on global financial markets which may reduce resources, share prices and financial liquidity that may severely limit the financing capital available in the this sector.

## 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.

- provisions;
- valuation of inventory;
- property and equipment, and
- classification and valuation of investment.

### ACCOUNTING POLICIES ADOPTED DURING THE YEAR

The following accounting policies were adopted and applied to the Company's consolidated financial statements for the year ended December 31, 2019:

On January 1, 2019, the Company adopted IFRS 16 – Leases (“IFRS 16”) which replaced IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applied in IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less) and leases of low-value assets.

The Company analyzed its contracts to identify whether they contained a lease arrangement for the application of IFRS 16. No such contracts were identified, and as a result, the adoption of IFRS resulted in no impact to the opening retained earnings on January 1, 2019.

The following is the accounting policy for leases as of January 1, 2019 upon adoption of IFRS 16:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

## 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 was a leader in agricultural and forest carbon, as well as climate software and technology solutions. Established in 2007, OCT was 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, NatureBank Technology Inc.

In July, 2015, the Company acquired Forest Finest from Forest Finance Service GmbH. The Company sold 82% of its interest in FFC effective June 12, 2019.

In April 2016, the Company incorporated a wholly owned subsidiary in Switzerland, Nature Ventures GmbH. The Company sold 100% of issued and outstanding shares in Nature Ventures, GmbH effective May 31, 2019.

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.