



## **NatureBank Asset Management Inc.**

Management's Discussion & Analysis  
for the years ending December 31, 2020 and 2019

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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, 2020 and 2019, and the notes thereto. This MD&A is prepared as of April 28, 2021.

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 was the Euro ("Euro" or "€") and was translated to Canadian Dollar ("CAD") for consolidation purposes, 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. There is continued ongoing uncertainty around COVID-19 and the extent and duration of the impacts that it may have on the global economy and global financial markets. The Company has experienced a drop in revenues due to reduction in economic activity by our clients. This could have a material adverse effect on the Company's financial performance in the future.

## 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 capitalize 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 Naturebank Technology, Inc.

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

In October 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.

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

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

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

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

In December 2020, the Company completed the sale of its remaining 18% interest of Forest Finest Consulting, GmbH, back to Forest Finest Consulting GmbH, leaving it with no further ownership stake in that entity.

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 developing carbon offset projects, particularly forestry and land-use. The Company has developed some of the largest and most sophisticated carbon offset projects globally, including those completed in Canada, the United States, and 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, sustainable investment funds, and equity capital deployment.

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. 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.

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.

On November 5, 2020, NatureBank announced the proposed sale of its remaining 18% interest in Forest Finance Consulting GmbH to the management team of FFC. The sale was completed on December 18, 2020.

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, including large private landowners, First Nations, international governments, non-governmental organizations (NGOs), and various 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. 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 to 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 ten 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>2</sub>e in 2018 representing a value of just under USD \$300 million. 2019 witnessed record transaction volume of at least 104 MtCO<sub>2</sub>e, which was an increase of 6% over 2018. 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 primarily driven by corporations who engage in the 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 engaging 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 the Air Resource Board adopted certain voluntary Climate Action Reserve projects for use under their compliance cap and trade system.

NatureBank has commercialized over 2.5 million tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) into the voluntary markets since its 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 across North America, 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 \$18 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.

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.

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 Carbon Competitiveness Incentive Regulation 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 became the TIER program, and the goal of reducing carbon intensity remains in place.

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 the Company believes there will be continued progress with climate policy introduced to date.

## 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.

On November 5, 2020, NatureBank announced the proposed sale of its remaining 18% interest in FFC back to FFC. The Company would sell these shares for consideration of CDN \$295,515. On January 29, 2021, NatureBank announced that it closed the share purchase and sale agreement with FFC, relinquishing its ownership stake in FFC.

### **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, 2020, the Company recorded finance costs of \$50,205 (2019 - \$51,005) which includes accretion of \$nil (2019 - \$3,108) and accrued interest of \$50,205 (2019 - \$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, 2020, the Company's senior management team consisted of:

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

\* Officers of the Company

### DIRECTORS

As at the date of this MD&A, the Board of Directors consists of:

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

\*\* On January 21, 2021 Gary Bull was appointed as a Director of the Company.

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

On March 15, 2021 Dirk Walterspacher resigned from his role as Director of the Company.

## Results of operations

### OVERVIEW OF FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2020\*

\*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.

	2020 \$	2019 \$	2018 \$
Revenue	2,387,584	2,850,768	2,755,464
Gross profit	1,531,022	1,557,575	1,828,032
Income (loss) before other items	141,597	(63,275)	472,571
Income from continued operations	309,101	786,205	237,055
Comprehensive income	309,101	561,890	767,475
Total assets	2,020,976	1,631,543	3,154,746
Working capital	(304,755)	(828,094)	(1,565,504)
Shareholders' deficiency	(529,233)	(838,334)	(1,582,656)
Long-term liabilities	263,559	211,559	62,951
Income per share from continuing operations, basic and diluted	0.005	0.014	0.004

During the year ended December 31, 2020, the Company generated \$2,387,584 in sales revenue compared to sales of \$2,850,768 in the same period in 2019. Revenues were primarily impacted by unforeseen COVID-19 business slow down and decreased by 16% or \$463,184. Many of the Company's regular clients are in the travel and tourism industry and ceased operations temporarily or experienced considerable reductions in activity. A reduction in business activity results in a reduction in their carbon footprint, thus affecting their carbon offset purchases. For example, fewer flights result in fewer carbon emissions; fewer carbon emissions require fewer carbon offsets to offset those emissions. Additionally, some consulting projects were delayed because fieldwork could not be performed due to COVID-19 restrictions.

Gross profit was \$1,531,022 compared to \$1,557,575 for the year ended December 31, 2019. For the year ended December 31, 2020, 57% of revenue was retail offset sales to corporate CSR customers, and 43% was advisory, consulting and project management services. In 2019, the ratios were 61% retail offset sales and 39% advisory/consulting, project services & management consulting services. Advisory, consulting, and project management revenue remained relatively consistent from 2019 to 2020, whereas offset sales declined by 21%.

Gross margin as a percentage of revenue is higher at 64%, compared to 55% for the same period last year. Lower project-related travel costs and less use of external consultants increased the gross margin on consulting services. Additionally, the Company had certain consulting projects completed during the year with higher profit margins due to the nature of the work performed.

Operating expenses for the year ended December 31, 2020 were \$1,389,425 compared to \$1,620,850 for same period in 2019. The decrease in operating expenses of \$231,425 or 14% is due to a decrease in selling, general, and administrative costs, salaries, management fees and benefits, consulting fees, and favourable foreign exchange rates. Selling, general, and administrative costs decreased in 2020 as most employees were working remotely from home, with no business travel or business meals occurring for the last ten months of the year, and reduced marketing activities. Consulting fees decreased due to staff hired in the fourth quarter of 2019 replacing external contractors. Employees hired in late 2019 increased overall salaries for 2020; however, this increase was offset by the wage subsidies totalling \$200,635 received in 2020.

The Company delivered an operating profit before other items of \$141,597 during the year ended December 31, 2020 (2019 loss: \$63,275). Gross profit remained consistent with the prior year, however the decrease in operating expenses resulted in an operating profit in 2020 compared to 2019.

For the year ended December 31, 2020, the Company had \$nil in accounts payable write-downs compared to \$117,282 for the same period in 2019.

Finance costs were \$50,205 for the year ended December 31, 2020, compared to \$51,005 for the same period in 2019.

Interest expense for the year ended December 31, 2020 was \$47,772 (2019: \$117,011). 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 fiscal 2019. In 2020, the reduction in principal resulted in a decrease in interest expense of \$69,239. 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 \$18,843.

Other income was \$48,448 for the year ended December 31, 2020, compared to \$30,171 in the same period last year. \$30,000 of other income earned in 2020 (2019: \$22,500) was from a strategic partnership agreement whereby the Company provided various services, including shared office space and supplies.

Total comprehensive income was \$309,101 for the year ended December 31, 2020, compared to comprehensive income of \$561,890 for the year ended December 31, 2019.

Significant changes in operating expenditures in 2020 versus 2019 are categorized in the table below.

Item	Year ended December 31, 2020 Increase (decrease) in expense	Comment
Amortization of intangible assets	\$(25,000)	Intangible assets were fully amortized in 2019.
Amortization of right-of-use asset	\$19,308	Amortization in 2019 was for nine months, whereas in 2020, amortization was for the full year.
Consulting fees	\$(11,730)	Decrease due to staff hired in late 2019 replacing the use of external consultants
Foreign exchange	\$(33,016)	Due to favourable foreign exchange rate from the sales to US and international customers, the purchase of goods and services from the U.S. and international suppliers, and from the translation of the financial results of operations of the US subsidiary.
Salaries, management fees and benefits	\$(76,820)	Overall decrease despite more employees is the result of wage subsidies received
Selling, general, and administrative	\$(106,765)	Decrease due to reduced office-related expenses, less travel, business meals and business development, including reduced marketing activities

## SUMMARY OF QUARTERLY RESULTS

	2020			
	Q4	Q3	Q2	Q1
Three months ending:	Dec 31	Sep 30	Jun 30	Mar 31
Revenue	1,601,115	241,640	221,325	323,504
Income (loss) from continuing operations	887,790	(273,378)	(102,411)	(202,900)
Comprehensive income (loss)	887,790	(273,378)	(102,411)	(202,900)
Total assets	2,020,976	2,056,922	2,171,926	1,849,254
Working capital	(304,755)	(1,268,374)	(1,014,691)	(1,013,852)
Shareholders' deficiency	(529,233)	(1,417,023)	(1,143,645)	(1,041,234)
Long-term liabilities	263,559	291,559	291,559	211,559
Income (loss) per share from continuing operations, basic and diluted	0.0144	(0.004)	(0.002)	(0.003)

	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)

The Company's revenue in the fourth quarter of 2020 was \$1,601,115, compared to \$1,426,076 in the same quarter of 2019. 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 the revenue from several projects that were completed in the last few months of the year. The fourth quarter of last 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 the year ended December 31, 2020, resulted in an increase in cash of \$250,907 (2019: \$213,871) from continuing operations.

As at December 31, 2020, the Company had an available cash balance of \$816,832 (December 31, 2019: \$565,925) to settle current liabilities of \$2,286,650 (December 31, 2019: \$2,258,318). The Company's current monetary assets of \$1,045,192 (consisting of cash and receivables) exceed its current monetary liabilities of \$812,306 (consisting of payables & accrued liabilities and short term provisions) by \$232,886.

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 \$664,150 (December 31, 2019: \$561,124) with 33% 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 \$20,500 (December 31, 2019: \$19,470) 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.

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. Effective May 11, 2020, the Company and the director finalized the Ninth Amending Agreement extending the due dates of the principal payments to July 22, 2021 and July 22, 2022 respectively.

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 \$322,047 (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 year to year 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 debtholder of the sale of OCT and CCC, and its other debtholders.

## RELATED PARTY TRANSACTIONS

During the year ended December 31, 2020, the Company was involved in the following related party transactions, which are recorded at fair value:

- (a) Salary compensation of \$154,177 (2019: \$153,420) 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, 2020 is \$25,604 (December 31, 2019: \$13,926). 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 \$105,238 (2019: \$67,836) 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, 2020, is \$7,753 (December 31, 2019: \$6,784). Due from Ms. Morandin and included in other receivables at December 31, 2020, is \$500 (December 31, 2019: \$567). Ms. Morandin originally became CFO on September 1, 2017. She resigned as CFO while on leave of absence and was re-appointed on May 1, 2019.
- (c) Consulting fees of \$48,967 (2019: \$25,000) 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 31, 2020 is \$7,191 (December 31, 2019: \$5,129).
- (d) Total compensation of \$nil (2019: \$51,844) was paid to Dirk Walterspacher, a Director and former co-CEO of the Company.
- (e) Included in payables is \$16,959 (December 31, 2019: \$17,078) incurred from BCC Business Communications Consulting GmbH, whom is owned by two directors of the company.
- (f) At December 31, 2020, \$43,750 (December 31, 2019: \$43,750) was recorded in accounts payable and owed to Forest Finance Switzerland AG, whose significant shareholder is a director of the Company.

- (g) 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, 2020, the Company paid \$6,695 (2019: \$10,042) in interest.

On March 22, 2016, the Company borrowed a further \$250,000 from WBZ. On September 23, 2016 the Company paid \$125,000 of this Debenture and during the year ended December 31, 2020 the Company paid \$3,750 (2019: \$7,500) in interest.

Total accrued interest to WBZ on the three debentures is \$73,229 (2019: \$54,467).

- (h) Interest expense of \$23,378 (2019: \$98,352) was incurred from the 3rd Party Seller's OCT and CCC shares, which was assigned to Guy O'loughnane during the year. At December 31, 2020, \$2,065 (Dec 31, 2019: \$2,065) was recorded in accounts payable.

- (i) During the year ended December 31, 2020, sales revenues of \$nil (2019 - \$40,153) and other income of \$30,000 (2019: \$22,500) from sub-leasing office space from a company who has one director in common.

#### **OFF BALANCE SHEET ARRANGEMENTS**

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

## 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 of December 31, 2020, were as follows:

Expiry Date	Number of Options Outstanding	Exercise Price	Number of Options Outstanding and Exercisable	Remaining Life (years)
April 4, 2022	325,000	0.10	325,000	1.26

### **WARRANTS**

The Company had no warrants outstanding as of December 31, 2020, 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, 2020	<i>Amortized cost (financial assets)</i>	<i>Fair Value through Profit or Loss</i>	<i>Amortized cost (financial liabilities)</i>
<b>Financial assets</b>			
Cash	\$ -	\$ 816,832	\$ -
Accounts and other receivables	228,360	-	-
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	-	-	664,150
Convertible debentures	-	-	866,575
	\$ 228,360	\$ 816,832	\$ 1,530,725

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, 2020, the Company's cash is measured at fair value using Level 1 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:

		2020
Cash	\$	816,832
Accounts and other receivables		228,360
	\$	1,045,192

### *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, 2020, the Company had a cash balance of \$816,832 (2019 - \$565,925) to settle current liabilities of \$2,286,650 (2019 - \$2,258,318).

Management is currently restructuring contracts in order to ensure sufficient liquidity throughout 2020 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, 2020, the Company had net monetary assets of \$61,023 held in US dollars, and had net monetary liabilities of €11,711 held in Euros. A fluctuation in the exchange rates between the Canadian and US dollar of 10% would result in \$7,769 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 \$1,828 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 2020, 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 2020, 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 2020 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 had sold its investment in FFC during the year and is no longer exposed to price risk with respect to its investment. The maximum risk resulting from financial instruments is equivalent to their fair value.

## 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, judgements and assumptions that affect the amounts reported in the financial statements and accompanying notes. Our estimates and judgements 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;
- classification and valuation of investment; and
- COVID-19 estimation uncertainty

### 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, 2020:

#### Government grants and assistance

Government grants are recognized when there is reasonable assurance that the relevant conditions of the grant are met and that the grant will be received. The Company records the grant in net loss as a reduction of the cost of related expenditures in the period in which eligible costs are incurred. Where government grants are provided in the form of a forgivable loan, proceeds are recorded as a financial liability and not recognized as a reduction of the cost of the related expenditures incurred until reasonable assurance of forgiveness has been obtained.

## 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 were validated and verified to ISO 14064-2 standard for sale to companies, foundations, and other entities that wish to offset their carbon footprints to support climate change mitigation efforts.

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. this subsidiary is now inactive.

In July, 2015, the Company acquired Forest Finest from Forest Finance Service GmbH. The Company sold 82% of its interest in FFC effective in June 2019, and the remaining 18% in December 2020.

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.