CARBON STREAMING

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

(EXPRESSED IN UNITED STATES DOLLARS)

Deloitte LLP
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# Independent Auditor's Report

To the Shareholders and the Board of Directors of
Carbon Streaming Corporation

## Opinion

We have audited the consolidated financial statements of Carbon Streaming Corporation (the "Corporation"), which comprise the consolidated statements of financial position as at June 30, 2022 and 2021 and July 1, 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended June 30, 2022 and 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 2022 and 2021 and July 1, 2020, and its financial performance and its cash flows for the years ended June 30, 2022 and 2021 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Brenton Francis.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, Canada
September 26, 2022

**CARBON STREAMING CORPORATION**
**Consolidated Statements of Financial Position**
**(Expressed in United States Dollars)**

| | As at June 30, 2022 | As at June 30, 2021 Restated (Note 2) | As at July 1, 2020 Restated (Note 2) |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash | **$ 93,238,372** | $ 108,380,802 | $ 227,621 |
| Carbon credit inventory (Note 6) | **1,644,455** | - | - |
| Prepaid | **800,399** | 198,732 | 2,153 |
| Other receivable | **340,713** | - | - |
| | **96,023,939** | 108,579,534 | 229,774 |
| **Non-Current Assets** | | | |
| Carbon credit streaming agreements (Note 7) | **65,681,286** | - | - |
| Early deposit interest (Note 8) | **1,361,250** | 500,000 | - |
| Other investment (Note 9) | **400,750** | - | - |
| **Total Assets** | **$ 163,467,225** | $ 109,079,534 | $ 229,774 |
| **Liabilities and Shareholders' Equity** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued liabilities | **$ 3,154,779** | $ 1,037,164 | $ 96,724 |
| Warrant liabilities (Note 10) | **16,745,916** | - | - |
| Restricted share unit liabilities (Note 13(b)) | **532,257** | - | - |
| | **20,432,952** | 1,037,164 | 96,724 |
| **Non-Current Liabilities** | | | |
| Restricted share unit liabilities (Note 13(b)) | **399,243** | - | - |
| **Total Liabilities** | **20,832,195** | 1,037,164 | 96,724 |
| **Shareholders' Equity** | | | |
| Share capital (Note 11(b)) | **193,624,443** | 51,705,862 | 10,677,669 |
| Special warrant subscriptions (Note 11(c)) | **-** | 71,511,660 | - |
| Share-based payment reserve | **5,076,920** | 3,200,033 | 1,383,466 |
| Deficit | **(56,066,333)** | (18,375,185) | (11,928,085) |
| **Total Shareholders' Equity** | **142,635,030** | 108,042,370 | 133,050 |
| **Total Liabilities and Shareholders' Equity** | **$ 163,467,225** | $ 109,079,534 | $ 229,774 |

Subsequent events (Note 18)

**Approved on behalf of the Board:**

*"Justin Cochrane"*, Director

*"Saurabh Handa"*, Director

**CARBON STREAMING CORPORATION**
**Consolidated Statements of Loss and Comprehensive Loss**
**(Expressed in United States Dollars)**

| | Year Ended June 30, 2022 | Year Ended June 30, 2021 Restated (Note 2) |
|---|---|---|
| Sale of carbon credits (Note 6) | **$ 146,944** | $ - |
| Cost of carbon credits sold | **(125,810)** | - |
| **Gross profit** | **21,134** | **-** |
| **Expenses** | | |
| Salaries and fees | **6,205,910** | 464,616 |
| Share-based compensation (Note 13) | **3,945,370** | 1,678,823 |
| Marketing | **1,460,054** | 188,669 |
| Professional fees | **1,435,088** | 578,751 |
| Consulting fees | **1,940,828** | 1,694,553 |
| Foreign exchange loss (gain) | **922,268** | (350,495) |
| Insurance | **785,730** | - |
| Regulatory fees | **533,901** | 210,745 |
| Office and general | **408,718** | 132,391 |
| **Operating loss** | **(17,616,733)** | **(4,598,053)** |
| **Other items** | | |
| Revaluation of warrant liabilities (Note 10) | **4,716,660** | - |
| **Net and Comprehensive Loss for the Year** | **$ (12,900,073)** | $ (4,598,053) |
| **Basic Loss per Share** | **$ (0.34)** | $ (0.57) |
| **Diluted Loss per Share** | **$ (0.34)** | $ (0.57) |
| **Weighted Average Number of Common Shares Outstanding - Basic** | **37,732,846** | **8,033,879** |
| **Weighted Average Number of Common Shares Outstanding - Diluted** | **37,732,846** | **8,033,879** |

The accompanying notes are an integral part of these Financial Statements.

**CARBON STREAMING CORPORATION**
**Consolidated Statements of Cash Flows**
**(Expressed in United States Dollars)**

| | Year Ended June 30, 2022 | 2021 Restated (Note 2) |
|---|---|---|
| **Operating Activities** | | |
| Net loss for the year | **$ (12,900,073)** | $ (4,598,053) |
| Items not affecting cash | | |
| Unrealized portion of foreign exchange loss | **1,149,607** | 173,725 |
| Share-based compensation | **3,206,365** | 1,678,823 |
| Units issued for services | **-** | 334,839 |
| Revaluation of warrant liabilities | **(4,716,660)** | - |
| Changes in working capital items | | |
| Prepaid and other receivable | **(948,570)** | (196,365) |
| Carbon credit inventory | **(1,644,455)** | - |
| Accounts payable and accrued liabilities | **2,165,300** | 930,810 |
| **Net Cash Used in Operating Activities** | **(13,688,486)** | (1,676,221) |
| **Investing Activities** | | |
| Carbon credit streaming agreements (Note 7) | **(34,133,639)** | - |
| Early deposit interest | **(861,250)** | (500,000) |
| Purchase of other investment | **(400,750)** | - |
| **Net Cash Used in Investing Activities** | **(35,395,639)** | (500,000) |
| **Financing Activities** | | |
| Common shares issued for cash, net of costs (Note 11(b)) | **-** | 38,262,642 |
| Common shares issued on exercise of warrants (Note 11(b)) | **2,142,181** | 1,367,597 |
| Special warrants subscriptions (Note 11(c)) | **32,990,616** | 71,511,660 |
| **Net Cash Provided by Financing Activities** | **35,132,797** | 111,141,899 |
| **Net change in Cash** | **(13,951,328)** | 108,965,678 |
| **Effect of foreign exchange on cash** | **(1,191,102)** | (835,160) |
| **Cash, Beginning of Year** | **108,380,802** | 250,284 |
| **Cash, End of Year** | **$ 93,238,372** | $ 108,380,802 |

**CARBON STREAMING CORPORATION**
**Consolidated Statements of Changes in Shareholders' Equity**
**(Expressed in United States Dollars)**

| | Share Capital | | Subscriptions | Share-based payment | | |
|---|---|---|---|---|---|---|
| | Number | Amount | received | reserve | Deficit | Total |
| **Balance, June 30, 2020** (Restated Note 2) | **2,995,126** | **$ 11,740,784** | **$ -** | **$ 1,521,210** | **$ (13,777,132)** | **$ (515,138)** |
| Shares issued for cash, net of costs (Note 11(b)) | 14,886,038 | 38,262,642 | - | - | - | 38,262,642 |
| Units issued for service fees | 99,667 | 334,839 | - | - | - | 334,839 |
| Exercise of warrants (Note 11(b)) | 2,692,000 | 1,367,597 | - | - | - | 1,367,597 |
| Receipts for special warrants | - | - | 71,511,660 | - | - | 71,511,660 |
| Share-based compensation (Note 13) | - | - | - | 1,678,823 | - | 1,678,823 |
| Net loss for the year | - | - | - | - | (4,598,053) | (4,598,053) |
| **Balance, June 30, 2021** (Restated Note 2) | **20,672,831** | **51,705,862** | **71,511,660** | **3,200,033** | **(18,375,185)** | **108,042,370** |
| Receipts for Special Warrants (Note 11(c)) | - | - | 33,389,596 | - | - | 33,389,596 |
| Special Warrants converted to Common Shares (Note 11(c)) | 20,980,250 | 104,502,276 | (104,502,276) | - | - | - |
| Share issuance costs | - | - | (398,980) | - | - | (398,980) |
| Share consideration for carbon credit streaming agreements (Note 7) | 4,539,180 | 31,547,647 | - | - | - | 31,547,647 |
| Exercise of warrants (Note 11(b)) | 533,913 | 5,410,789 | - | - | - | 5,410,789 |
| Exercise of stock options (Note 11(b)) | 20,000 | 104,832 | - | (44,941) | - | 59,891 |
| Restricted share units converted to Common Shares and cash | 57,745 | 353,037 | - | - | - | 353,037 |
| Share-based compensation (Note 13) | - | - | - | 2,125,220 | - | 2,125,220 |
| Reclassification of restricted share unit liabilities (Note 13(b)) | - | - | - | (203,392) | - | (203,392) |
| Reclassification of warrant liabilities (Note 10) | - | - | - | - | (24,791,075) | (24,791,075) |
| Net loss for the year | - | - | - | - | (12,900,073) | (12,900,073) |
| **Balance, June 30, 2022** | **46,803,919** | **$ 193,624,443** | **$ -** | **$ 5,076,920** | **$ (56,066,333)** | **$ 142,635,030** |

All shares have been adjusted to reflect a share consolidation on a basis of five pre-consolidation Common Shares for one post-consolidation Common Share.

The accompanying notes are an integral part of these Financial Statements.

## 1. Nature of operations

Carbon Streaming Corporation (the “**Company**” or "**Carbon Streaming**") was incorporated on September 13, 2004 under the *Business Corporations Act* (British Columbia).

Carbon Streaming aims to finance a net-zero future. The Company pioneered the use of streaming transactions, a proven and flexible funding model, to scale high-integrity carbon credit projects to accelerate global climate action and advance the United Nations Sustainable Development Goals. This approach aligns the Company's strategic interests with those of project partners to create long-term relationships built on a shared commitment to sustainability and accountability and positions the Company as a trusted source for buyers seeking high-quality carbon credits.

The Company has carbon credit streams related to over 10 projects around the world, including projects involving nature-based solutions, the distribution of fuel-efficient cookstoves and water filtration devices, sustainable community projects focused on waste avoidance and energy efficiency, and biochar carbon removal.

The Company’s common shares (“**Common Shares**”) are listed on the Neo Exchange Inc. (“**NEO Exchange**”) under the symbol “NETZ”, the March 2026 Warrants (as defined herein) are listed on the NEO Exchange under the symbol “NETZ.WT” and the September 2026 Warrants (as defined herein) are listed on the NEO Exchange under the symbol “NETZ.WT.B”. The Company’s Common Shares are also listed on the Frankfurt Stock Exchange under the symbol “M2Q” and trade on the OTCQB Markets under the symbol “OFSTF”.

The head office and principal address of the Company are located at 155 University Avenue, Suite 1240, Toronto, Ontario, Canada, M5H 3B7. The Company’s registered address is Suite 2500, Park Place, 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2X8.

On October 22, 2021, the Company completed a consolidation of its share capital on a basis of five pre-consolidation Common Shares for one post-consolidation Common Share. All Common Shares, per Common Share amounts, special warrants, warrants, stock options and restricted share units in these consolidated financial statements (the "**Financial Statements**") have been retroactively restated to reflect the share consolidation.

All financial information in this document is presented in United States dollars (“**$**” or "**US$**") unless otherwise indicated.

These Financial Statements of the Company for the year ended June 30, 2022 were approved and authorized for issue by the Board of Directors on September 25, 2022.

## 1. Nature of operations (continued)

Uncertainties due to COVID-19

During the first quarter of calendar 2020, there was a global outbreak of a novel coronavirus identified as "COVID-19". The COVID-19 pandemic and the measures attempting to contain and mitigate the effects of the virus (including travel bans and restrictions, quarantines, shelter-in-place orders, shutdowns and restrictions on trade) have caused heightened uncertainty in the global economy. The duration and full financial effect of the COVID-19 pandemic and related supply-demand market imbalances continues to evolve. Despite successful vaccine rollouts in many jurisdictions, the risk of local or regional resurgences continue, as well as the outbreak of variants strains of the initial COVID-19 virus. As a result, it is difficult to predict how significant the longer-term impacts of the COVID-19 pandemic or other potential pandemics, including any responses to it, will be on the global economy and our business. Even after the COVID-19 pandemic has subsided, the Company may continue to experience materially adverse impacts to its business as a result of the pandemic's global economic impact, and could materially adversely affect our business, financial position and results of operations.

In the current environment, the assumptions and judgments made by the Company are subject to greater variability than normal, which could in the future significantly affect judgments, estimates and assumptions made by management as they relate to the potential impacts of the COVID-19 pandemic and could lead to a material adjustment to the carrying value of the assets or liabilities affected. The impact of current uncertainty on judgments, estimates and assumptions extends, but is not limited to, the Company's valuation of its long-term assets. Actual results may differ materially from these estimates.

## 2. Change in functional and presentation currency

Effective July 1, 2021, the Company determined that its functional currency had changed from the Canadian dollar ("**C$**") to the United States dollar. The Company made the determination considering the significance of the July 19, 2021 private placement of $104.9 million raised in US$, and that carbon credit streaming agreements are primarily based in US$. The change in functional currency was accounted for on a prospective basis from July 1, 2021 onwards.

The Company operates in a mixture of currencies and therefore the determination of functional currency involves certain judgments to determine the primary economic environment in which the Company operates. The Company also reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment.

## 2. Change in functional and presentation currency (continued)

Concurrent with the change in functional currency, effective July 1, 2021, the Company also changed its presentation currency from C$ to US$. The change in presentation currency from C$ to US$ is accounted for retrospectively. The balance sheet and profit and loss amounts previously reported in Canadian dollars have been translated into US dollars as at July 1, 2020 and June 30, 2021 using the period-end noon exchange rates of 1.3628 CAD/USD and 1.2394 CAD/USD, respectively. In addition, shareholders' equity balances have been translated using historical rates based on rates in effect on the date of material transactions. A reconciliation of the prior period comparative amounts that have been restated on the Statement of Financial Position and the Statement of Loss and Comprehensive Loss are shown below:

**Consolidated Statements of Financial Position**

| | As at June 30, 2021 | | As at July 1, 2020 | |
|---|---|---|---|---|
| | As reported C$ | **Restated US$** | As reported C$ | **Restated US$** |
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash | $ 134,327,884 | **$ 108,380,802** | $ 310,202 | **$ 227,621** |
| Prepaid | 246,308 | **198,732** | 2,934 | **2,153** |
| | 134,574,192 | **108,579,534** | 313,136 | **229,774** |
| **Non-Current Assets** | | | | |
| Early deposit interest | 604,200 | **500,000** | - | **-** |
| **Total Assets** | $ 135,178,392 | **$ 109,079,534** | $ 313,136 | **$ 229,774** |
| **Liabilities and Shareholders' Equity** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable and accrued liabilities | $ 1,285,461 | **$ 1,037,164** | $ 131,815 | **$ 96,724** |
| **Total Liabilities** | 1,285,461 | **1,037,164** | 131,815 | **96,724** |
| **Shareholders' Equity** | | | | |
| Share capital | 64,084,245 | **51,705,862** | 14,551,527 | **10,677,669** |
| Special warrant subscriptions | 87,811,768 | **71,511,660** | - | **-** |
| Share-based payment reserve | 3,966,121 | **3,200,033** | 1,885,388 | **1,383,466** |
| Deficit | (21,969,203) | **(18,375,185)** | (16,255,594) | **(11,928,085)** |
| **Total Shareholders' Equity** | 133,892,931 | **108,042,370** | 181,321 | **133,050** |
| **Total Liabilities and Shareholders' Equity** | $ 135,178,392 | **$ 109,079,534** | $ 313,136 | **$ 229,774** |

**(Expressed in United States Dollars, unless otherwise noted)**

## 2. Change in functional and presentation currency (continued)

**Consolidated Statements of Loss and Comprehensive Loss**

| | Year ended June 30, 2021 | |
|---|---|---|
| | As reported C$ | **Restated US$** |
| **Expenses** | | |
| Salaries and fees | 575,844 | **464,616** |
| Share-based compensation | 2,080,733 | **1,678,823** |
| Marketing | 233,837 | **188,669** |
| Professional fees | 717,304 | **578,751** |
| Consulting fees | 2,100,230 | **1,694,553** |
| Regulatory fees | 261,197 | **210,745** |
| Office and general | 164,086 | **132,391** |
| **Loss before other items** | (6,133,231) | **(4,948,548)** |
| **Other items** | | |
| Foreign exchange gain | 419,622 | **350,495** |
| **Net and Comprehensive Loss for the Year** | $ (5,713,609) | **$ (4,598,053)** |
| **Basic and Diluted Loss per Share** | $ 0.71 | **$ 0.57** |

## 3. Basis of presentation

*Statement of compliance*

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**").

*Basis of presentation*

These Financial Statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting except for cash flow information.

Basis of consolidation

These Financial Statements include the accounts of the Company and its wholly-owned subsidiary, 1253661 B.C. Ltd.

Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated on consolidation. Subsidiaries are all entities over which the Company has exposure to variable returns from its involvement and has the ability to use power over the investee to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases.

## 4. Significant accounting policies

(a) Cash

Cash on the consolidated statements of financial position is comprised of cash at banks or held in trust, which are readily convertible into a known amount of cash, and subject to insignificant risk of changes in value.

(b) Foreign currency translation

The functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. These financial statements are presented in United States dollars which is the parent Company's functional and presentation currency. The functional currency of the Company's subsidiary is also the United States dollar.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

(c) Carbon credit inventory

Carbon credit inventory purchased is initially recorded at cost. Cost comprises all costs of purchase, including the purchase price, and other costs directly attributable to the purchase. Subsequent to initial recognition carbon credits classified as inventory are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. In the current year, all inventory relates to carbon credits purchased directly by the Company.

**4. Significant accounting policies (continued)**

(d) Carbon credit streaming agreements

Carbon credit streaming agreements are agreements that are expected to be settled through the delivery of carbon credits. The contractual arrangements, in certain circumstances, could result in the Company receiving cash upon expiry of the contracts. Additionally, the Company's business model for these agreements is to take delivery of the carbon credits and subsequently sell them for purposes of generating a profit. Accordingly, the carbon credit streaming agreements are accounted for as financial instruments. These agreements are initially and subsequently measured at fair value through profit or loss. At each reporting date, the fair value of each active contract is calculated using internal discounted cash flow models taking into consideration the contractual terms of the underlying project agreements that rely on the recent trading prices for comparable carbon credit methodologies and vintages and overall market volatility of voluntary carbon credit pricing. Other variables that impact the fair value of carbon credit streaming agreements include the timing of the delivery of the verified carbon credits, changes in expected costs and cash flows associated with the contract, and changes in the risk-free interest rate. The Company has entered into carbon credit streaming agreements as described in Note 7.

(e) Financial instruments

i) Recognition

The Company recognizes a financial asset or financial liability on the consolidated statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectation of recovering the contractual cash flows of a financial asset.

ii) Classification and measurement

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

- those to be measured subsequently at fair value, either through profit or loss ("**FVTPL**") or through other comprehensive income ("**FVTOCI**"); and,
- those to be measured subsequently at amortized cost.

**4. Significant accounting policies (continued)**

(e) Financial instruments (continued)

The classification and measurement of financial assets after initial recognition depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

After initial recognition at fair value, financial liabilities are classified and measured at either:

- amortized cost;
- FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or
- FVTOCI, when the change in fair value is attributable to changes in the Company's credit risk.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at FVTOCI or amortized cost are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at FVTPL are expensed in profit or loss.

Financial instruments measured at amortized cost utilize the effective interest method of accounting. The 'effective interest rate' is the rate that discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets. Interest expense is reported in profit or loss.

Carbon credit streaming agreements are financial assets measured at FVTPL.

**4. Significant accounting policies (continued)**

(e) Financial instruments (continued)

The Company classifies its financial assets and liabilities under IFRS 9 as follows:

| Financial assets / liabilities | Classification |
|---|---|
| Cash | FVTPL |
| Carbon credit streaming agreements | FVTPL |
| Other investment | FVTPL |
| Accounts payable and accrued liabilities | Amortized cost |
| Warrant liabilities | FVTPL |
| Restricted share unit liabilities | FVTPL |

iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company recognizes in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(f) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of share options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding share options and warrants were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. When a loss is incurred during the period, basic and diluted losses per share are the same as the exercise of the stock options and warrants is considered to be anti-dilutive. As at June 30, 2021, the Company has nil (2021 – nil) potentially dilutive shares outstanding as the Company is currently in a loss making position.

(g) Share capital and warrants

Share capital represents the value of the shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital.

From time to time, the Company may issue units consisting of common shares and share purchase warrants. The Company accounts for unit offering proceeds between common shares and share purchase warrants using the residual value method, wherein the fair value of the common shares is based on recent transactions or the quoted market price and the balance, if any, is allocated to the attached warrants.

**4. Significant accounting policies (continued)**

(h) Share-based compensation

The Company follows the fair value method of accounting for the issuance of stock options and restricted share units ("**RSU**") granted to officers, employees, directors and advisors. The grant date fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility of the expected market price of the Company's common shares and the expected life of the options. The number of stock option awards expected to vest are estimated using a forfeiture rate based on historical experience and future expectations. The fair value of the RSUs is determined by recent transactions or the quoted market price of the Company's common shares at date of grant. Share-based compensation is amortized to profit or loss over the vesting period of the related option or RSU.

At the discretion of the Board of Directors (or committee), RSUs may be settled in equity, cash or a combination of both. The fair value of RSUs, which are settled in equity, is recognized as a share-based compensation expense with a corresponding increase in reserves, over the vesting period. The fair value of RSUs, when settled in cash, is recognized as a share-based compensation expense with a corresponding increase in liabilities, over the vesting period.

The Company uses graded or accelerated amortization which specifies that each vesting tranche must be accounted for as a separate arrangement with a unique fair value measurement. Each vesting tranche is subsequently amortized separately and in parallel from the grant date.

Option-pricing models require the use of subjective estimates and assumptions including the expected stock price volatility due to the short period of time the shares have traded on an active market relative to the life of the stock options and RSUs. Changes in the underlying assumptions can materially affect the estimated fair value.

In situations where equity instruments are issued to non-employees and the fair value of some or all of the goods or services received by the Company as consideration cannot be estimated reliably, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

(i) Revenue recognition

The Company recognizes revenue from the sale of carbon credits purchased. Revenue is recognized upon transfer of control of the carbon credits to customers in an amount that reflects the consideration the Company receives. The Company sells carbon credits to customers whereby the Company transfers the carbon credits directly to the customer or retires the carbon credits on the customer's behalf. Revenue from the sale of carbon credits is recorded when the carbon credits have been retired or transferred and the Company's performance obligation has been satisfied. In the current year, revenue recognized relates to carbon credits purchased directly by the Company.

## 4. Significant accounting policies (continued)

(j) Income taxes

Current income tax

Current income tax assets and liabilities for the period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Accounting standards, amendments and interpretations issued

Certain accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on these Financial Statements.

## 5. Significant accounting estimates, judgments and assumptions

Significant accounting estimates, judgments and assumptions used or exercised by management in the preparation of these Financial Statements are presented below.

Significant accounting judgments and estimates

The preparation of these Financial Statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the periods of change, if the change affects that period only, or in the period of the change of future periods, if the change affects both.

The preparation of these Financial Statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying accounting policies in these Financial Statements include:

*Functional currency*

The determination of an entity's functional currency requires judgment where the operations of the Company are changing, or currency indicators are mixed. Additionally, the timing of a change in functional currency is a judgment as the balance of currency indicators may change over time.

*Accounting for and valuation of carbon credit streaming agreements*

The Company from time to time will acquire carbon credit streaming agreements. Each carbon credit stream has its own unique terms and significant judgment is required to assess the appropriate accounting treatment. Significant estimates and assumptions in the fair value assessment are included in Note 7.

*Share-based compensation*

The Company includes an estimate of share price volatility and share price on the date of issue in the calculation of the fair value for share-based payments. These estimates are based on previous experience and may change throughout the life of an incentive plan. Such changes could impact profit and loss.

*Warrant liabilities*

The fair value of the warrant liabilities is measured using quoted prices or the Black-Scholes pricing model. For warrant liabilities that are valued using the Black-Scholes pricing model, assumptions and estimates are made in determining an appropriate share price volatility and share price on the date of issue. Any significant adjustments to the unobservable inputs would have a direct impact on the fair value of the warrant liabilities.

**(Expressed in United States Dollars, unless otherwise noted)**

## 6. Carbon credit inventory

In September 2021, the Company acquired Rimba Raya Biodiversity Reserve project verified carbon units ("**VCUs**"), which are carbon credits that are issued by Verra, an international institution based in Washington D.C. that manages carbon credit standards, separate and apart from its carbon credit streaming agreements. The VCUs were acquired at a cost of $1,770,265. During the year ended June 30, 2022, the Company sold VCUs with a cost of $125,810 for gross proceeds of $146,944. As at June 30, 2022, the Company held VCUs with a cost of $1,644,455 which are currently held for sale.

## 7. Carbon credit streaming agreements

As at June 30, 2022, the following cash payments and share issuances for carbon credit streaming agreements were made in accordance with project milestones and subject to conditions being met by all parties within the agreements. The Company classifies its carbon credit streaming agreements as Level 3 within the fair value hierarchy.

| | Amount |
|---|---|
| Rimba Raya Stream (i) | **$ 57,833,360** |
| Sustainable Community Stream (ii) | **4,000,000** |
| Magdalena Bay Blue Carbon Stream (iii) | **3,000,000** |
| Waverly Biochar Stream (iv) | **600,000** |
| Cerrado Biome Stream (v) | **247,925** |
| Total | **$ 65,681,285** |

As at June 30, 2022, management has assessed that the fair value of the carbon credit streaming agreements approximates the cash and equity payments disbursed to the projects. The fair value of each streaming contract is estimated using internal discounted cash flow models taking into consideration the contractual terms of the underlying project agreements that rely on the recent trading prices for comparable carbon credit methodologies and vintages and overall market volatility of voluntary carbon credit pricing. Other variables that impact the fair value of the carbon streaming agreements include the expected volumes and timing of the delivery and sale of the verified carbon credits, changes in expected costs and cash flows associated with the agreement, changes in the risk-free interest rate, and other potential factors.

(i) On July 30, 2021, the Company entered into a carbon credit streaming agreement with InfiniteEARTH Limited ("**InfiniteEARTH**"), the developer of the Rimba Raya project, a REDD+ (Reducing Emissions from Deforestation and Forest Degradation) project that has been conserving tropical lowland peat swamp forests in Central Kalimantan, Indonesia for over a decade (the "**Rimba Raya Stream**"). Under the terms of the Rimba Raya Stream, InfiniteEARTH will deliver 100% of the carbon credits created by the project up to July 31, 2051 (unless otherwise extended) for sale by the Company, less up to 635,000 carbon credits per annum which are already committed to previous buyers. To acquire the Rimba Raya Stream, the Company paid an upfront deposit of $22.3 million. In addition, the Company will make ongoing delivery payments to InfiniteEARTH for each carbon credit that is sold under the Rimba Raya Stream.

**7. Carbon credit streaming agreements (continued)**

In conjunction with the Rimba Raya Stream, the Company and the founders of InfiniteEARTH ("**Founders**") also entered into a strategic alliance agreement (the "**SAA**"). Carbon Streaming issued 4,539,180 Common Shares (valued at $31,547,647) and paid $4 million to the Founders as consideration for entering into the SAA. Under the SAA, the Founders have agreed to provide consulting services to the Company, which will consist of carbon project advisory services, carbon credit marketing and sales services, as well as assisting the Company with due diligence initiatives on new potential carbon investment opportunities. In addition, the SAA provides Carbon Streaming with a right of first refusal on any carbon credit streaming or royalty financing transaction for projects that are planned in the future, which includes a portfolio of blue carbon credit projects throughout the Americas. The Rimba Raya Stream includes the cash and share consideration paid to enter into the SAA and the cash consideration paid for the stream agreement, which together represent the fair value of the Rimba Raya Stream.

Osisko Gold Royalties Ltd (“**Osisko**”) has provided notice to the Company that it intends to exercise its Stream Participation Right (as defined herein) in respect of the Rimba Raya Stream. See “Commitments” (Note 17).

(ii) On June 20, 2022, the Company entered into a carbon credit streaming agreement with Will Solutions Inc. (“**Will Solutions**”) to scale its Sustainable Community project in Quebec, Canada and develop and scale its Sustainable Community project in Ontario, Canada (the “**Sustainable Community Stream**”). Under the terms of the Sustainable Community Stream, Will Solutions will deliver 50% of the carbon credits created by the projects to the Company, of up to a maximum of 44.1 million credits to the Company. To acquire the Sustainable Community Stream, the Company agreed to pay an upfront deposit of $20 million. As at June 30, 2022, $4 million of the upfront deposit has been paid, with the balance to be paid as the projects achieve implementation and new member enrollment milestones. In addition, the Company will make ongoing delivery payments to Will Solutions for each carbon credit that is sold under the Sustainable Community Stream.

(iii) On May 13, 2021, the Company entered into a carbon credit streaming agreement with Fundación MarVivo Mexico, A.C. and MarVivo Corporation (“**MarVivo**”) to implement the proposed Magdalena Bay Blue Carbon Conservation Project in Magdalena Bay in Baja California Sur, Mexico which is focused on the conservation of mangrove forests and their associated marine habitat (the “**Magdalena Bay Blue Carbon Stream**”). Under the terms of the Magdalena Bay Blue Carbon Stream, MarVivo will deliver the greater of 200,000 carbon credits or 20% of verified credits generated by the project on an annual basis, for a term of 30 years starting on date of the first delivery of carbon credits. To acquire the Magdalena Bay Blue Carbon Stream, the Company agreed to pay MarVivo an upfront deposit of $6 million. As at June 30, 2022, the Company has paid $3 million of the upfront deposit, with the balance to be paid in three additional installments upon specific milestones being met during project development. In addition, the Company will make ongoing delivery payments to MarVivo for each carbon credit that is sold under the Magdalena Bay Blue Carbon Stream.

Osisko has provided notice to the Company that it intends to exercise its Stream Participation Right in respect of the Magdalena Bay Blue Carbon Stream.

## 7. Carbon credit streaming agreements (continued)

(iv) On May 11, 2022, the Company entered into a carbon credit streaming agreement with Waverly RB SPE LLC ("**Waverly RB**"), a subsidiary of Restoration Bioproducts LLC, to support the construction of a biochar production facility in Waverly, Virginia, United States (the "**Waverly Biochar Stream**"). Under the terms of the Waverly Biochar Stream, Waverly RB will deliver 100% of the $CO_2$ removal certificates ("**CORCs**") generated by the project to the Company, for a term of 25 years starting on the date of the first delivery of CORCs. To acquire the Waverly Biochar Stream, the Company agreed to pay an upfront deposit of $1.4 million. As at June 30, 2022, the Company has paid $0.6 million of the upfront deposit, with additional installments to be paid over the term of the stream agreement. In addition, the Company will make ongoing delivery payments to Waverly RB for each carbon credit that is sold under the Waverly Biochar Stream.

(v) On September 8, 2021, the Company entered into a carbon credit streaming agreement with ERA Cerrado Assessoria e Projectos Ambientais Ltd (formerly ERA Assessoria e Projectos Ambientais e Agricolas Ltd.) ("**ERA**"), to implement and scale the Cerrado Biome project, which is aimed at protecting native forests and grasslands in the Cerrado Biome, Brazil (the "**Cerrado Biome Stream**"). Under the terms of the Cerrado Biome Stream, ERA will deliver 100% of the carbon credits created by the project to the Company, less any preexisting delivery obligations, for a term of 30 years. To acquire the Cerrado Biome Stream, the Company agreed to pay ERA an upfront deposit of $0.5 million. As at June 30, 2022, the Company has paid $0.2 million of the upfront deposit to ERA, with the balance to be paid in subsequent installments upon specific project milestones being met. In addition, the Company will make ongoing delivery payments to ERA for each carbon credit that is sold under the Cerrado Biome Stream.

## 8. Early deposit interest

On May 25, 2021, the Company entered into an exclusive term sheet with the Bonobo Conservation Initiative ("**BCI**") to provide initial funding of $0.5 million to BCI to develop two carbon credit projects within the Bonobo Peace Forest ("**Bonobo Peace Forest Projects**") located in the Democratic Republic of the Congo. On December 30, 2021, the term sheet was amended and restated to increase the amount of the initial funding to $1.3 million. As at June 30, 2022, the Company has paid $1.3 million to BCI. On September 8, 2022, the Company amended and restated its term sheet with BCI, providing an additional $0.6 million of funding to BCI. See "Subsequent Events" (Note 18).

## 9. Other investment

As at June 30, 2022, Carbon Streaming held a 18.6% equity interest in Carbon Fund Advisors Inc. ("**Carbon Fund Advisors**") which was acquired at a cost of $400,750. Subsequent to June 30, 2022, the Company increased its equity interest in Carbon Fund Advisors to 50% for an additional $1.35 million of consideration.

## 10. Warrant liabilities

As a result of the functional currency change (Note 2), some of the Company's warrants are no longer denominated in the same currency as the Company's new US$ functional currency and, therefore, do not meet the criteria for equity classification criteria in IAS 32: *Financial Instruments: Presentation*. Consequently, as of July 1, 2021, the warrant equity reserve related to C$ denominated warrants has been derecognized and a warrant liability has been recognized using the market traded price of the warrants as the basis of measurement. The warrant liability has been classified as a financial liability at FVTPL.

**(Expressed in United States Dollars, unless otherwise noted)**

## 10. Warrant liabilities (continued)

Under IFRS, warrants with an exercise price denominated in a foreign currency are considered derivative financial instruments and the prescribed accounting treatment is to classify these warrants as a current liability measured at fair value upon initial recognition. At each subsequent reporting date, the warrants are re-measured at fair value and the change in fair value is recognized through profit or loss. Upon warrant exercise, the fair value previously recognized in warrant liabilities is transferred from warrant liabilities to share capital.

As a result of the change in functional currency from C$ to US$, the following table summarizes the changes in the warrant liabilities for the Company's C$ denominated warrants for the period ending June 30, 2022:

| | Number of warrants | Amount |
|---|---|---|
| **Balance, June 30, 2021** | **12,794,452** | **$ -** |
| Fair value recognized on change in functional currency | - | 24,791,075 |
| Warrants exercised | (474,913) | (3,328,499) |
| Revaluation of warrant liabilities | - | (4,716,660) |
| **Balance, June 30, 2022** | **12,319,539** | **$ 16,745,916** |

The March 2026 Warrants are C$ denominated and listed on the NEO Exchange. For these warrants the fair value has been determined by reference to the quoted closing price at the date of the statement of financial position. The fair value of the Company's remaining C$ denominated unlisted warrants has been determined using the Black-Scholes pricing model and the following weighted average assumptions:

| | As at June 30, 2022 | As at July 1, 2021 |
|---|---|---|
| Spot price (in C$) | $ 3.33 | $ 6.20 |
| Risk-free interest rate | 3.09 % | 0.44 % |
| Expected annual volatility | 60 % | 40 % |
| Expected life (years) | 3.50 | 4.62 |
| Dividend | nil | nil |

The following table reflects the Company's C$ denominated warrants outstanding and exercisable as at June 30, 2022:

| Expiry date | Warrants outstanding and exercisable | Weighted average exercise price (C$) | Fair value methodology |
|---|---|---|---|
| April 22, 2025 | 312,000 | 0.625 | Black-Scholes pricing model |
| December 16, 2025 | 128,000 | 0.625 | Black-Scholes pricing model |
| December 22, 2025 | 648,000 | 0.625 | Black-Scholes pricing model |
| January 27, 2026 | 2,625,500 | 3.75 | Black-Scholes pricing model |
| March 2, 2026 | 8,606,039 | 7.50 | Quoted price |
| | 12,319,539 | 6.09 | |

## 11. Share capital

On October 22, 2021, the Company completed a consolidation of its share capital on a basis of five pre-consolidation Common Shares for one post-consolidation Common Share. All Common Shares, per Common Share amounts, special warrants, warrants, stock options and restricted share units in these Financial Statements have been retroactively restated to reflect the share consolidation.

a) Authorized share capital

The Company has an unlimited number of voting Common Shares without par value and unlimited number of preferred shares without par value.

b) Issued share capital

As at June 30, 2022, there were 46,803,919 issued and fully paid Common Shares (June 30, 2021 – 20,672,831).

During the year ended June 30, 2022, the Company:

- issued 20,980,250 Common Shares on the conversion of the Company's special warrants. See "Special Warrants" (Note 11(c)).
- issued 4,539,180 Common Shares (valued at $31,547,647) to the Founders as part consideration for entering into the SAA (Note 7).
- issued 533,913 Common Shares for the exercise of warrants for gross proceeds of $2,082,290 and having an estimated fair value of $3,328,499, which were transferred to share capital. The weighted average market price at the date of exercise was C$13.16
- issued 20,000 Common Shares for the exercise of options for gross proceeds of $59,891 and having an estimated grant date fair value of $44,941, which were transferred to share capital. The weighted average market price at the date of exercise was C$12.94.
- issued 57,745 Common Shares for the conversion of RSUs.

During the year ended June 30, 2021, the Company:

- in two tranches, issued 970,000 units for gross proceeds of $195,659. Each unit is comprised of one Common Share and one share purchase warrant, with 280,000 warrants exercisable at C$0.625 until December 16, 2025 and 690,000 warrants exercisable at C$0.625 until December 22, 2025.
- issued 2,934,000 units for gross proceeds of $2,959,093. Each unit is comprised of one Common Share and one share purchase warrant, with each warrant exercisable at C$3.75 until January 27, 2026.
- issued 8,659,838 units for gross proceeds of $26,201,752. Each unit is comprised of one Common Share and one share purchase warrant, with each warrant exercisable at C$7.50 until March 2, 2026 ("**March 2026 Warrant**").

**(Expressed in United States Dollars, unless otherwise noted)**

## 11. Share capital (continued)

- issued 66,667 units measured at the fair value of services received of $201,710. Each unit is comprised of one Common Share and one March 2026 Warrant.
- issued 2,322,200 Common Shares for gross proceeds of $9,368,243.
- received $71,511,600 of gross proceeds related to Special Warrants which closed in July 2021.
- issued 33,000 Common Shares measured at the fair value of services received of $133,129.

c) Special Warrants

On November 20, 2021, the Company’s special warrants (“**Special Warrants**”) automatically converted into one Common Share and one full Common Share purchase warrant which expire on September 19, 2026 at an exercise price of $7.50 per warrant (the “**September 2026 Warrants**”). The Special Warrants had been issued on July 19, 2021, at a price of $5.00 per Special Warrant for aggregate gross proceeds to the Company of $104.9 million. With the conversion, a total of 20,980,250 Common Shares and 20,980,250 September 2026 Warrants were issued to Special Warrant holders.

## 12. Warrants

The following table reflects the continuity of all the Company's warrants for the years ended June 30, 2022 and 2021:

| | **Number of warrants** | **Exercise price** | |
|---|---|---|---|
| **Balance, June 30, 2020** | **2,856,000** | **C$** | **0.625** |
| Issued (Note 11(b)) | 12,630,452 | C$ | 6.09 |
| Exercised (Note 11(b)) | (2,692,000) | C$ | 0.625 |
| **Balance, June 30, 2021** | **12,794,452** | | |
| Issued (Note 11(c)) | 20,980,250 | US$ | 7.50 |
| Exercised | (59,000) | US$ | 7.50 |
| Exercised | (474,913) | C$ | 4.37 |
| **Balance, June 30, 2022** | **33,240,789** | | |

The weighted average exercise price of the C$ and US$ denominated warrants was C$6.09 and US$7.50, respectively.

**(Expressed in United States Dollars, unless otherwise noted)**

## 12. Warrants (continued)

The following table reflects all of the Company's warrants outstanding and exercisable as at June 30, 2022:

| Expiry date | Warrants outstanding and exercisable | | Exercise price |
|---|---|---|---|
| April 22, 2025 | 312,000 | C$ | 0.625 |
| December 16, 2025 | 128,000 | C$ | 0.625 |
| December 22, 2025 | 648,000 | C$ | 0.625 |
| January 27, 2026 | 2,625,500 | C$ | 3.75 |
| March 2, 2026 (March 2026 Warrants) | 8,606,039 | C$ | 7.50 |
| September 19, 2026 (September 2026 Warrants) | 20,921,250 | US$ | 7.50 |
| | 33,240,789 | | |

## 13. Stock options and restricted share units

The Company has a long-term incentive plan ("**LTIP**"), which was last approved by the shareholders on November 12, 2021 at the annual and special general meeting of shareholders. The Company has adopted the LTIP as a means to provide incentives to eligible directors, officers, employees and advisors. The LTIP will facilitate granting of stock options, RSUs and performance share units ("**PSU**s"), representing the right to receive one Common Share of the Company (and in the case of RSUs or PSUs, one Common Share of the Company, the cash equivalent of one Common Share of the Company, or a combination thereof) in accordance with the terms of the LTIP. Upon vesting, the RSUs can be cash-settled or share-settled under the LTIP, as determined by the Board of Directors. The Company may settle RSUs in cash or equity based on the relevant facts and circumstances of each settlement, including but not limited to the Company's share ownership policy and accordingly they are recorded as a financial liability on the statement of financial position.

As per the terms of the LTIP, the maximum aggregate number of Common Shares reserved for issuance under the LTIP shall not exceed 10% of the Company's issued and outstanding Common Shares.

(a) Stock options

The following table reflects the continuity of stock options for the years ended June 30, 2022 and 2021:

| | Number of stock options | Weighted average exercise price (C$) |
|---|---|---|
| **Balance, June 30, 2020** | - | - |
| Granted | 640,000 | 3.85 |
| **Balance, June 30, 2021** | **640,000** | **3.85** |
| Granted | 886,000 | 13.68 |
| Exercised | (20,000) | 3.75 |
| **Balance, June 30, 2022** | **1,506,000** | **9.63** |

**(Expressed in United States Dollars, unless otherwise noted)**

### 13. Stock options and restricted share units (continued)

During the year ended June 30, 2022, the Company granted 886,000 stock options (year ended June 30, 2021 - 640,000) to officers, directors, employees and advisors. The fair value of the stock options was estimated to be $5,278,764 (year ended June 30, 2021 - $1,475,431) using the Black-Scholes option pricing model and the following weighted average assumptions: exercise price of C$13.68 (year ended June 30, 2021 - C$3.85), share price of C$14.36 (year ended June 30, 2021 - C$3.85), risk free interest rate of 1.32% (year ended June 30, 2021 - 0.99%), an expected life of 5 years (year ended June 30, 2021 - 5 years) and an expected volatility of 60% (year ended June 30, 2021 - 100%). The volatility was estimated based on the historical volatility of the Company calculated using historical trading prices of the Company's shares and the historical volatility of comparable companies based on the historical trading prices of the underlying shares in comparable companies.

The following table reflects the Company's stock options outstanding and exercisable as at June 30, 2022:

| Options outstanding | Options exercisable | Weighted average exercise price (C$) | Weighted average remaining contractual life (years) | Expiry date |
|---|---|---|---|---|
| 570,000 | 570,000 | 3.75 | 3.75 | March 31, 2026 |
| 50,000 | 50,000 | 5.00 | 3.94 | June 7, 2026 |
| 10,000 | 10,000 | 11.05 | 4.26 | October 1, 2026 |
| 100,000 | 100,000 | 11.15 | 4.27 | October 4, 2026 |
| 746,000 | - | 14.13 | 4.42 | December 1, 2026 |
| 10,000 | - | 15.43 | 4.42 | January 10, 2027 |
| 20,000 | - | 10.05 | 4.67 | March 1, 2027 |
| 1,506,000 | 730,000 | 9.63 | 4.15 | |

(b) Restricted share units

The following table reflects the continuity of RSUs for the periods ended June 30, 2022 and 2021:

| | Number of RSUs | Fair value of RSU liabilities |
|---|---|---|
| **Balance, June 30, 2020** | - | $ - |
| Granted | 500,000 | 203,392 |
| **Balance, June 30, 2021** | **500,000** | **203,392** |
| Granted | 532,500 | 1,820,150 |
| Converted into Common Shares | (57,745) | (353,037) |
| Settled in cash | (108,920) | (739,005) |
| **Balance, June 30, 2022** | **865,835** | **$ 931,500** |

**(Expressed in United States Dollars, unless otherwise noted)**

### 13. Stock options and restricted share units (continued)

As at June 30, 2022, the total fair value of restricted share unit liabilities is $931,500, of which the Company considers $532,257 to be the current portion of the liabilities, with the remaining $399,243 considered non-current.

During the year ended June 30, 2022, the Company granted 532,500 RSUs (year ended June 30, 2021 - 500,000 RSUs) to officers, directors, employees and advisors. These RSUs vest a third on each of the first, second and third anniversaries of the date of grant. The grant date fair value of the RSUs was $5,627,342 (2021 - $1,573,342).

For the year ended June 30, 2022, the Company recorded share-based compensation expense for these RSU's of $1,820,150 (year ended June 30, 2021 - $203,392).

### 14. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties include key management personnel and may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions are recorded at the exchange amount, being the amount agreed to between the related parties.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and members of the Board of Directors.

Remuneration of key management personnel of the Company was as follows:

| | Year Ended June 30, 2022 | 2021 |
|---|---|---|
| Salaries and fees [1][2] | **$ 4,606,013** | $ 400,326 |
| Consulting fees [1] | **62,299** | 103,266 |
| Share-based compensation | **2,844,110** | 1,010,966 |
| | **$ 7,512,422** | $ 1,514,558 |

[1] Salaries and fees paid to the executive officers and directors for their services.

[2] Included in accounts payable and accrued liabilities are fees owing to officers and directors of $nil as at June 30, 2022 (June 30, 2021 - $36,514).

## 15. Financial instrument fair value and risks factors

***Fair value***

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the years ended June 30, 2022 and 2021, no such transfers took place.

The Company's financial instruments include cash, carbon credit streaming agreements, accounts payable and accrued liabilities, warrant liabilities and restricted share unit liabilities. The carrying value of cash and accounts payable and accrued liabilities approximates their fair value due to their short-term nature. Cash is measured at fair value based on Level 1 of the fair value hierarchy. Certain C$ denominated warrant liabilities with a quoted trading price are valued based on Level 1 of the fair value hierarchy. Certain C$ denominated warrant liabilities (Level 2) where no quoted prices exist have been valued using a Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility of the expected market price of the Company's Common Shares and the expected life of the options. Carbon credit streaming agreements (Level 3) are valued using recent trading prices for comparable carbon credit methodologies and vintages and overall market volatility of voluntary carbon credit pricing. Other variables that impact the fair value of the carbon streaming agreements include the expected volumes and timing of the delivery and sale of the verified carbon credits, changes in expected costs and cash flows associated with the agreement, an applicable risk adjusted discount rate, and other potential factors.

***Risk factors***

The Company is exposed in varying degrees to a variety of financial instrument related risks. The type of risk exposure and the way in which such exposure is managed is provided as follows:

*Carbon Market Risk*

Carbon market risk is the risk that the fair value of a financial instrument will fluctuate from changes in market forces including, but not limited to, interest rates, voluntary carbon credit prices, foreign exchange, and timing and number of anticipated carbon credit deliveries and sales.

Assuming all other variables remain constant, a 5% weakening or strengthening of voluntary carbon credit prices would result in a fair value adjustment of approximately $2.2 million to the Company's profit or loss.

## 15. Financial instrument fair value and risks factors (continued)

*Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's cash balance is held in credit worthy financial institutions. Credit risk has been assessed as low.

*Currency Risk*

Foreign currency risk is the risk that the fair value of financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is exposed to currency risk as it incurs certain expenditures that are denominated in Canadian dollars while its functional and presentation currency is the United States dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates. As at June 30, 2022, the Company held cash of C$28.6 million in Canadian dollars and had accounts payable of C$3.7 million in Canadian dollars. As the Company has a number of transactions in foreign currencies, currency risk has been assessed as moderate.

Assuming all other variables remain constant, a 5% weakening or strengthening of the US dollar against the Canadian dollar would result in a change of approximately $0.9 million to profit or loss.

*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 is exposed to interest rate risk on its bank accounts. The income earned on the bank account was subject to the movements in interest rates. The Company has no-interest bearing debt. Therefore, interest rate risk has been assessed as nominal.

*Liquidity Risk*

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash balances. Under current market conditions and available cash on hand, liquidity risk has been assessed as low.

**(Expressed in United States Dollars, unless otherwise noted)**

## 16. Income taxes

The income tax expense differs from the amount resulting from the application of the combined Canadian statutory income tax rate as follows:

| | Years Ended June 30, 2022 | Years Ended June 30, 2021 |
|---|---|---|
| Loss before income taxes | **$ (12,900,073)** | $ (4,598,053) |
| Statutory tax rate | **27.00 %** | 27.00 % |
| Expected income tax (recovery) expense based on statutory rate | **(3,483,020)** | (1,241,474) |
| Adjustment to expected income tax (recovery) expense: | | |
| Change in unrecognized deferred income tax assets and others | **3,691,268** | 788,192 |
| Non-taxable gain on warrant liability | **(1,273,498)** | - |
| Share-based compensation | **1,065,250** | 453,282 |
| **Total income tax (recovery) expense** | **$ -** | $ - |

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

| **As at June 30,** | **2022** | **2021** |
|---|---|---|
| Exploration and evaluation assets | **$ 272,823** | $ 272,823 |
| Non-capital losses | **4,853,518** | 1,449,957 |
| Share issuance costs | **161,823** | 100,987 |
| Unrealized loss on foreign exchange | **334,518** | - |
| | **5,622,682** | 1,823,767 |
| Unrecognized deferred income tax assets | **(5,622,682)** | (1,823,767) |
| **Deferred tax assets (liabilities)** | **$ -** | $ - |

The Company's significant temporary differences, unused tax credits, and unused tax losses that have not been recognized as deferred income tax assets as at June 30, 2022, are as follows:

| | **Exploration and evaluation assets** | **Non-capital losses** |
|---|---|---|
| Expiry 2026 to 2042 | **$ -** | **$ 17,975,994** |
| No expiry | **$ 1,010,455** | **$ -** |

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

## 17. Commitments

In connection with the acquisition of carbon credit streaming agreements, the Company pays an upfront deposit to the project partner for the stream or investment. In certain instances, the payment of the upfront deposit is paid in installments, subject to certain milestones and conditions being met. While the timing of such payments is event driven, the Company has made assumptions on the timing of such payments, based on the information currently available. As at June 30, 2022 such conditions had not been met. See Notes 7 and 8 for a description of project specific commitments.

Under its carbon credit streaming agreements, the Company is typically required to pay an ongoing delivery payment to the project partner for each credit that is delivered to Carbon Streaming and sold under the carbon stream. The timing and amount of such payments is dependent on the timing of delivery and sale of carbon credits, the net realized price obtained on the sale of the carbon credits and the terms of the applicable carbon credit streaming agreement.

From time to time, the Company may enter into sales contracts with customers for the future sale of carbon credits. Under these agreements, payment and delivery of the credits may occur at a future date, once credits are delivered to the Company.

Osisko and the Company are currently parties to an investor rights agreement dated February 18, 2021 which governs various aspects of the relationship between Osisko and the Company. Under this agreement, Osisko has the exclusive right to participate in, and acquire up to 20% of, any stream, forward sale, prepay, royalty, off-take or similar transaction between the Company, as purchaser and/or creditor, and one or more third party counterparties (the "**Stream Participation Right**"). As at June 30, 2022, Osisko has provided notice to the Company that it has elected in principle to participate in the Magdalena Bay Blue Carbon Stream, the Rimba Raya Stream and the SAA (see Note 7).

## 18. Subsequent events

(i) On May 16, 2022, the Company entered into a carbon credit streaming agreement with Community Carbon and UpEnergy Group to bring fuel-efficient cookstoves and safe water solutions to millions of households in eastern and southern Africa under a grouped project model (the "**Community Carbon Stream**"). Under the terms of the Community Carbon Stream, Community Carbon will deliver a portion of the carbon credits created by the seven projects to the Company, for a term of 15 years. To acquire the Community Carbon Stream, the Company agreed to pay Community Carbon an upfront deposit of $20 million. The stream subsequently closed on August 15, 2022, and the Company advanced $6.5 million on closing.

(ii) On September 8, 2022, the Company entered into a term sheet with Future Carbon International LLC ("**Future Carbon**") covering four REDD+ projects in the Amazon, Brazil (the "**FCG Amazon Portfolio**"). Pursuant to the terms of the term sheet, the Company has advanced $3 million and entered into a 5% royalty agreement covering the carbon credit revenues generated by Future Carbon from its interest in the FCG Amazon Portfolio, with funds being used to contribute to the development and maintenance of these projects and grow Future Carbon in the global carbon market.

## 18. Subsequent events (continued)

(iii) On September 8, 2022, the Company amended and restated its term sheet with BCI, providing an additional $0.6 million of funding to BCI to develop the Bonobo Peace Forest Projects. In connection with the signing of the amendment and restatement, BCI and the Company entered into a 5% royalty agreement covering the carbon credit revenues generated from the Bonobo Peace Forest Projects.

(iv) On July 6, 2022, the Company invested an additional $1.35 million in Carbon Fund Advisors and increased its equity interest from 18.6% to 50%. Carbon Fund Advisors is the sub-advisor of Carbon Strategy ETF (NYSE: KARB) and the additional investment supports Carbon Fund Advisors' launch of the Carbon Strategy ETF, an actively managed thematic exchange-traded fund that aims to provide investors exposure to the growing compliance carbon markets.

(v) On July 13, 2022, Carbon Streaming executed a term sheet with Citadelle Maple Syrup Producers' Cooperative ("**Citadelle**"). As part of the term sheet, the Company provided C$400,000 of upfront funding for a grouped sugar maple Afforestation, Reforestation, Revegetation and ecosystem restoration project in Quebec, Canada. The initial funding from Carbon Streaming is designed to enable Citadelle to achieve the Fall 2022 and Spring 2023 planting windows and positions Carbon Streaming with a right of first refusal on future carbon credit-based financings.