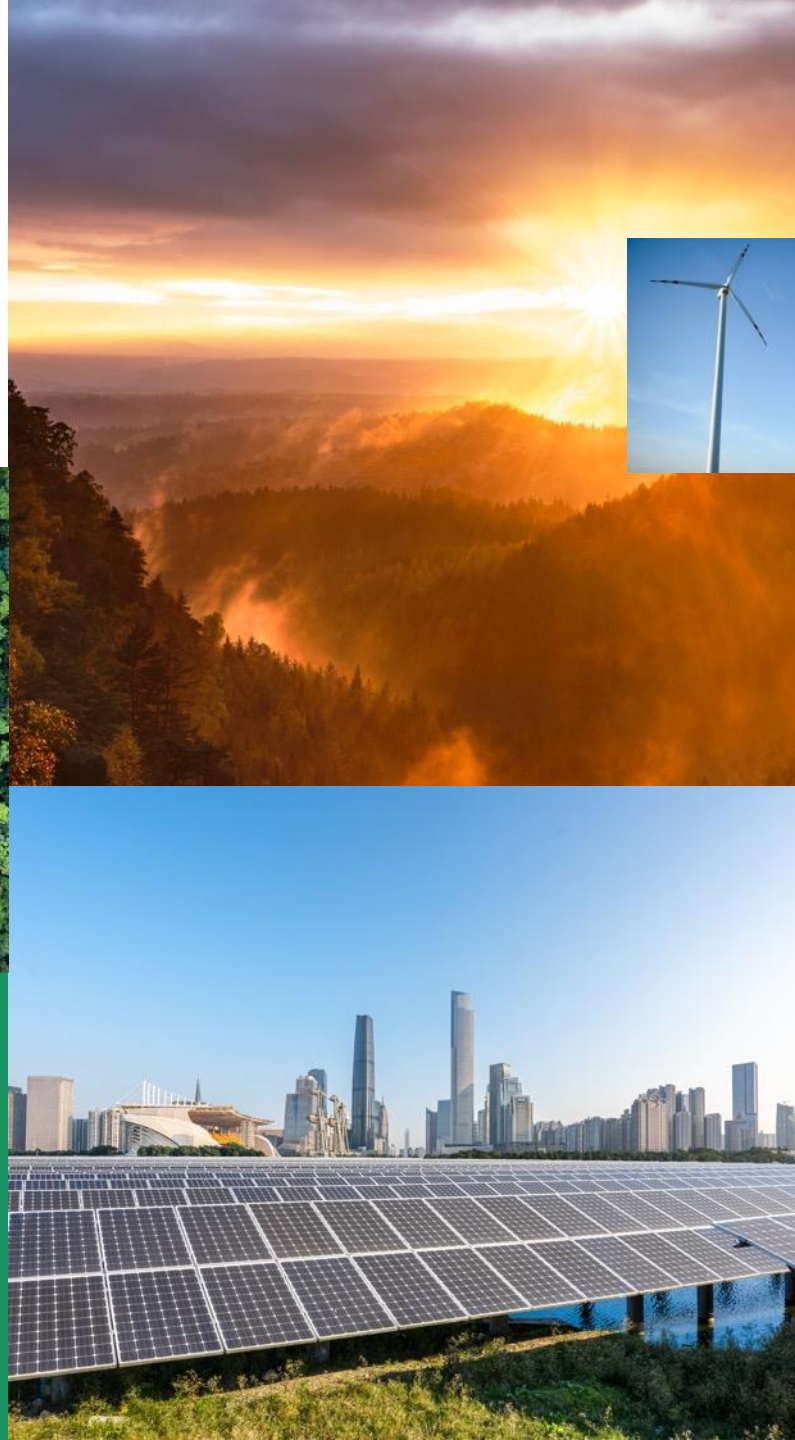


August 2022



Q&A

**Invest in the Earth,
Buy Carbon Credits**



Global Carbon Credit Corp.

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“ *This needs to be a \$50 to \$100 billion per annum market.*

*Mark Carney, UN Special Envoy on Climate Action and Finance
FT Energy Transition Strategies Summit, December 2020*

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What are carbon markets?

Carbon markets are an important tool for cost-effectively reducing greenhouse gas emissions required to decarbonize the global economy. Carbon markets contribute to low-carbon economic development and are increasingly important in the effective avoidance, reduction and removal of global greenhouse gas emissions.

Carbon markets are broadly grouped into two markets: compliance and voluntary.

Compliance Carbon Markets - Compliance markets are the emissions trading systems (ETs), sometimes referred to as cap-and-trade programs, established by government regulation and are comprised of greenhouse gas emitters, regulators and traders. Greenhouse gas emitters in certain sectors are required by government regulation to cap their emissions. In compliance markets, emitters may be allocated or purchase carbon allowances to offset their emissions in excess of the allowable threshold set otherwise face a

penalty. ETs have been established by regional, national, and subnational governments as a critical part of their emission reduction policies. The E.U. Emissions Trading System is the most well-known compliance carbon market.

Voluntary Carbon Markets - Voluntary carbon markets bring together emitters (governments, corporations or individuals), project developers, brokers and traders, but differ from compliance markets in that voluntary carbon credit purchasers are engaging in transactions on a voluntary basis to meet environmental, social and corporate governance (ESG) policies to reduce their carbon footprints. Primary buyers of voluntary carbon credits are companies offsetting their emissions (large purchasers of voluntary carbon credits include Cemex, Microsoft, Delta, Disney, General Motors, PG&E, Shell, and Unilever). While transactions on voluntary carbon markets are not required by law, some regulated emitters participate in voluntary carbon markets as part of their overall climate action strategies.



What are voluntary carbon credits?

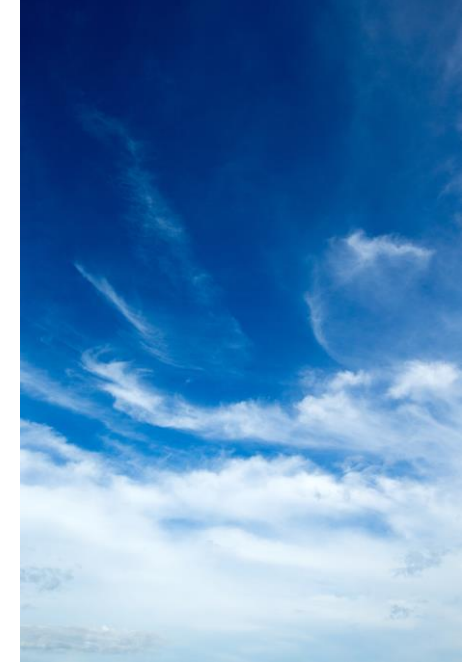
Voluntary carbon credits, also referred to as carbon offsets, are tradeable, registered instruments generated by carbon offset projects that avert or remove greenhouse gas (GHG) emissions from the atmosphere. Each voluntary carbon credit or offset must demonstrate that one metric ton of carbon dioxide (CO₂), or the carbon dioxide equivalent of another GHG, has been averted from being emitted, or removed from the atmosphere. Voluntary carbon credits are typically not used for compliance within a regulatory regime, but rather to support voluntary corporate GHG reduction commitments. A few compliance markets allow the use of carbon credits to offset a portion of emissions.

In order for a carbon offset project to generate voluntary carbon credits, it must meet criteria set by independent carbon credit registries. The four main voluntary carbon credit standards are Verified Carbon Standard (Verra), Gold Standard, Climate Action

Reserve (CAR) and American Carbon Registry. These are nongovernmental organizations (NGOs) that validate the integrity of each carbon offset project, which then becomes registered to a list of approved projects. The registries also verify that the stated emissions reduction or removal has occurred prior to issuing credits. Once the carbon credits are issued, the registries track their transfers and retirement. Carbon credits can be traded over-the-counter or directly purchased from a project developer and used to offset emissions. The price of a voluntary carbon credit is determined by a number of factors (such as project type, location, vintage, etc.), and to a large extent, by supply and demand.

“*Voluntary carbon markets have as much potential to scale as compliance carbon markets, with estimates of their expected size in 2030 ranging from between \$5 billion and 180 billion.*

McKinsey, October 2021



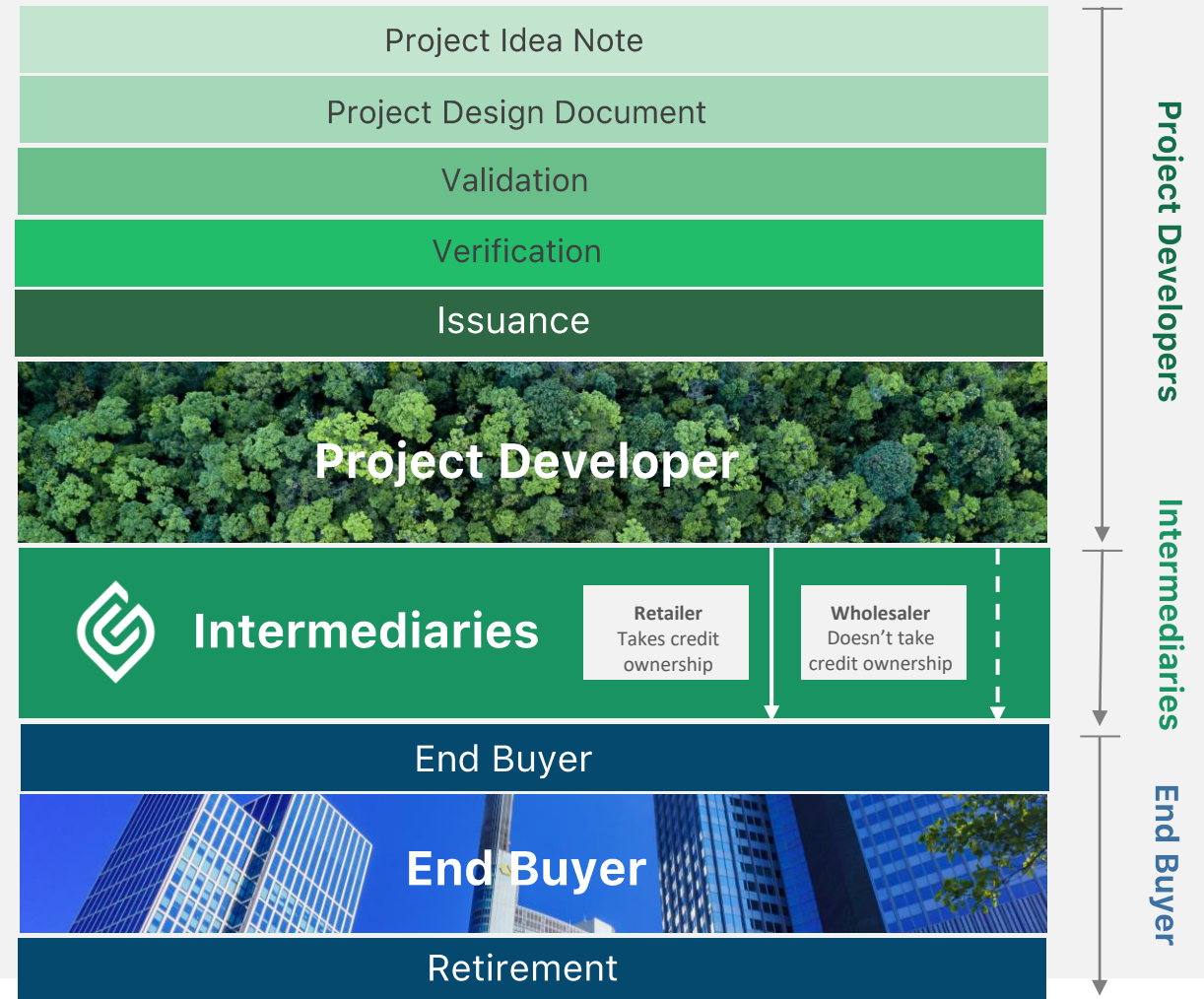
How do voluntary carbon markets work?

Voluntary carbon credits can be bought and resold or 'traded' numerous times. However, once a voluntary carbon credit is used by a purchaser to offset an emission, it is considered 'retired' on the registry (permanently taken out of circulation by the end user) and can never be used, or 'traded', again. A voluntary carbon credit remains on the registry throughout its life in that the registry keeps track of its issuance, transfers and retirement. Once a voluntary carbon credit is purchased it sits in the purchaser's registry account until it is retired by the purchaser or resold ('traded').

Intermediaries - Once issued, voluntary carbon credits can be sold to buyers including retailers and wholesalers who may hold, resell or retire the offset.

Global Carbon Credit enters the lifecycle of a credit as a buyer building a portfolio of voluntary carbon credits.

Figure 1. Lifecycle of a Voluntary Carbon Credit



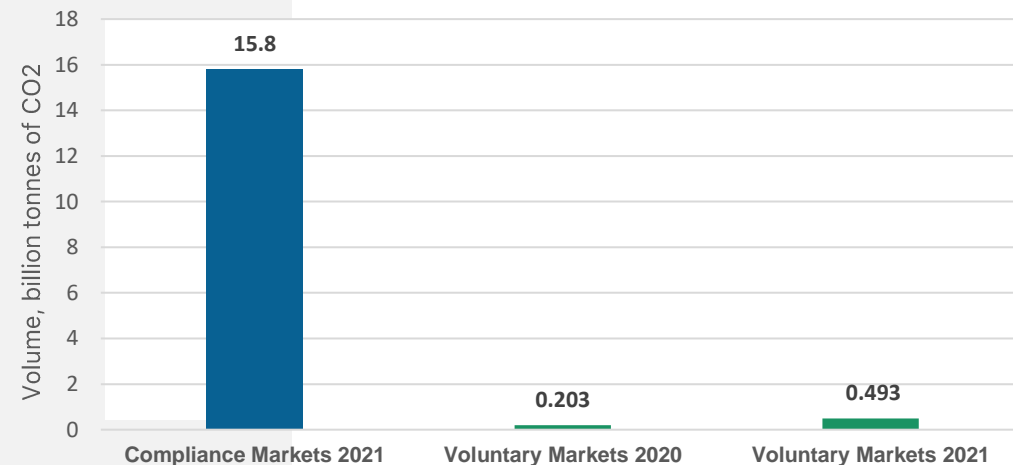
Source: BloombergNEF 2021; World Economic Forum, 2022

How big are carbon markets?

Approximately 99% of all transactions in the carbon markets currently occur in the compliance carbon markets. In 2021, the compliance carbon markets reached an annual transaction value of US\$851 billion¹ (Refinitiv, 2022). While compliance carbon markets will be a key part of the climate policy of some governments to meet their commitments under the Paris Agreement, voluntary carbon markets are at the precipice of a major expansion as corporates set ambitious net zero targets and seek to offset emissions through the direct purchase and retirement of voluntary carbon credits.

Today, compliance carbon markets are far larger in size than voluntary carbon markets and are currently more developed². Total volumes traded on all compliance markets was about 50x that of transacted volumes on the voluntary carbon markets, as seen in Figure 2.

Figure 2. Transaction Volume, Compliance and Voluntary Carbon Markets



Source: Ecosystem Marketplace, August 2022

¹ Refinitiv, "Carbon Market Year in Review 2021".

² According to the World Bank, there are 29 compliance carbon markets operating worldwide. The E.U. Emissions Trading System (ETS), which launched in 2005, and China's national ETS, which launched in 2021, are the largest compliance markets, covering approximately 3.1% and 7.4% of global emissions, respectively (CIBC 2021). Large North American compliance carbon markets include the Regional Greenhouse Gas Initiative (RGGI), established in 2005 as the first compliance program in the U.S. to limit CO2 from the power sector, and the Western Climate Initiative, a combination of California's and Quebec's compliance programs.



What the experts are saying...

“Demand for offsets has increased significantly in the last few years on the back of the rapidly increasing number of sustainability commitments from corporates. In 2020, 95mn tCO₂ offsets were retired (+36% vs. 2019); 2021 demand is annualizing to ~140mn, 45% higher YoY.”

December 2021

Goldman
Sachs

“Just as the question on climate actions is not “if” but “when,” the question on carbon price is less about how high it will go but when over \$100/ton will be reached, as it is simply a prerequisite of the net-zero transition.”

February 2022

CREDIT SUISSE

“With nearly 191 countries plus the European Union, signing the Paris agreement, and just 21.5% of global emissions currently addressed by Compliance Markets, the need to scale Voluntary Markets rapidly is clear.”

February 2022

CAPITAL  MARKETS
HAYWOOD

How fast are voluntary carbon markets expected to grow?

The Taskforce on Scaling Voluntary Carbon Markets³ (TSVCM), a private sector initiative, established the Integrity Council for the Voluntary Carbon Market (IC-VCM) last year with the aim to set global benchmarks for carbon credits and ensure the voluntary markets help meet the goals of the Paris Agreement. According to the TSVCM, a 1.5 degree Celsius (1.5°C) pathway requires a 50-55% reduction in global emissions by 2030 and voluntary carbon markets will need to grow by more than 15 times by 2030, to meaningfully support a 1.5°C pathway.

Under this scenario, BloombergNEF forecasts the price of voluntary carbon credits will increase significantly, creating a US\$190 billion market by 2030 (BloombergNEF 2022).

³ The Taskforce on Scaling Voluntary Carbon Markets is spearheaded by Mark Carney, UN Special Envoy for Climate Action and Finance Advisor to UK Prime Minister for the 26th meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) ("COP26").

“ *As pressure from investors mount, corporations of all sizes (and not just large emitters) are looking to demonstrate their commitment to environmental sustainability by reducing their carbon footprint. These reductions will increasingly occur in the Voluntary Carbon Market – i.e., transacting carbon credits outside of regulation.*

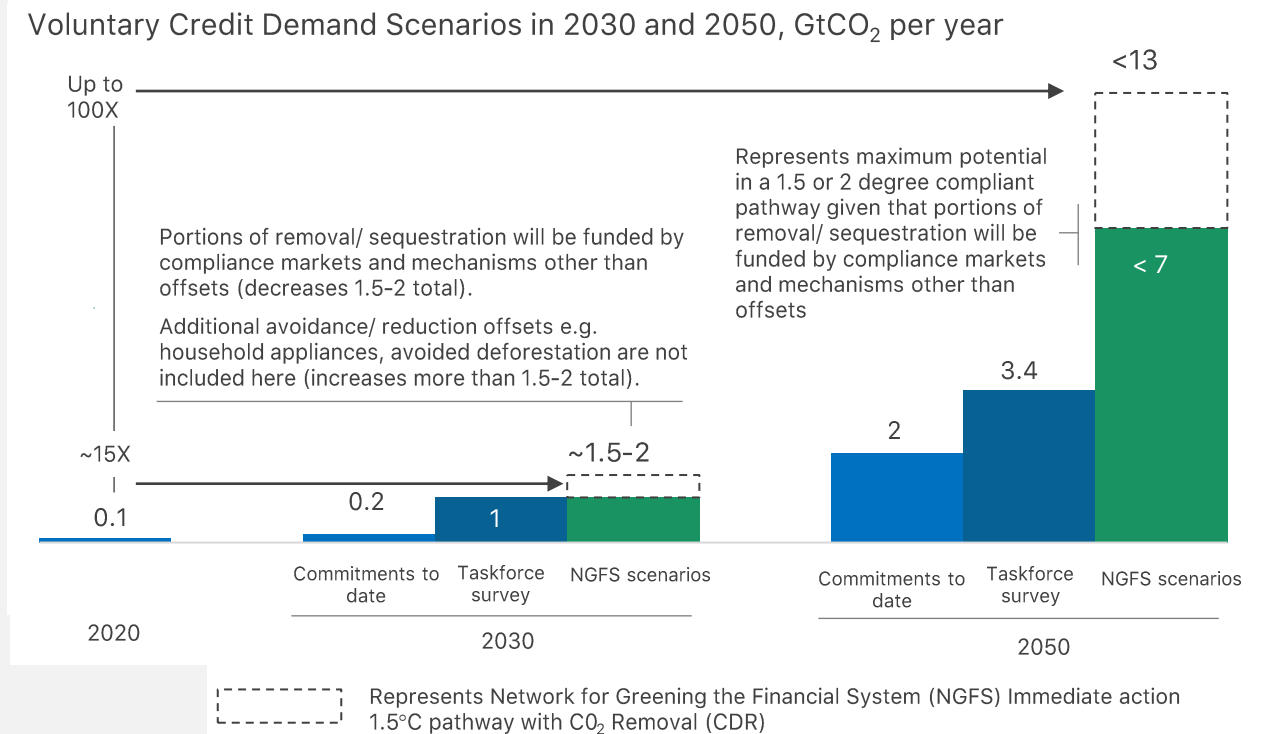
CIBC, 2021

Voluntary credit demand scenarios in 2030 and 2050

“ A liquid voluntary carbon market at scale could allow billions of dollars of capital to flow from those making net-zero commitments into the hands of those with the ability to reduce and remove carbon, significantly contributing in the transition to net zero.

Taskforce for Scaling Voluntary Carbon Markets, 2021

Figure 3. Voluntary carbon markets need to grow by >15x by 2030, to meaningfully support a 1.5°C pathway



What dynamics are driving growth in voluntary carbon markets?

The main catalysts anticipated to drive significant, near-term growth in demand for voluntary carbon credits are corporate net zero commitments, increased climate-related disclosure requirements by regulators, pressure from shareholders and investors and corporations seeking the lowest cost of capital.

Net-Zero Commitments – Corporate net zero targets and related corporate climate ambitions are expected to drive demand for voluntary carbon credits. There has been growing recognition of the role voluntary carbon credits (offsets) can play in achieving the global emissions reduction and removal needed to meet the goals of the Paris Agreement.

A credible corporate climate commitment begins with setting an emissions reduction target that covers both a company's direct and indirect greenhouse gas (GHG) emissions. Carbon credits can be used to offset emissions as a company implements its decarbonization plan. A company may commit to a target that involves

the use of voluntary carbon credits, either to compensate for emissions that it has not yet been able to eliminate or to neutralize residual emissions that cannot be further reduced due to prohibitive costs or technological limitations. For example, some industries (e.g. oil, aviation, steel and cement) have emissions that cannot be reduced or eliminated with current technologies. As such, many companies in carbon-intensive industries may need to rely on carbon credits to offset unavoidable or 'hard-to-abate' emissions while working to decarbonize their operations through research and development of new low-carbon or net-zero technologies and methods of production.



What dynamics are driving growth in voluntary carbon markets?

Increased Climate-Related Disclosure Requirements

- Increased disclosure of climate-related risks is anticipated to force companies to address their emissions which is expected to drive demand for voluntary carbon credits. Capital markets regulators are actively evaluating and developing new rules on climate disclosure requirements that, according to the United States Securities and Exchange Commission (SEC), *"if adopted, it would provide investors with consistent, comparable, and decision-useful information for making their investment decisions and would provide consistent and clear reporting obligations for issuers."* Under new rules proposed by the SEC, public companies would need to disclose information about: (i) their direct GHG emissions (Scope 1 emissions) (ii) indirect emissions from purchased electricity or other forms of energy (Scope 2 emissions), and (iii) emissions from upstream and downstream (e.g., suppliers and customers) activities, if material or included in their emissions goals (Scope 3 emissions). Companies may wish to use

use carbon credits to offset some of these emissions that they are required to disclose as they implement their plans to reduce and eliminate them.

Pressure from Shareholders and Investors - Within global capital markets, investors including large pension funds, institutional investors and family offices, are placing increasing pressure on corporates to reduce GHG emissions, disclose plans to mitigate climate related risks and demonstrate commitments to environmentally sustainable operations. The *Net Zero Asset Managers initiative* is an international group of asset managers committed to supporting the goal of net zero by having their investments aligned with net zero emissions by 2050 or sooner. As of May 31, 2022, the *Net Zero Asset Managers initiative* had 273 signatories representing US\$61.3 trillion in assets under management, and is a formal partner of the United Nations Framework Convention on Climate Change (UNFCCC) Race to Zero Campaign. In addition, the



What dynamics are driving growth in voluntary carbon markets?

Glasgow Financial Alliance for Net-Zero is a consortium of over 450 financial firms across 45 nations representing US\$130 trillion of assets that have committed to align their businesses, and most importantly their lending and investing, with net-zero goals.

Lower Cost of Capital - Companies with better ESG scores tend to have lower cost of capital than their lower-ranked peers. A growing number of institutional investors and funds incorporate Environmental, Social and Governance (ESG) initiatives and reporting into their investment decisions. This growth is attributed to shifts in demand across capital markets, driven by the search for better long-term financial value and improved alignment with societal values. The environmental metrics across a number of ESG rating agencies and reporting standards frameworks include CO₂ equivalent emissions totals, emissions policies and targets, reductions in greenhouse gases and the use of

voluntary carbon credits. This has led to a strategic re-orientation of lower-cost capital towards corporates with better climate-related risk management and adaptation, including reduction in overall GHG emissions through the purchase and retirement of voluntary carbon credits (Organisation for Economic Co-operation and Development, 2020).

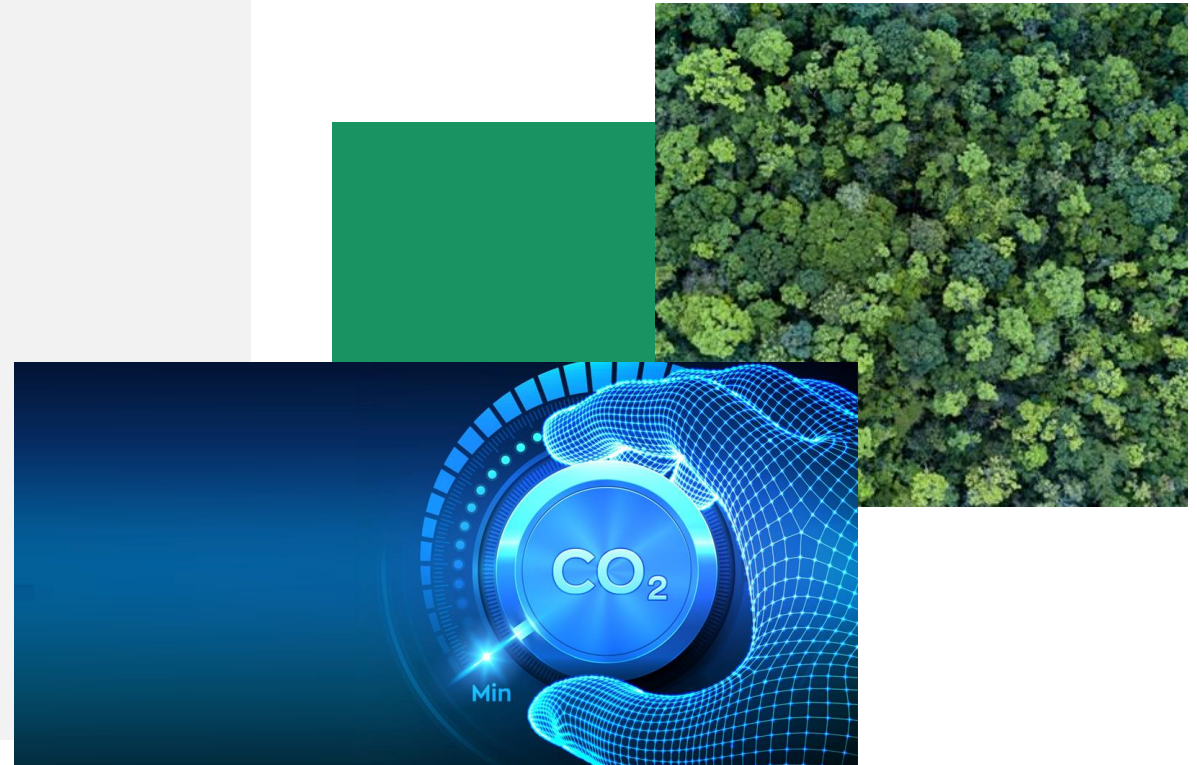


What buyers are most active in voluntary carbon markets?

At present, the most active buyers in the voluntary carbon markets are the energy, consumer goods, and finance and insurance sectors (Ecosystem Marketplace, 2021). Mostly sectors with significant challenges in quickly cutting both direct and indirect GHG emissions, such as emissions arising from infrastructure and technology assets that cannot be quickly upgraded to achieve lower emissions operations, or from parts of their supply chain or portfolio where they have less influence.

Voluntary carbon markets provide an effective strategy for these companies to reduce emissions within self-imposed timelines to achieve net zero emissions under Scope 1 and in some cases Scope 2 as well, while working toward decarbonization in the medium to long-term across all three Scopes (1, 2, and 3), including supply chains, subsidiaries and portfolio companies.

Growth in voluntary carbon markets is expected to be mainly driven by companies in 'hard to abate' sectors such as the oil and gas, mining, cement, steel and chemical industries.



What determines the price of a voluntary carbon credit?

While prices for voluntary carbon credits are largely dependent on supply and demand, the price of a credit is also determined by a number of factors, such as project type⁵, geographical location, vintage, accreditations, etc. According to research from the University College of London (UCL) and Trove Research, the cost of offsetting corporate carbon emissions is expected to surge tenfold over the next decade as growing numbers of businesses adopt net zero targets. Voluntary carbon credit prices are forecast to reach US\$20 to US\$50 a metric ton of CO₂ by 2030 (Credit Suisse, 2022; UCL Trove, 2021).

According to **Climate Pledge**, 322 businesses have signed on to the Climate Pledge commitment to net zero carbon by 2040, and a total of 1,565 have set net zero emissions goals, up from approximately 500 in 2019.

Potential demand for voluntary carbon credits is forecast to grow 15-fold by 2030 and up to 100 fold by 2050. In terms of transaction value, McKinsey & Company anticipates a market size of up to US\$50 billion by 2030, as compared to US\$2 billion in 2021.



⁵ There are four main types of voluntary carbon credit projects: 1) Reducing Emissions from Deforestation and forest Degradation (REDD+), which avoids or reduces CO₂ emissions. Brazil, Indonesia, and Democratic Republic of Congo make up 50% of the REDD+ potential between 2020 and 2050. 2) Reforestation and other ecosystem restoration, which removes CO₂ from the atmosphere. Brazil, China, Colombia, Indonesia, and India account for 50% of the world's biophysical restoration potential. 3) Carbon capture and storage (CCS), which reduces and removes CO₂ emissions, but is at a relatively early stage of development. Current commercial-scale CCS plants in operation and in development are estimated to capture and permanently store approximately 40MtCO₂ per year. Global installed CCS capacity of 300MtCO₂ is estimated by 2035. 4) Renewable energy deployment in least developed countries (only least developed countries because the main renewable technologies are assumed to be cost effective everywhere else), which also reduces CO₂ emissions. (Credit Suisse, 2022).

What determines the price of a voluntary carbon credit?

“ *If the financing of voluntary projects is to genuinely reduce emissions beyond those that would otherwise have occurred, today's average prices of \$3-5/tCO₂e will need to increase to \$20-50/tCO₂e by 2030 and potentially \$100/tCO₂e if governments undertake lower cost projects first. Prices are then expected to keep rising to 2050.*

Trove Research & UCL, 2021

In 2021, the average price of REDD+ credits (Reducing Emissions from Deforestation and forest Degradation credits with a Climate, Community and Biodiversity (CCB) Standard certification issued by the Verra carbon registry) more than doubled, increasing by approximately US\$7.50/t, with average cost of vintages 2017 to 2021, reaching a high of US\$13.25/t at the end of 2021, after starting 2021 at a low of US\$5.73/t (IHS Markit 2022). The price of Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)-eligible voluntary carbon credits increased more than US\$8/t in 2021, to reach a high of US\$9.04/t in November 2021, after starting 2021 at a low of 80.5 cents/t (IHS Markit 2022).



What is the history of voluntary carbon markets?

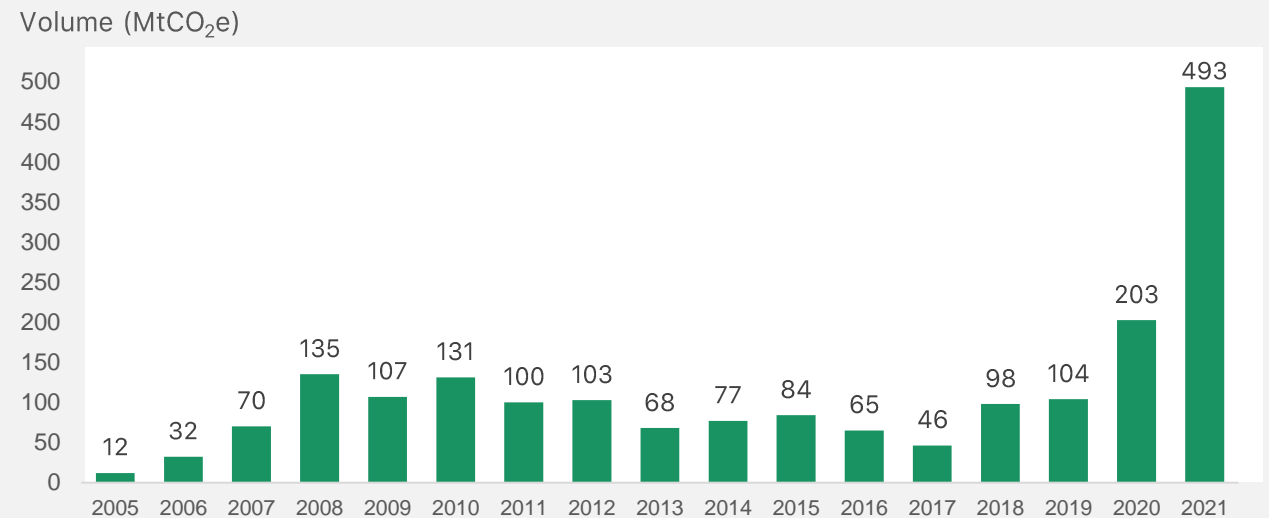
Voluntary carbon markets have been operating since the **Kyoto Protocol**⁶ in the early 2000s however, were largely stagnant until strong environmental, social, and governance (ESG) frameworks implemented in recent years drove demand for voluntary carbon credits considerably higher (Cormark, 2022). During this period, voluntary carbon markets generated far less in transaction volumes and value, relative to compliance markets.

Over the last decade, the average annual global transaction volume on voluntary carbon markets, has been approximately 100 million tonnes of carbon dioxide equivalent (0.1 gigatonnes), as seen in the bar chart on the right (Ecosystems Marketplace, 2021).

⁶ The Kyoto Protocol signed in 1997, allowed for the creation of “carbon credit” markets divided in two types: i) cap and trade or regional regulated ‘compliance’ markets such as the one in place in Europe (ETS) since 2005; and ii) voluntary markets for carbon credits generated through mitigation projects which allow compensation via purchases and sales negotiated over-the-counter.

Ecosystem Marketplace reported transaction values (as of December 31, 2021) reached approximately US\$2 billion in 2021. This represents 89% CAGR from 2018 to 2021.

Figure 4. Voluntary Carbon Credit Markets, Transaction Volumes 2005-2021



Source: Ecosystem Marketplace, August 2022

Investment highlights

Global Carbon Credit Corp. was established to provide investors access to the growing voluntary carbon markets. The Company is building a broad-based portfolio of verified carbon credits representing various project types, locations and vintages. Global Carbon's investment objective is to maximize risk-adjusted returns for its shareholders by offering leverage to higher global carbon prices forecast as the world mobilizes to meet the goals of the Paris Agreement.

For more information please visit our **website** at www.globalcarboncreditcorp.com.

Follow Global Carbon on **Twitter**: [@GlobalCarbonCr](https://twitter.com/GlobalCarbonCr) and **LinkedIn**: [Global Carbon Credit Corp.](https://www.linkedin.com/company/global-carbon-credit-corp)

- Creating a diversified portfolio of voluntary credits from various projects across jurisdictions
- Significant growth expected in voluntary markets as corporations look to offset their emissions
- Higher carbon prices anticipated to encourage investment in removal technologies needed to reach net-zero
- One of only a few ways for an investor to gain exposure to the overall voluntary carbon markets
- Carbon was one of the best performing assets in 2021 and has a low correlation to other asset classes
- True impact investment with support of voluntary carbon markets helping to fight climate change
- Team with track record in trading voluntary credits and capital markets expertise



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