GREENLANE RENEWABLES™

GREENLANE RENEWABLES INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2023 and 2022

(Unaudited)

(Expressed in thousands of Canadian dollars)

Greenlane Renewables Inc.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited) (in thousands of Canadian dollars)

As at		**June 30, 2023**		December 31, 2022
ASSETS				
Current assets:				
Cash and cash equivalents	**$**	**16,139**	$	21,381
Restricted cash		**1,657**		1,694
Accounts receivable *(note 5)*		**14,191**		13,027
Inventory		**2,214**		1,129
Prepaid expenses and other assets		**1,478**		1,266
Contract assets *(note 6)*		**13,633**		14,527
		49,312		53,024
Non-current assets:				
Notes receivable *(note 7)*		**809**		1,752
Property and equipment *(note 8)*		**2,442**		1,732
Intangible assets *(note 9)*		**7,539**		8,349
Goodwill		**18,075**		18,082
Deferred tax asset		**424**		448
TOTAL ASSETS	**$**	**78,601**	$	83,387
LIABILITIES AND EQUITY				
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities *(note 10)*	**$**	**21,508**	$	23,021
Contract liabilities *(note 6)*		**3,355**		1,069
Deferred consideration – share issuance *(note 4)*		**-**		361
Current portion of lease liability *(note 11)*		**269**		268
Current portion of warranty liability *(note 12)*		**1,294**		1,062
		26,426		25,781
Non-current liabilities:				
Deferred consideration – contingent earn-out *(note 4)*		**1,621**		1,582
Lease liability *(note 11)*		**1,753**		967
Warranty liability *(note 12)*		**200**		838
Deferred tax liability		**659**		736
Total liabilities		**30,659**		29,904
Shareholders' equity				
Share capital		**65,709**		65,253
Contributed surplus		**4,740**		4,280
Accumulated other comprehensive loss		**(97)**		(378)
Deficit		**(22,410)**		(15,672)
Total shareholders' equity		**47,942**		53,483
TOTAL LIABILITIES AND EQUITY	**$**	**78,601**	$	83,387

See accompanying notes to the condensed consolidated interim financial statements

Approved by the Board of Directors and authorized for issue on August 14, 2023

"Wade Nesmith" Director *"David Blaiklock"* Director

Greenlane Renewables Inc.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited) (in thousands of Canadian dollars except number of shares and per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Revenue *(note 15)*	**$ 14,918**	$ 18,091	**$ 30,397**	$ 34,364
Cost of goods sold (before amortization)	**10,612**	13,519	**22,315**	25,771
	4,306	4,572	**8,082**	8,593
Amortization of:				
Intangible assets	**482**	652	**955**	1,121
Property and equipment	**49**	39	**85**	69
Gross profit	**3,775**	3,881	**7,042**	7,403
Operating expenses:				
Amortization of office equipment	**110**	113	**221**	231
General and administration	**5,195**	3,953	**10,102**	7,311
Research and development	**251**	305	**474**	595
Sales and marketing	**379**	743	**742**	1,086
Share based compensation	**182**	638	**537**	1,188
Strategic initiatives	**-**	782	**-**	1,103
Impairment of notes receivable *(note 7)*	**1,068**	-	**1,068**	-
	7,185	6,534	**13,144**	11,514
Operating loss	**(3,410)**	(2,653)	**(6,102)**	(4,111)
Other items:				
Finance expense	**17**	20	**35**	45
Finance income	**(131)**	(10)	**(339)**	(34)
Other loss	**20**	-	**41**	-
Foreign exchange loss (gain)	**810**	(491)	**524**	201
Loss before income taxes	**(4,126)**	(2,172)	**(6,363)**	(4,323)
Income taxes:				
Current	**291**	-	**427**	-
Deferred (recovery)	**2**	-	**(52)**	-
Total income taxes	**293**	-	**375**	-
Net loss	**(4,419)**	(2,172)	**(6,738)**	(4,323)
Other comprehensive (income) loss:				
Item that may be subsequently reclassified:				
Exchange difference on translating foreign operations	**(80)**	508	**(281)**	517
NET LOSS AND COMPREHENSIVE LOSS	**$ (4,339)**	$ (2,680)	**$ (6,457)**	$ (4,840)
Basic and diluted loss per share	**$ (0.03)**	$ (0.01)	**$ (0.04)**	$ (0.03)
Weighted average number of shares	**153,684,588**	150,538,114	**152,867,225**	150,416,727
Diluted weighted average number of shares	**153,684,588**	150,538,114	**152,867,225**	150,416,727

See accompanying notes to the condensed consolidated interim financial statements

Greenlane Renewables Inc.

Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited) (in thousands of Canadian dollars, except for number of common shares)

	Common shares		Common shares		Contributed surplus		Cumulative translation adjustment		Deficit		Total
Balance, January 1, 2022	**150,293,991**	**$**	**64,074**	**$**	**2,395**	**$**	**179**	**$**	**(10,167)**	**$**	**56,481**
Share based compensation	-		-		1,188		-		-		1,188
Options and restricted share units exercised	56,666		22		(8)		-		-		14
Acquisition share issuance *(note 4)*	325,505		342		-		-		-		342
Net loss and comprehensive loss	-		-		-		(517)		(4,323)		(4,840)
Balance, June 30, 2022	**150,676,162**	**$**	**64,438**	**$**	**3,575**	**$**	**(338)**	**$**	**(14,490)**	**$**	**53,185**
Balance, January 1, 2023	**152,040,781**	**$**	**65,253**	**$**	**4,280**	**$**	**(378)**	**$**	**(15,672)**	**$**	**53,483**
Share based compensation	-		-		537		-		-		537
Options and restricted share units exercised	321,692		94		(77)		-		-		17
Acquisition share issuance *(note 4)*	770,298		362		-		-		-		362
Net loss and comprehensive income	-		-		-		281		(6,738)		(6,457)
Balance, June 30, 2023	**153,132,771**	**$**	**65,709**	**$**	**4,740**	**$**	**(97)**	**$**	**(22,410)**	**$**	**47,942**

See accompanying notes to the condensed consolidated interim financial statements

Greenlane Renewables Inc.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited) (in thousands of Canadian dollars)

For the six months ended June 30,	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	**$ (6,738)**	$ (4,323)
Adjustments for:		
Amortization of:		
Intangible assets	**955**	1,121
Property and equipment	**85**	69
Office equipment	**221**	231
Impairment of notes receivable	**1,068**	-
Share based compensation	**537**	1,188
Finance expense	**35**	45
Finance income	**(339)**	(34)
Other loss	**41**	-
Foreign exchange loss	**524**	201
Deferred income tax recovery	**(52)**	-
Cash used in operating activities before non-cash working capital	**(3,663)**	(1,502)
Net change in non-cash working capital *(note 16)*	**(1,498)**	1,405
Net cash used in operating activities	**(5,161)**	(97)
CASH FLOWS FROM INVESTING ACTIVITIES		
Business combination, net of cash acquired *(note 4)*	**-**	(7,662)
Notes receivable	**(114)**	(419)
Purchase of property and equipment	**(42)**	(77)
Net cash used in investing activities	**(156)**	(8,158)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from options and restricted share units	**17**	14
Lease principal payments	**(184)**	(195)
Interest paid on lease liability	**(34)**	(45)
Interest received	**288**	34
Net cash provided by (used in) financing activities	**87**	(192)
Net change in cash and cash equivalents	**(5,230)**	(8,447)
Cash and cash equivalents, beginning of period	**21,381**	31,471
Effect of translation on foreign cash	**(12)**	136
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 16,139**	**$** 23,160

See accompanying notes to the condensed consolidated interim financial statements

1. NATURE OF OPERATIONS

Greenlane Renewables Inc. ("**Greenlane**" or the "**Company**") was incorporated under the British Columbia Business Corporations Act on February 15, 2018. The Company's primary business is a provider of biogas upgrading systems. Its systems produce clean, renewable natural gas from organic-waste sources including landfills, wastewater treatment plants, dairy farms, and food waste, suitable for either injection into the natural gas grid or for direct use as commercial vehicle fuel. The head office of the Company is located at 110 - 3605 Gilmore Way, Burnaby, BC, V5G 4X5 and its registered and records office is located at 1500 - 1055 West Georgia Street, Vancouver, BC, V6E 4N7.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") applicable to the preparation of interim financial statements, including International Accounting Standard ("**IAS**") 34 Interim Financial Reporting and should be read in conjunction with the Company's most recent annual consolidated financial statements. These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the Company's most recent annual consolidated financial statements.

These condensed consolidated interim financial statements have been prepared on a historical cost basis and are presented in Canadian dollars. These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on August 14, 2023.

(b) Functional and presentation currency

The reporting currency selected for the presentation of these condensed consolidated interim financial statements is the Canadian dollar.

The Company and its subsidiaries each determine their functional currency based on the currency of the primary economic environment in which they operate. Transactions denominated in a currency other than the functional currency of an entity are translated at the exchange rate in effect on the transaction date. The resulting exchange gains and losses are included in each entity's net earnings in the period in which they arise.

The Company has foreign operations which are translated to the Company's presentation currency for inclusion in the condensed consolidated interim financial statements. Foreign-denominated monetary and non-monetary assets and liabilities of foreign operations are translated at exchange rates in effect at the end of the reporting period and revenue and expenses are translated at exchange rates in effect on the transaction date. The resulting translation gains and losses are included in other comprehensive (income) loss ("**OCI**") with cumulative gains or losses reported in accumulated other comprehensive income (loss) ("**AOCI**"). Amounts previously recognized in AOCI are recognized in net earnings when there is a reduction in a foreign net investment as a result of a disposal, partial disposal, or loss of control.

The functional currency for each subsidiary is included in the table in Note 2(c) – Basis of consolidation.

(Unaudited) (in thousands of Canadian dollars, except as noted and per share amounts)

2. BASIS OF PRESENTATION *(continued)*

(c) Basis of consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company and its subsidiaries.

Subsidiaries are entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. These entities are fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date control ceases. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

The consolidated financial statements of Greenlane include the following significant subsidiaries ("**Subsidiary**") listed below. The ultimate holding entity of the entities listed is Greenlane.

			Ownership Interest	
Entity	Jurisdiction	Functional Currency	2023	2022
Airdep S.r.l.	Italy	Euro	100%	100%
Greenlane Biogas do Brasil Ltda	Brazil	Brazilian Real	100%	-
Greenlane Biogas Europe Limited	United Kingdom	Great Britain Pound	100%	100%
Greenlane Biogas Europe B.V.	Netherlands	Euro	100%	100%
Greenlane Biogas Global Limited	Canada	Canadian Dollar	100%	100%
Greenlane Biogas Italy S.r.l.	Italy	Euro	100%	100%
Greenlane Biogas North America Limited	Canada	Canadian Dollar	100%	100%
Greenlane Biogas U.K. Limited	United Kingdom	Great Britain Pound	100%	100%
Greenlane Biogas US Corp.	United States	United States Dollar	100%	100%
Greenlane Renewables Capital Inc.	United States	United States Dollar	100%	100%
PT Biogas Holdings Limited	United Kingdom	Great Britain Pound	100%	100%
PT Biogas Technology Limited	United Kingdom	Great Britain Pound	100%	100%

(d) Basis of measurement

The condensed consolidated interim financial statements have been prepared on a going concern basis, using the historical cost convention, except as otherwise noted.

(e) Use of estimates and judgements

The preparation of the condensed consolidated interim financial statements in accordance with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the carrying value of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. Actual results may differ from these estimates and the differences could be material. Estimates and judgements are reviewed on a continuous basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods.

3. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Financial instruments measured at fair value on the statement of financial position require classification into one of the following levels of the fair value hierarchy:

- Level 1: Valuation based on quoted prices in active markets for identical assets or liabilities;
- Level 2: Valuation based on observables inputs other than quoted active market prices; and
- Level 3: Valuation based on significant inputs that are not derived from observable market data, such as discounted cash flow methods.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

(a) Notes receivable

The fair value of notes receivable is estimated as the present value of future cash flows, discounted at the market rate of interest as at the reporting date. This fair value is determined for disclosure purposes. The fair value approximates the carrying value due to the short time to maturity.

(b) Share based compensation transactions

The fair value of share options is measured using the Black-Scholes pricing model. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments adjusted for forfeitures (based on historical experience and general holder behavior), the expected dividends and the risk-free interest rate (based on government bonds).

(c) Deferred consideration – contingent earn-out

The fair value of deferred consideration – contingent earn-out is estimated using the income approach which is the estimated present value of future cash flows, discounted at the market rate of interest at the reporting date.

(Unaudited) (in thousands of Canadian dollars, except as noted and per share amounts)

4. BUSINESS COMBINATION

On February 1, 2022, the Company acquired 100% of the outstanding shares of Airdep S.r.l. ("**Airdep**"), a provider of biogas desulfurization and air deodorization products based in Vicenza, Italy (the "**Acquisition**"). The Acquisition has been accounted for as a business combination using the acquisition method and the business has been consolidated from the date of acquisition.

The following tables set out the details of the Acquisition including consideration given and allocation of the purchase price to the fair value of the assets acquired and liabilities assumed.

Fair value of net assets acquired		
Cash and cash equivalents	$	971
Accounts receivable		1,326
Other current assets		97
Contract assets		65
Inventory		192
Property and equipment		1,316
Intangible assets		3,957
Goodwill		7,586
Accounts payable and accrued liabilities		(1,255)
Contract liabilities		(25)
Lease liability		(1,051)
Deferred tax liability		(1,104)
Net assets acquired	**$**	**12,075**

The goodwill acquired is not deductible for income tax purposes. The value of the goodwill is attributable to the value assigned to future customers and synergies.

Consideration given				
Cash on closing	€	5,500	$	7,858
Deferred consideration – share issuance		1,000		1,429
Deferred consideration – contingent earn-out		1,069		1,527
Working capital adjustment and net financial position		883		1,261
Total consideration	€	**8,452**	**$**	**12,075**

The deferred share consideration was issuable in four equal tranches (€0.25 million) based on the 20-day volume-weighted average price prior to the share issuance date, issued over the four quarters following closing on February 1, 2022. As the consideration was settled on February 1, 2023, no discounting was applied.

The deferred contingent earn-out payment is payable in early 2025 based on the future financial performance of Airdep and will be payable in cash or a combination of cash and Company shares, at the Company's option, up to a maximum of €2.5 million. The fair value is based on a range of payout scenarios from €0.9 million to €2.5 million driven by the estimated future financial performance of Airdep and discounted at a rate of 0.5%. The discount rate was selected based on the corporate yield for industrial companies on February 1, 2022, rated BBB.

The working capital adjustment and net financial position are customary closing payments. Since the acquisition, the Company has made payments of $1.1 million with the remaining balance expected to be paid in 2023.

(Unaudited) (in thousands of Canadian dollars, except as noted and per share amounts)

5. ACCOUNTS RECEIVABLE

As at	June 30, 2023	December 31, 2022
Trade accounts receivable, net of provision	$ 13,747	$ 12,285
Other receivables	444	742
	$ 14,191	$ 13,027

The aging analysis of trade receivables is as follows:

As at	June 30, 2023	December 31, 2022
<31 days	$ 9,050	$ 8,763
31 – 60 days	801	443
61 – 90 days	907	594
>90 days	3,779	3,455
Allowance for doubtful accounts	(790)	(970)
Trade accounts receivable, net of provision	$ 13,747	$ 12,285

6. CONTRACT ASSETS AND LIABILITIES

	Balance, January 1, 2023	Acquired from Airdep	Revenue recognized	Progress billings	Balance, June 30, 2023
Contract assets	$ 14,527	$ -	$ 25,444	$ (26,338)	$ 13,633
Contract liabilities	$ (1,069)	$ -	$ 599	$ (2,885)	$ (3,355)

	Balance, January 1, 2022	Acquired from Airdep	Revenue recognized	Progress billings	Balance, December 31, 2022
Contract assets	$ 9,837	$ 65	$ 64,529	$ (59,904)	$ 14,527
Contract liabilities	$ (1,446)	$ (25)	$ 1,029	$ (627)	$ (1,069)

The Company receives payments from customers based on the stage of completion of a contract. Contract assets relate to the Company's conditional right to consideration for the completed performance under the contract. Accounts receivable are recognized when the right to consideration becomes unconditional. Contract liabilities relate to stage payments that are received in advance of performance under the contract.

The revenue recognized during the year and the contract balances for the period ended June 30, 2023 primarily relate to 21 projects (25 projects for the year ended December 31, 2022).

(Unaudited) (in thousands of Canadian dollars, except as noted and per share amounts)

7. NOTES RECEIVABLE

During 2022, the Company made two investments in the form of convertible promissory notes receivable (the "**Notes**"). The Notes were provided to two companies ("**DevCo's**") in the pre-construction development phase on renewable natural gas projects. Under the terms of the Notes, the maximum principal amount committed is $1.5 million USD, payable in tranches as the projects achieve identified milestones. The Notes carry customary fees, bear interest at 12% per annum (compounded daily) and at the option of Greenlane are convertible into equity interests of the DevCo's.

Upon achieving project construction financing, the Company is entitled to a special distribution (the "**Special Distribution**") equal to 100% of the principal amount and accrued interest outstanding on the Note. If the Special Distribution is not paid under the first advance of project construction financing, interest on the Special Distribution will continue to accrue at 12% per annum (compounded daily). The Special Distribution and accrued interest is payable on the earlier of (i) the date on which the project passes its acceptance date or (ii) the commercial operation date of the project which is not expected to occur in the next 12 months.

In the second quarter of 2023, certain changes in circumstances occurred pertaining to one of the DevCo's and as a result, the Company evaluated the recoverability of the respective Note and impaired the Note in its entirety.

The balance outstanding is comprised of:

As at	June 30, 2023	December 31, 2022
Balance, beginning of the year	**$ 1,752**	$ -
Advances made, net of funds returned	**114**	1,584
Accrued interest and fees	**52**	168
Impairment	**(1,068)**	
Foreign exchange adjustment	**(41)**	-
Notes receivable	**$ 809**	$ 1,752

(Unaudited) (in thousands of Canadian dollars, except as noted and per share amounts)

8. PROPERTY AND EQUIPMENT

		Machinery and equipment		Right-of-use assets		Total
Cost						
Balance, January 1, 2022	$	420	$	1,018	$	1,438
Additions		491		24		515
Acquisitions		265		1,051		1,316
Disposals		(125)		-		(125)
Foreign exchange adjustment		13		20		33
Balance, December 31, 2022		1,064		2,113		3,177
Additions		42		969		1,011
Foreign exchange adjustment		5		8		13
Balance, June 30, 2023	**$**	**1,111**	**$**	**3,090**	**$**	**4,201**
Accumulated amortization						
Balance, January 1, 2022	$	174	$	576	$	750
Amortization		466		341		807
Disposals		(125)		-		(125)
Foreign exchange adjustment		6		7		13
Balance, December 31, 2022		521		924		1,445
Amortization		136		167		303
Foreign exchange adjustment		3		8		11
Balance, June 30, 2023	**$**	**660**	**$**	**1,099**	**$**	**1,759**
Carrying value						
At December 31, 2022		543	$	1,189	$	1,732
At June 30, 2023	**$**	**451**	**$**	**1,991**	**$**	**2,442**

(Unaudited) (in thousands of Canadian dollars, except as noted and per share amounts)

9. INTANGIBLE ASSETS

	Patents, trademarks and design	Process technologies	Backlog	Software and licenses	Total
Cost					
Balance, January 1, 2022	$ 9,662	$ -	$ -	$ 30	$ 9,692
Acquisitions	-	3,800	157	-	3,957
Disposals	-	-	-	(30)	(30)
Foreign exchange adjustment	(457)	45	2	-	(410)
Balance, December 31, 2022	9,205	3,845	159	-	13,209
Foreign exchange adjustment	280	(4)	2	-	278
Balance, June 30, 2023	**$ 9,485**	**$ 3,841**	**$ 161**	**$ -**	**$ 13,487**
Accumulated amortization					
Balance, January 1, 2022	$ 3,187	$ -	$ -	$ 9	$ 3,196
Amortization	1,175	504	145	21	1,845
Disposals	-	-	-	(30)	(30)
Foreign exchange adjustment	(151)	-	-	-	(151)
Balance, December 31, 2022	4,211	504	145	-	4,860
Amortization	605	342	12	-	959
Foreign exchange adjustment	128	(3)	4	-	129
Balance, June 30, 2023	**$ 4,944**	**$ 843**	**$ 161**	**$ -**	**$ 5,948**
Carrying value					
As at December 31, 2022	$ 4,994	$ 3,341	$ 14	$ -	$ 8,349
As at June 30, 2023	**$ 4,541**	**$ 2,998**	**$ -**	**$ -**	**$ 7,539**

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	**June 30, 2023**	December 31, 2022
Trade accounts payable	**$ 4,642**	$ 3,944
Income taxes payable	**381**	510
Accrued liabilities	**3,673**	3,573
Accrued costs related to system sales	**12,803**	14,955
Deferred aftercare revenue	**9**	39
Accounts payable and accrued liabilities	**$ 21,508**	$ 23,021

(Unaudited) (in thousands of Canadian dollars, except as noted and per share amounts)

11. LEASE LIABILITIES

The Company recognizes right-of-use assets (Note 8) and lease liabilities in relation to office leases of Greenlane's head office in Burnaby, British Columbia, Canada, operations offices in Sheffield, United Kingdom and Vicenza, Italy, and vehicle leases in the United Kingdom.

The assets and liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates between 5.75% and 7% at the time the lease was assumed or commenced.

As at	June 30, 2023	December 31, 2022
Balance, beginning of the year	$ 1,235	$ 459
Additional leases	969	28
Acquisitions	-	1,051
Lease payments	(218)	(387)
Finance fees	34	78
Foreign exchange adjustment	2	6
Balance, end of the period	2,022	1,235
Current portion	(269)	(268)
Non-current portion of lease liabilities	$ 1,753	$ 967

Payments of principal amounts owing are as follows:

July 2023 – June 2024	$ 269
July 2024 – June 2025	274
July 2025 – June 2026	277
July 2026 – June 2027	301
July 2027 and thereafter	901
	$ 2,022

12. WARRANTY LIABILITIES

The Company provides a warranty following the sale of certain products and as such, the Company has recorded a provision for future warranty claims. Warranty periods vary between products but are typically one to two years from completion of commissioning of the equipment. The provision is based on management's best estimate of future claims, taking account of historical experience and knowledge of the installations covered by the warranty.

As at	June 30, 2023	December 31, 2022
Balance, beginning of the year	$ 1,900	$ 252
Additions in the year	200	1,997
Charges against provision	(106)	(103)
Provision expired	(500)	(246)
Balance, end of the period	1,494	1,900
Current portion	(1,294)	(1,062)
Non-current portion of warranty liabilities	$ 200	$ 838

(Unaudited) (in thousands of Canadian dollars, except as noted and per share amounts)

13. CREDT FACILITIES

The Company has a $20.0 million standby letter of credit facility (the "**Facility**") that provides the Company the ability to issue standby letters of credit to its customers for system supply contracts that have advance payment and performance security requirements. As at June 30, 2023, the Company had issued $15.2 million in standby letters of credit under the Facility.

The Company also has $7.0 million in advance payment bonds and performance bonds outstanding. The Company was required to provide a cash deposit of $1.6 million, classified as restricted cash, to partially secure the bonds.

Upon demand of any standby letter of credit, advance payment bond or performance bond, the Company would be required to compensate the counterparty for any losses and expenses incurred, as applicable.

14. SHARE BASED COMPENSATION

(a) Omnibus Incentive Plan

The Company has in place a stock option plan (the "**Legacy Option Plan**") and a restricted share unit plan (the "**Legacy RSU Plan**") which were adopted by the Company in 2018 and 2020, respectively. Following the Company's transition to the Toronto Stock Exchange ("**TSX**") in early 2021, the Company introduced a new omnibus incentive plan (the "**Omnibus Incentive Plan**") under which the Company can award both stock options ("**Options**") and restricted share units ("**RSUs**") following the policies, rules and regulations of the TSX.

The Omnibus Incentive Plan is a rolling plan where the Company is entitled to issue Options and RSUs in respect of a maximum number of common shares equal to 10% of the issued and outstanding common shares, less the aggregate number of common shares issuable under the existing Legacy Option Plan and Legacy RSU Plan. At June 30, 2023, Options and RSUs issued under the Legacy Option Plan, the Legacy RSU Plan and the Omnibus Incentive Plan represented 7% of issued and outstanding common share capital.

All Options granted under the Legacy Option Plan will continue to be governed by the Legacy Option Plan and all RSUs granted under the Legacy RSU Plan will continue to be governed by the Legacy RSU Plan. No further Options or RSUs will be granted under the Legacy Option Plan or Legacy RSU Plan.

(b) Options

A summary of the Company's Options outstanding under both the Omnibus Incentive Plan and the Legacy Option Plan, including Options granted to agents, is as follows:

	Number of Options		Weighted average exercise price
Balance, January 1, 2022	5,069,137	$	0.54
Granted	3,240,029		1.03
Exercised	(278,332)		0.28
Forfeited	(991,362)		1.15
Balance, December 31, 2022	7,039,472		0.70
Granted	279,000		0.36
Exercised	(85,000)		0.20
Forfeited	(438,188)		1.16
Balance, June 30, 2023	**6,795,284**	**$**	**0.65**

As at June 30, 2023, 4,650,864 Options were exercisable.

(Unaudited) (in thousands of Canadian dollars, except as noted and per share amounts)

14. SHARE BASED COMPENSATION *(continued)*

(b) Options *(continued)*

	Share options outstanding June 30, 2023			Share options exercisable June 30, 2023	
Exercise Price	**Number of share option**	**Remaining contractual life**	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**
\$0.10 - \$0.50	**3,811,001**	**2.17 years**	**\$ 0.24**	**3,489,666**	**\$ 0.23**
\$0.51 - \$1.00	**594,250**	**4.01 years**	**\$ 0.65**	**83,335**	**\$ 0.71**
\$1.01 - \$1.50	**1,697,818**	**3.59 years**	**\$ 1.15**	**635,291**	**\$ 1.15**
\$1.51 - \$1.94	**692,215**	**3.02 years**	**\$ 1.71**	**442,572**	**\$ 1.72**
	6,795,284	**2.77 years**	**\$ 0.65**	**4,650,864**	**\$ 0.51**

The value of the Options issued in 2023 was estimated using the Black-Scholes option pricing model with the following assumptions:

Grant date	Mar 14, 2023	May 16, 2023
Options granted	242,000	37,000
Exercise price	\$0.37	\$0.29
Fair value per Option	\$0.22	\$0.17
Risk-free rate	3.33%	3.61%
Expected volatility	84.13%	84.58%
Expected life in years	3.50	3.50
Expected dividend yield	-	-

(c) Restricted Share Unit Plan

A summary of the Company’s RSUs outstanding under both the Legacy RSU Plan and the Omnibus Incentive Plan is as follows:

	Number of RSUs
Balance, January 1, 2022	1,245,792
Granted	931,421
Exercised	(81,066)
Forfeited	(127,260)
Balance, December 31, 2022	1,968,887
Granted	1,917,500
Exercised	(320,118)
Forfeited	(68,807)
Balance, June 30, 2023	**3,497,462**

In March 2023, the Company granted 1,917,500 RSUs to the management team and certain employees with vesting over 3 years with a fair value of \$0.7 million. The fair value per RSU was determined based on the Company’s share price on the grant date with no adjustments for dividend yield or other terms and conditions.

(Unaudited) (in thousands of Canadian dollars, except as noted and per share amounts)

15. REVENUE

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
System sales:				
United States	**$ 7,632**	$ 11,278	**$ 14,873**	$ 21,708
Europe	**1,768**	1,820	**3,469**	3,046
Brazil	**2,031**	1,198	**4,709**	1,363
Canada	**1,073**	1,793	**2,516**	5,042
Other	**80**	288	**476**	288
	12,584	16,377	**26,043**	31,447
Aftercare service:				
United States	**342**	139	**575**	271
Europe	**1,867**	1,458	**3,333**	2,430
Brazil	**81**	-	**207**	-
Canada	**19**	64	**35**	133
Other	**25**	53	**204**	83
	2,334	1,714	**4,354**	2,917
Total revenue:				
United States	**7,974**	11,417	**15,448**	21,979
Europe	**3,635**	3,278	**6,802**	5,476
Brazil	**2,112**	1,198	**4,916**	1,363
Canada	**1,092**	1,857	**2,551**	5,175
Other	**105**	341	**680**	371
	$ 14,918	$ 18,091	**$ 30,397**	$ 34,364

16. NON-CASH WORKING CAPITAL

The net changes to non-cash working capital are as follows:

	Six months ended June 30,	
	2023	2022
Restricted cash	**$ 37**	$ 36
Accounts receivable	**(1,449)**	2,848
Inventory	**(1,075)**	159
Prepaid expenses and other assets	**(208)**	(333)
Contract assets	**894**	(605)
Accounts payable and accrued liabilities	**(1,579)**	(941)
Contract liabilities	**1,882**	241
	$ (1,498)	$ 1,405

(Unaudited) (in thousands of Canadian dollars, except as noted and per share amounts)

17. RELATED PARTY TRANSACTIONS

Key management includes Directors, the Chief Executive Officer ("**CEO**"), the Chief Financial Officer ("**CFO**") and the Chief Operating Officer ("**COO**"), who have the authority and responsibility for planning, directing and controlling the activities of the Company. The remuneration paid and payable to these key management personnel is outlined below:

	Three months ended June 30,		Six months ended June 30,	
			2023	2022
Non-executive directors' fees	**$ 170**	$ 103	**$ 341**	$ 206
Salaries and short-term benefits	**184**	242	**507**	837
Equity-based compensation	**88**	162	**167**	297
	$ 442	$ 507	**$ 1,015**	$ 1,340

18. FINANCIAL INSTRUMENTS

The Company is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Company's risk exposure and concentration.

(a) Fair value

Due to the short-term nature of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities, the Company has determined that the carrying amounts approximate fair value.

(b) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents, restricted cash, accounts receivable and notes receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents and restricted cash with high credit quality financial institutions, and through the performance of credit checks for all new customers. The Company considers its credit risk with respect to accounts receivable and notes receivable to be limited to the value of the provision for allowance for expected credit losses which has been recognized.

(c) Foreign exchange rate risk

The Company is exposed to financial risk related to fluctuations of foreign exchange rates. Foreign currency risk relates to the portion of the Company's business transactions denominated in currencies other than the Canadian Dollar, primarily the United States Dollar ("**USD**"), Great Britain Pound ("**GBP**") and Euros. The Company believes that its results of operations, financial position and cash flows could be affected by a sudden change in foreign exchange rates but would not impair or enhance its ability to pay its foreign currency obligations. The Company manages foreign exchange risk by maintaining USD, GBP and Euros cash on hand to fund its anticipated short-term foreign currency expenditures.

(d) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At June 30, 2023 the Company has no variable-rate interest-bearing financial assets or liabilities.

(Unaudited) (in thousands of Canadian dollars, except as noted and per share amounts)

18. FINANCIAL INSTRUMENTS *(continued)*

(e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations with cash. The Company's ability to do this relies on the Company maintaining sufficient cash in excess of anticipated needs.

The Company enters into contracts that give rise to commitments in the normal course of business for future minimum payments. The following table summarizes the remaining contractual maturities of its financial liabilities, operating and capital commitments, shown in contractual undiscounted cash flows:

as at June 30, 2023	Carrying amount	Contractual cash flow	Less than 12 months	1 - 2 years	2 – 3 years	Thereafter
Accounts payable and accrued liabilities	$ 21,508	$ 21,508	$ 21,508	$ -	$ -	$ -
Lease liability	2,022	3,078	368	951	730	1,029
Warranty liability	1,494	1,494	1,294	200	-	-
Deferred consideration – contingent earn-out	1,621	1,745	-	1,745	-	-
	$ 26,645	$ 27,825	$ 23,170	$ 2,896	$ 730	$ 1,029

19. CONTINGENT LIABILITIES

As part of normal ongoing operations, it is possible that the Company could become involved in litigation and claims from time to time. Management is not presently aware of any litigation or claims where likelihood and quantum of liability can be reasonably estimated and which would materially affect the financial position or financial performance of the Company.

20. SUBSEQUENT EVENT

In July 2023, the Company increased its credit facility described in note 13 from $20.0 million to $26.5 million.