

# **Greenlane Renewables Inc.**

Consolidated Financial Statements  
**For the years ended**  
**December 31, 2020 and 2019**

(Expressed in thousands of Canadian dollars)



## Independent auditor's report

To the Shareholders of Greenlane Renewables Inc.

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Greenlane Renewables Inc. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

#### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Revenue recognition – system sales contracts</b></p> <p><i>Refer to note 3 – Significant accounting policies, note 5 – Key sources of estimation uncertainty and note 21 – Segmented information to the consolidated financial statements.</i></p> <p>For the year ended December 31, 2020, the Company recognized revenue from system sales contracts of \$19.6 million. For the Company's system sales contracts, control of goods or services transfers over time to the customer and revenue is recognized based on the extent of progress in each period towards completion of the performance obligation. As disclosed by management, the extent of progress towards completion is based on internal estimates of the timeline to complete each phase of a system sales contract. Due to the nature of the work required to be performed on each system sales contract in order to satisfy the performance obligation, management's estimation of the percentage of completion is complex and requires significant judgment. Management has disclosed that there are significant assumptions and factors that can affect the accuracy of the estimates of the percentage of completion, including but not limited to, the relative weight of each phase of a system sales contract and the percentage of completion within each contract phase based on the estimated timelines to complete the relevant phase.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"><li>• Tested the effectiveness of controls relating to the revenue recognition process, including the control over the estimates of the percentage of completion of system sales contracts.</li><li>• Tested how management determined the percentage of completion for a sample of ongoing system sales contracts, which included the following:<ul style="list-style-type: none"><li>– Tested the underlying data, which included agreeing key contractual terms back to signed contracts, including amendments thereto.</li><li>– Evaluated the reasonableness of significant assumptions used by management, including the assessment of management's judgment about the relative weight of each phase of the contract and the percentage of completion within each contract phase for a sample of contracts by:<ul style="list-style-type: none"><li>○ assessing the relative weight of each phase by considering the historical results of similar contracts;</li><li>○ assessing the completion of contract phases by inspecting supporting documents, including confirmation of delivery of technical documentation or equipment;</li><li>○ assessing the estimated timeline to complete the phases that are in progress to the supporting documents, including</li></ul></li></ul></li></ul>



### Key audit matter

### How our audit addressed the key audit matter

We considered this a key audit matter due to significant auditor judgment and effort in performing procedures to evaluate the management estimates of the percentage of completion of system sales contracts, including the assessment of management's judgment about the relative weight of each phase of a system sales contract and the percentage of completion within each contract phase.

- communication of estimated timelines from subcontractors; and
- assessing the factors that could affect the accuracy of the estimates of the percentage of completion of system sales contracts, including inquiries with project managers.
- Performed look-back procedures for a sample of system sales contracts completed during the year by comparing the originally estimated and actual timelines.

### Other information

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

Our opinion on the consolidated 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 consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.



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

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## **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted auditing standards 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Company'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 Company'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 consolidated 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Craig McMillan.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
March 11, 2021

**Greenlane Renewables Inc.**  
**Consolidated Statements of Financial Position**

(Expressed in thousands of Canadian dollars)

	Notes	December 31, 2020 \$	December 31, 2019 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		16,442	2,269
Accounts receivable	6	2,416	1,436
Inventory	7	1,624	223
Prepaid expenses and other receivables		1,125	576
Contract assets	12	<u>2,518</u>	<u>1,745</u>
		24,125	6,249
<b>Property and equipment</b>	8	821	947
<b>Intangible assets</b>	9	7,821	8,964
<b>Goodwill</b>	10	<u>10,405</u>	<u>10,405</u>
		<u>43,172</u>	<u>26,565</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	11	8,773	4,496
Contract liabilities	12	1,661	2,049
Lease liability, current portion	13	225	186
Warranty liability, current portion	14	121	456
Promissory note	15	<u>5,957</u>	-
		16,737	7,187
<b>Lease liability, non-current portion</b>	13	461	638
<b>Warranty liability, non-current portion</b>	14	106	-
<b>Promissory note</b>	15	-	10,964
<b>Deferred tax liability</b>	22	<u>-</u>	<u>78</u>
		17,304	18,867
<b>Shareholders' Equity</b>			
<b>Share capital</b>	16	31,927	11,282
<b>Contributed surplus</b>		1,547	1,510
<b>Accumulated other comprehensive income</b>		111	152
<b>Deficit</b>		<u>(7,717)</u>	<u>(5,246)</u>
		<u>25,868</u>	<u>7,698</u>
		<u>43,172</u>	<u>26,565</u>

Nature of operations (Note 1)

Subsequent events (Notes 15, 16 and 20)

**Approved by the Board of Directors and authorized for issue on March 11, 2021**

“Wade Nesmith” Director

“David Blaiklock” Director

The accompanying notes are an integral part of these consolidated financial statements

**Greenlane Renewables Inc.**  
**Consolidated Statements of Operations**

(Expressed in thousands of Canadian dollars except number of shares and per share amounts)

	<b>Notes</b>	<b>Year ended December 31, 2020 \$</b>	<b>Year ended December 31, 2019 \$</b>
Revenue	21	22,500	9,123
Cost of goods sold (excluding depreciation and amortization)	17	(16,075)	(5,853)
		6,425	3,270
General and administration	18	(3,099)	(2,272)
Salaries and benefits		(5,027)	(2,541)
Depreciation and amortization		(1,526)	(845)
Share-based payments		(414)	(301)
		(10,066)	(5,959)
<b>Operating loss</b>		(3,641)	(2,689)
<b>Other income (expenses):</b>			
Finance expense		(495)	(446)
Change in fair value of special warrants		-	194
Gain on extinguishment of promissory note	15	1,777	-
Transaction costs related to qualifying transaction and issuance of special warrants		-	(2,270)
Foreign exchange loss		(190)	(117)
<b>Net loss before taxes</b>		(2,549)	(5,328)
Income tax recovery	22	78	275
<b>Net loss</b>		(2,471)	(5,053)
Basic and diluted loss per share		(0.03)	(0.16)
Weighted average numbers of shares		92,833,394	31,864,610

The accompanying notes are an integral part of these consolidated financial statements



**Greenlane Renewables Inc.**  
Consolidated Statements of Comprehensive Loss

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(Expressed in thousands of Canadian dollars)

	<b>Year ended December 31, 2020</b>	<b>Year ended December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
<b>Net loss</b>	(2,471)	(5,053)
<b>Other comprehensive income (loss)</b>		
Item that may be subsequently reclassified to net loss:		
Foreign currency translation adjustment	(41)	152
<b>Total comprehensive loss</b>	<u>(2,512)</u>	<u>(4,901)</u>

The accompanying notes are an integral part of these consolidated financial statements

# Greenlane Renewables Inc.

## Consolidated Statement of Changes in Equity

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

	Notes	Share capital (number of shares)	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income \$	Deficit \$	Total \$
<b>Balance, January 1, 2019</b>		9,000,000	549	81	-	(193)	437
Additional Initial Public Offering issue cost		-	(20)	-	-	-	(20)
Agent options issued on special warrants	16	-	-	195	-	-	195
Share based compensation expense	16	-	-	301	-	-	301
Options exercised		52,570	7	(3)	-	-	4
Conversion of special warrants		59,383,225	10,746	936	-	-	11,682
Currency translation adjustment		-	-	-	152	-	152
Net loss for the period		-	-	-	-	(5,053)	(5,053)
<b>Balance, December 31, 2019</b>		68,435,795	11,282	1,510	152	(5,246)	7,698
Share-based compensation expense	16	-	-	414	-	-	414
Warrants exercised	16	19,337,865	9,829	(909)	-	-	8,920
Options exercised	16	3,907,796	1,375	(371)	-	-	1,004
Shares/warrants issued	16	23,000,000	10,741	759	-	-	11,500
Agent options issued	16	-	-	235	-	-	235
Share issuance costs		-	(1,300)	(91)	-	-	(1,391)
Currency translation adjustment		-	-	-	(41)	-	(41)
Net loss for the period		-	-	-	-	(2,471)	(2,471)
<b>Balance, December 31, 2020</b>		114,681,456	31,927	1,547	111	(7,717)	25,868

The accompanying notes are an integral part of these consolidated financial statements

**Greenlane Renewables Inc.**  
**Consolidated Statements of Cash Flows**  
(Expressed in thousands of Canadian dollars)

	<b>Year ended December 31, 2020 \$</b>	<b>Year ended December 31, 2019 \$</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Loss for the period	(2,471)	(5,053)
Adjustments for non-cash items		
Gain on extinguishment of promissory note	(1,777)	-
Unrealised foreign exchange loss	190	133
Depreciation and amortization	1,526	845
Finance expense	495	446
Deferred income tax recovery	(78)	(275)
Share-based compensation	414	496
Change in fair value of special warrants	-	(194)
Transaction costs related to qualifying transaction and issuance of special warrants	-	1,478
	<u>(1,701)</u>	<u>(2,124)</u>
Other adjustments		
Changes in current assets	(2,941)	(262)
Changes in current liabilities	3,811	216
Changes in contract assets and liabilities	(1,161)	(614)
Interest paid on leases	(53)	(27)
<b>Cash used in operating activities</b>	<u>(2,045)</u>	<u>(2,811)</u>
<b>Investing activities</b>		
Net cash consideration paid for PT Biogas Holdings Limited	-	(2,214)
Purchase of property and equipment	(53)	(47)
<b>Cash used in investing activities</b>	<u>(53)</u>	<u>(2,261)</u>
<b>Financing activities</b>		
Share issuance costs	(1,157)	(1,498)
Proceeds from issuance of shares and warrants	11,500	8,392
Proceeds from options and warrants exercised	9,776	4
Payment on promissory note	(3,614)	-
Lease payments	(234)	(81)
<b>Cash generated by financing activities</b>	<u>16,271</u>	<u>6,817</u>
<b>Increase in cash</b>	14,173	1,745
<b>Cash – Beginning of period</b>	<u>2,269</u>	<u>524</u>
<b>Cash – End of period</b>	<u>16,442</u>	<u>2,269</u>

The accompanying notes are an integral part of these consolidated financial statements

# Greenlane Renewables Inc.

Notes to Consolidated Financial Statements

December 31, 2020

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(tables in thousands of Canadian dollars, except per share amounts)

## 1 Nature of operations

Greenlane Renewables Inc. (“Greenlane” or “the Company”) was incorporated under the British Columbia Business Corporations Act on February 15, 2018. On June 3, 2019, the Company acquired 100% of the shares (“Acquisition”) of PT Biogas Holdings Limited (“PT Biogas”) from Pressure Technologies plc (“Pressure Technologies”), a United Kingdom company listed on the AIM market of the London Stock Exchange. Following the Acquisition, 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 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.

### COVID-19 impact

On March 11, 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a global pandemic. In an effort to contain and mitigate the spread of COVID-19, many countries including Canada, imposed unprecedented restrictions on travel, and there have been business closures and a substantial reduction in economic activity in countries that have had significant outbreaks of COVID-19. The Company maintains an asset light model, outsourcing its equipment manufacturing. The Company’s supply chain was initially affected; however, all suppliers returned to work earlier in the year. The Company continues to monitor the situation closely to plan and adjust accordingly.

The Company continues to operate its business at this time including providing aftercare services through remote monitoring and controlled site visits. While the impact of COVID-19 is expected to be temporary, the Company’s business may be impacted, with a result that it may not be able to complete its current biogas upgrading contracts within the anticipated timeframe, with the further result that the Company’s recording of revenues from these contracts may be deferred to later fiscal reporting periods.

## 2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Company’s significant accounting policies are described in note 3. Certain of the comparative period figures have been reclassified to conform with the current period’s presentation.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 11, 2021.

## 3 Significant accounting policies

### a) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis.

# Greenlane Renewables Inc.

## Notes to Consolidated Financial Statements

December 31, 2020

(tables in thousands of Canadian dollars, except per share amounts)

### b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

#### i) Subsidiaries:

The consolidated financial statements include the following wholly owned subsidiaries:

<b>Name of the entity</b>	<b>Location</b>
Greenlane Biogas Global Limited	Canada
PT Biogas Holdings Limited	UK
Greenlane Biogas North America Limited	Canada
PT Biogas Technology Limited	UK
Greenlane Biogas Europe Limited	UK
Greenlane Biogas UK Limited	UK
Greenlane Biogas US Corp	US

The Company also owns a non-controlling minority interest in a joint venture Greenlane Biogas Finance B.V. located in the Netherlands.

Intercompany transactions, balances and unrealized gains and losses on transactions are eliminated on consolidation.

#### ii) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree.

# Greenlane Renewables Inc.

## Notes to Consolidated Financial Statements

December 31, 2020

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**(tables in thousands of Canadian dollars, except per share amounts)**

The acquiree's identifiable assets and liabilities that meet the conditions for recognition are recognized at their fair value at the acquisition date except for certain assets and liabilities which are recognized and measured in accordance with the applicable IFRS guidance. Goodwill arising on acquisition is recognized as an asset and is measured as the fair value of consideration paid less the fair value of the net identifiable assets and liabilities recognized.

If the Company's interest in the fair value of the acquiree's net identifiable assets and liabilities exceeds the fair value of consideration paid, the excess is recognized immediately in the statement of operations as a bargain purchase. Transaction costs, other than those associated with the issuance of debt or equity securities that the Company incurs in connection with a business combination, are expensed as incurred.

### **c) Foreign currency translation**

#### **i) Functional and presentation currency**

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

The Company has determined that the functional currency of the Company is the Canadian dollar. The subsidiary companies have the following functional currencies: for Greenlane Biogas Global Limited and Greenlane Biogas North America Limited the Canadian dollar, for PT Biogas Holdings Limited, PT Biogas Technologies Limited and Greenlane Biogas UK Limited the British pound sterling, for Greenlane US Corp the US dollar, for Greenlane Biogas Europe Limited and Greenlane Biogas Finance B.V the Euro.

The results of overseas subsidiary undertakings are translated at the monthly average exchange rate (being an approximation of the rate at the date of transactions throughout the period) and the statement of financial position of such undertakings is translated at the period-end exchange rates. Exchange differences arising on the retranslation of opening net assets of overseas subsidiary undertakings are charged/credited to other comprehensive income/(loss) and subsequently recognized in the accumulated other comprehensive income account in equity.

#### **ii) Transactions and balances**

Foreign currency transactions are translated into the Company's functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate).

Foreign exchange gains and losses resulting from the re-measurement of monetary items denominated in foreign currency at period-end exchange rates are recognized in profit or loss.

Non-monetary items are not retranslated at period-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined. Where a gain or loss on a non-monetary item is recognized in other comprehensive income the foreign exchange component of that gain or loss is also recognized in other comprehensive income/(loss).

# Greenlane Renewables Inc.

## Notes to Consolidated Financial Statements

December 31, 2020

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(tables in thousands of Canadian dollars, except per share amounts)

### d) Cash and cash equivalents

Cash comprises cash on hand and demand deposits which are presented as cash and cash equivalents in the statement of financial position.

Cash equivalents comprise short-term, highly liquid investments with maturities of three months or less from inception that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are presented as part of current assets in the statement of financial position.

### e) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligations are discharged. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

#### a) *Financial assets: classification and measurement*

Financial assets are classified in the following measurement categories:

- i) those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss); and
- ii) those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are either recorded in profit or loss or OCI. At present, the Company classifies all financial assets of principal and interest receivable as held at amortized cost. All other financial assets are measured at fair value through profit or loss.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets depends on their classification. The Company classifies its financial assets as amortized cost, for assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost is recognized in profit or loss when the asset is

# Greenlane Renewables Inc.

## Notes to Consolidated Financial Statements

December 31, 2020

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(tables in thousands of Canadian dollars, except per share amounts)

derecognized or impaired. Interest income from these financial assets is included as finance income using the effective interest rate method.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all accounts receivable.

### b) *Financial liabilities*

A financial liability is classified as FVTPL if it is held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. The fair value changes to financial liabilities at FVTPL are presented as follows: where the Company optionally designates financial liabilities at FVTPL the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of the change in the fair value is presented in profit or loss. The Company's special warrants were classified as financial liabilities at FVTPL.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

At present, the Company designates accounts payable and accrued liabilities, warranty liability, and the promissory note as held at amortized cost.

### c) *Equity*

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Company's common shares are classified as equity. Transaction costs on the issue of shares are deducted from the share capital account arising on that issue.

### f) **Inventory**

Inventory is measured at the lower of cost and net realizable value. Management estimates the net realizable value of inventory, taking into account the most reliable evidence available at each reporting date. The future realization of this inventory may be affected by future technology or other market-driven changes.

### g) **Property and equipment**

Property and equipment (PE) is initially recognized at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Company's management. PE is subsequently measured at cost less accumulated depreciation and impairment losses.

Depreciation is recognized on a straight-line basis over a range of 3 to 10 years, depending on the asset class, to write down the cost to the estimated residual value of PE.



# Greenlane Renewables Inc.

## Notes to Consolidated Financial Statements

December 31, 2020

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(tables in thousands of Canadian dollars, except per share amounts)

Residual value estimates and estimates of useful life are updated as required.

Gains or losses arising on the disposal of PE are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss within other income or other expenses.

### **h) Intangible assets**

Intangible assets are recorded at cost, net of amortization and any provision for impairment.

The intangible assets are being amortized over the useful life of 7 years and 10 months, being the remaining useful life of the patents since Acquisition on June 3, 2019. Residual values and useful lives are reviewed at each reporting date. Where an indicator of impairment exists intangible assets are subject to impairment testing as described in "Impairment of assets" below.

### **i) Impairment of assets**

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units or CGUs). As a result, some assets are tested individually for impairment and some are tested at CGU level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's (or CGU's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each CGU and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each CGU and reflect current market assessments of the time value of money and asset-specific risk factors.

Impairment losses for CGUs are charged first to reduce the carrying amount of any goodwill allocated to such CGU, and then to reduce the carrying amounts of other assets in the CGU on a pro rata basis.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or CGU's recoverable amount exceeds its carrying amount.

Goodwill arising from business combinations represents the future economic benefits that are not individually identified and separately recognized. Goodwill is carried at cost less accumulated impairment losses. Irrespective of any indication of impairment, the recoverable amount of the goodwill is tested annually for impairment and when there is an indication that the goodwill may be impaired. Any impairment is recognized as an expense immediately and is not subsequently reversed if the recoverable amount increases.

# Greenlane Renewables Inc.

## Notes to Consolidated Financial Statements

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(tables in thousands of Canadian dollars, except per share amounts)

### **j) Leases**

Where the Company is a lessee, a right-of-use asset is initially recognized at the present value of all lease payments and any lease inducements over the length of the contract, discounted at an applied interest rate implicit in the lease. If the implicit rate cannot be determined, the Company's incremental borrowing rate is used. Direct costs incurred in negotiating and arranging a lease are included in the cost of the asset.

For leases of real estate the Company applies a practical expedient and does not separate lease components and non-lease components and accounts for these as a single lease component when they are inseparable from the contracts.

Right-of-use assets are depreciated on a straight-line basis over the lease term. Lease payments are apportioned between capital repayments and interest charge using the effective interest rate method to amortize the balance of the lease liability at a fixed rate. Lease assets and liabilities are remeasured when a change to the lease payments or terms arise.

### **k) Provisions, contingent assets and contingent liabilities**

Provisions for product warranties, legal disputes, onerous contracts or other claims are recognized when the Company has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of economic resources will be required and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Where the time value of money is material, provisions are discounted to their present values, using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the liability.

Any reimbursement that the Company is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset, however, this asset may not exceed the amount of the related provision.

No liability is recognized if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the probability of an outflow of resources is remote. From time to time the Company is subject to litigation proceedings. Until such time as management is in a position to make a determination as to the likelihood of such proceedings, no provision is made in the financial statements.

Under certain contractual arrangements, Greenlane provides a warranty in relation to some products sold, which could result in the future transfer of economic benefits from the Company. Management reviews the products for which a warranty is provided and assesses the amount of provision required to meet future potential liabilities. Warranty periods vary between products but are typically one or two years in duration.

# Greenlane Renewables Inc.

## Notes to Consolidated Financial Statements

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(tables in thousands of Canadian dollars, except per share amounts)

### 1) Income taxes

#### (a) Income tax:

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity. Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year.

#### (b) Deferred tax:

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax is not recognized for:

- Temporary differences on the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss; and
- Temporary differences related to investments in subsidiaries, associates and interests in joint ventures where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venture and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred 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 tax relating to items recognized in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

# Greenlane Renewables Inc.

## Notes to Consolidated Financial Statements

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(tables in thousands of Canadian dollars, except per share amounts)

### **m) Revenue recognition**

Greenlane applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction. The consideration received from multiple-component transactions is allocated to each separately identifiable component in proportion to its relative fair value.

#### **(a) System Sales Contracts**

Once a contract is sufficiently advanced and the outcome of the contract can be measured reliably, contract revenue, costs and profits are recognized over the period of the contract by reference to the stage of completion of each contract. Revenue is recognized over the period as the Company's performance does not create an asset with an alternative use to the entity and the entity has enforceable right to payment for performance completed to date. The stage of completion of a contract is determined by internal estimates, with reference to the proportion of work performed and timeline to complete each phase. Revenue is recognized in proportion to the total revenue expected on the contract.

Prior to this recognition, stage payments received from customers and made to suppliers are recorded in the statement of financial position as contract assets and contract liabilities as appropriate.

If contract costs are expected to exceed contract revenue, the expected loss is recognized immediately in the statement of operations.

Contract revenue includes an assessment of the amounts agreed in the contract, plus or less any variations in contract work and claims to the extent that they are approved and can be measured reliably.

Once revenue has started to be recognized on an individual contract, the Company reports the position for each contract as either an asset or a liability. In instances where amounts recognised in revenue are in excess of amounts invoiced an asset is recognized. Similarly, a liability is recognized where billings to date exceed revenue recognized.

The carrying amount of system sales contracts and revenue recognized from system sales contracts reflect management's best estimate about each contract's outcome and stage of completion but are subject to estimation uncertainty.

#### **(b) Aftercare Services**

The Company generates additional revenue from after-sales service and maintenance. Revenue is recognized on a straight-line basis over the term of the maintenance or service agreement.

### **n) Finance income and costs**

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in the statement of operations using the effective interest method.

Finance costs are comprised of interest on borrowings and the interest charge related to leases.

# Greenlane Renewables Inc.

## Notes to Consolidated Financial Statements

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(tables in thousands of Canadian dollars, except per share amounts)

### **o) General and administrative expenses**

General and administrative expenses are recognized in profit or loss upon utilization of the service or as incurred.

### **p) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. Pension contributions are recognized as an employee benefit expense in profit or loss in the period during which services are rendered by employees.

### **q) Income (loss) per share**

Basic income (loss) per share is computed by dividing income (loss) by the weighted average number of common shares outstanding during the period. The computation of diluted income (loss) per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or contingent issuance would have a dilutive effect on income (loss) per share. For this purpose, the treasury stock method is used for the assumed proceeds upon the exercise of stock options and warrants that are used to purchase common shares at the average market price during the period.

### **r) Share-based payments**

The fair value of the share-based payment awards is determined at the date of grant using the Black-Scholes option pricing model or the share market price where applicable. The fair value of the award is charged to the statement of operations (unless the award is considered to be share issuance costs in which case the fair value of the award is recorded as a reduction to share capital) and credited to contributed surplus (within shareholders' equity on the statement of financial position) ratably over the vesting period, after adjusting for the number of awards that are expected to vest. Expenses recognized for forfeited awards are reversed. For awards that are cancelled, any expense not yet recognized is recognized immediately in the statement of operations. Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified over the original vesting period. In addition, an expense is recognized for any modification which increases the total fair value of the share-based payment arrangement as measured at the date of the modification, over the remainder of the vesting period.

### **s) Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that are related to transactions with any of the Company's other operations, and for which discrete financial information is available. Segment operating results are reviewed regularly by the Company's Chief Operating Decision Maker (being the Company's CEO) to make decisions about resources allocated to the segment and to assess the segment's performance.

# Greenlane Renewables Inc.

## Notes to Consolidated Financial Statements

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**(tables in thousands of Canadian dollars, except per share amounts)**

The Company has one operating segment for upgrader services, which is further broken down into two revenue streams, system sales and aftercare services.

### **t) Investments in associates and jointly controlled entities**

Associates are those entities in which the Company has significant influence, but not control, over the financial operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

Jointly controlled entities are those entities over whose activities the Company has joint control, established by contractual agreement.

Investments in associates and jointly controlled entities are accounted for using the equity method and are recognized initially at cost. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Company's share of the net income and equity movements of equity investments, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity investment, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has any obligation to make, or has made, payments on behalf of the investee.

### **u) Recent accounting pronouncements**

There are a number of accounting standard amendments issued by the IASB which the Company has not yet adopted. None of the future amendments are expected to have a significant impact on the Company's accounting policies on adoption.

## **4 Critical judgements in applying accounting policies**

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations (note 5), that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

### **(a) Determination of cash generating units**

In performing impairment assessments, assets that cannot be assessed individually are grouped together, in management's judgment, into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Management has determined that there is one CGU, the main product being system sales contracts which leads to the generation of aftercare sales.

### **(b) Determination of functional currency**

The functional currency for each of the Company's subsidiaries, joint ventures and investments in associates is the currency of the primary economic environment in which the entity operates. Determination of functional

# Greenlane Renewables Inc.

## Notes to Consolidated Financial Statements

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(tables in thousands of Canadian dollars, except per share amounts)

currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

### 5 Key sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of estimates include the following:

#### (a) Revenue recognition – system sales contracts

For the Company's system sales contracts, control of goods or services transfers over time to the customer and revenue is recognized based on the extent of progress in each period towards completion of the performance obligation. The extent of progress towards completion is based on internal estimates, with reference to the proportion of work performed during each phase of a system sales contract. Due to the nature of the work required to be performed on each system sales contract in order to satisfy the performance obligation, management's estimation of percentage of completion is complex and requires significant judgment. The significant assumptions and factors that can affect the accuracy of the estimate, include but are not limited to, the relative weight of each phase of the contract and the percentage of completion within each contract phase.

#### (b) Impairment of goodwill

In assessing impairment, management estimates the recoverable amounts of the cash-generating unit based on expected future cash flows and uses a weighted average cost of capital to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Other areas of estimation uncertainty include collectability of accounts receivable, valuation of inventory, the useful lives and recoverability of long-lived assets and warranty provision.

There is also an estimation uncertainty relating to the COVID 19 pandemic, see note 1 for details on the current estimated impact. Actual results could differ from those estimates.

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## Notes to Consolidated Financial Statements

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### 6 Accounts receivable

	December 31, 2020 \$	December 31, 2019 \$
Receivables due within normal terms of payment	1,714	585
Past due receivables	740	893
	<u>2,454</u>	<u>1,478</u>
Allowance for expected credit losses	(38)	(42)
Accounts receivables, net of allowance for expected credit losses	<u>2,416</u>	<u>1,436</u>

### 7 Inventory

Inventory consists of \$0.3 million of spare parts required to maintain the upgrader plants and \$1.3 million of certain upgrading equipment (December 31, 2019 - \$0.2 million of spare parts).

### 8 Property and equipment

	Machinery and Equipment \$	Right-of-use Assets \$	Total \$
<b>Cost</b>			
Balance at December 31, 2018	-	-	-
Assets acquired—PT Biogas Acquisition	133	716	849
Additions	47	187	234
<b>Balance at December 31, 2019</b>	<u>180</u>	<u>903</u>	<u>1,083</u>
Additions	53	109	162
<b>Balance at December 31, 2020</b>	<u>233</u>	<u>1,012</u>	<u>1,245</u>
<b>Accumulated depreciation</b>			
Balance at December 31, 2018	-	-	-
Depreciation	30	106	136
<b>Balance at December 31, 2019</b>	<u>30</u>	<u>106</u>	<u>136</u>
Depreciation	56	232	288
<b>Balance at December 31, 2020</b>	<u>86</u>	<u>338</u>	<u>424</u>
<b>Net book value</b>			
December 31, 2019	150	797	947
<b>December 31, 2020</b>	<b>147</b>	<b>674</b>	<b>821</b>



# Greenlane Renewables Inc.

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Property and equipment comprise office equipment such as IT and office furniture and site related equipment such as tools and gas measuring devices. Refer to note 13 for further details on the right-of-use assets.

### 9 Intangible assets

The Company's definite life intangible assets represent the patents, trademarks, design and other intellectual property as a part of the Acquisition in 2019. At the time of recognition on acquisition it was determined that the individual assets are not able to be separated and valued individually. Amortization is based on the useful life of the patents which is identifiable.

	<b>Patents, trademarks and design</b>	\$
<b>Cost</b>		
Balance at December 31, 2018		-
Assets acquired – PT Biogas Acquisition		9,517
Foreign exchange movement		169
<b>Balance at December 31, 2019</b>		<b>9,686</b>
Foreign exchange movement		117
<b>Balance at December 31, 2020</b>		<b>9,803</b>
<b>Accumulated amortization</b>		
Balance at December 31, 2018		-
Amortization		709
Foreign exchange movement		13
<b>Balance at December 31, 2019</b>		<b>722</b>
Amortization		1,238
Foreign exchange movement		22
<b>Balance at December 31, 2020</b>		<b>1,982</b>
<b>Net book value</b>		
December 31, 2019		8,964
<b>December 31, 2020</b>		<b>7,821</b>

### 10 Goodwill

Goodwill of \$10.4 million arose from the Acquisition on June 3, 2019. Goodwill is allocated to CGUs at a level no greater than the operating segment and the recoverable amount is determined based on an assessment of the value of the applicable CGU. The recoverable amount of the biogas system sales division, which is considered to be the CGU, has been determined using a value in use calculation.

# Greenlane Renewables Inc.

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A discounted cash flow model is used to determine the value in use amount of the biogas system sales division CGU. As part of this annual goodwill impairment test, assumptions are made in relation to future sales of biogas systems and future operating and capital costs, based on industry growth forecasts and Company specific estimates. The most significant assumptions contained in the model are based on the 2021 forecast and an annual growth rate over the next five years for revenue and cost of sales of 10% and 5% for operating costs, with a terminal value calculated using a 2% growth rate.

The model uses a pre-tax weighted average cost of capital of 17%. At December 31, 2020, the calculated recoverable amount of the biogas system sales division CGU exceeded the carrying value of the CGU, and therefore no goodwill impairment charge has been recorded.

### 11 Accounts payable and accrued liabilities

	December 31, 2020	December 31, 2019
	\$	\$
Accounts payable	670	978
Accrued liabilities	1,160	787
Accrued costs related to projects	6,929	2,691
Contract liabilities – aftercare services	14	40
	<u>8,773</u>	<u>4,496</u>

### 12 Contract balances

	Balance at December 31, 2019	Revenue Recognized	Progress Billings	Balance at December 31, 2020
	\$	\$	\$	\$
Contract Assets	1,745	8,189	(7,416)	2,518
Contract Liabilities	(2,049)	11,389	(11,001)	(1,661)
	<u>(304)</u>	<u>19,578</u>	<u>(18,417)</u>	<u>857</u>

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 at December 31, 2020 primarily relates to seven projects.

# Greenlane Renewables Inc.

## Notes to Consolidated Financial Statements

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### 13 Lease liabilities

The Company recognizes right-of-use assets and lease liabilities in relation to office leases of Greenlane's headquarters in Burnaby, British Columbia, and operations office in Sheffield, UK, and the new auto leases for the service team in the UK.

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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
	\$	\$
Balance, beginning of the year	824	-
Liabilities acquired	-	716
Additions	93	174
Lease payments	(287)	(108)
Interest expenses	53	29
Foreign exchange movement	3	13
Balance, end of the year	686	824
Less: Current portion of lease liabilities	225	186
Non-current portion of lease liabilities	461	638

The lease payments for the remaining term are presented in the following table:

	<b>Office lease in Canada</b>	<b>Office lease in UK</b>	<b>Auto leases in UK</b>	<b>Total</b>
	\$	\$	\$	\$
Year 1	187	46	31	264
Year 2	190	46	29	265
Year 3	141	46	4	191
Year 4	-	34	-	34

### 14 Warranty liabilities

The Company provides a warranty following the sale of certain products. As a consequence, 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 installation. 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 the warranties are short-term in nature, no discounting has been assumed.

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	December 31, 2020	December 31, 2019
	\$	\$
<b>Balance, beginning of the year</b>	456	-
Provision acquired – PT Biogas Acquisition	-	819
Additions in the period	273	408
Charges against provision	(221)	(311)
Provision expired	(284)	(480)
Foreign exchange	3	20
<b>Balance, end of the year</b>	227	456
Less: Current portion	121	456
<b>Non-current portion</b>	106	-

### 15 Promissory note

As part of the consideration for the Acquisition, the Company issued a promissory note in the amount of £6.1 million, denominated 50% in British pounds sterling and 50% in Canadian dollars. The Canadian dollar component was fixed at an amount of \$5.3 million. The promissory note incurred interest at 7% per annum with an original maturity date of June 3, 2023.

In February 2020 the Company paid Pressure Technologies \$3.4 million principal and \$0.2 million interest on the promissory note, with partial use of proceeds from the February 2020 equity raise (note 16). The repayment of principal down to £4.1 million was in accordance with the terms of the promissory note, under which if the Company completed an equity financing before the maturity date of the promissory note, it would be required to pay to Pressure Technologies an amount equal to the lesser of 50% of the net proceeds of the equity financing and such other amount as results in a reduction of the principal amount outstanding under the promissory note to £4.1 million.

On July 2, 2020, the Company executed a framework agreement with Pressure Technologies (the “Framework Agreement”), under which the principal value of the promissory note was reduced by \$1.8 million to \$5.2 million following the disposition of Pressure Technologies entire equity interest in the Company, which was sold in a series of block trades. Pressure Technologies disposed of 7,663,920 common shares and 5,094,765 warrants of the Company, issued to Pressure Technologies in connection with the Company’s acquisition of PT Biogas in June 2019. In order to facilitate the transaction, Brad Douville (President and Chief Executive Officer of the Company) and Creation Partners LLP (a partnership owned and controlled by certain Directors of the Company, collectively “the Parties”), as parties to the Framework Agreement, agreed to release Pressure Technologies from its obligations under certain agreements entered into with the Parties that required Pressure Technologies to place certain common shares and warrants in escrow pending repayment in full of the promissory note. In exchange Pressure Technologies agreed to complete the immediate transfer of common shares and warrants in escrow to the Parties from their free-trading and escrow positions. Under the Framework Agreement the maturity date of the remaining balance of the promissory note advanced from June 3, 2023 to June 30, 2021.

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In accordance with IFRS 9 – Financial Instruments, the Company accounted for the transaction as an extinguishment of the original promissory note and a new promissory note was recorded to reflect the terms per the Framework Agreement, with a revised principal amount of \$5.2 million. The Company recorded a gain of \$1.8 million (net of transaction costs) in the statement of operations in the period.

	<b>Balance</b>
	<b>\$</b>
<b>Balance, January 1, 2019</b>	-
Promissory Note acquired	10,497
Interest accrual	494
Foreign exchange movement	(27)
<b>Balance, December 31, 2019</b>	<u>10,964</u>
Repayments	(3,616)
Settlement of promissory note (Framework Agreement)	(7,046)
Issuance of new promissory note (Framework Agreement)	5,174
Interest accrual	465
Foreign exchange movement	16
<b>Balance, December 31, 2020- new promissory note</b>	<u>5,957</u>
Less: Current portion	<u>5,957</u>
Non-current portion	<u>-</u>

On February 12, 2021, the promissory note was repaid early, in full, including interest and principal.

## 16 Share capital

### Common shares

At December 31, 2020, the Company had unlimited authorized common shares without par value and 114,681,456 common shares issued and outstanding (December 31, 2019 – 68,435,795).

On February 19, 2020, the Company completed a public offering through the issuance of 23,000,000 units, at a price of \$0.50 per unit for gross proceeds of \$11.5 million. Each unit was comprised of one common share and one-half of one common share warrant. Each full warrant entitled the holder to purchase one additional common share of the Company for \$0.70 per share, for a one-year period ending on February 19, 2021. The fair value of the warrants issued (valued using the Black-Scholes pricing model) of \$0.8 million was recorded in contributed surplus.

The Company received net proceeds of \$10.3 million from the financing after deducting cash expenses of \$1.2 million. The Company paid commissions and other fees and expenses to brokers of \$0.8 million and issued 1,380,000 agent options. Each agent option gave the holder the right to purchase one common share for \$0.50,

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for a one-year period ending on February 19, 2021. See below for further information regarding expiration of warrants.

During the year ended December 31, 2020, 3,907,796 options were exercised, and the fair value of \$0.4 million was transferred from contributed surplus to share capital.

At December 31, 2020 no shares were held in escrow.

### Warrants outstanding

At December 31, 2020, the Company had 22,353,747 warrants outstanding (December 31, 2019 – 30,191,612), as follows:

<b>Warrant exercise price</b>	<b>\$</b>	<b>0.26</b>	<b>\$</b>	<b>0.70</b>
<b>Expiry</b>		<b>June 3, 2021</b>		<b>February 19, 2021</b>
Number of warrants, January 1, 2019		-		-
Granted		30,191,612		-
<b>Number of warrants, December 31, 2019</b>		30,191,612		-
Granted		-		11,500,000
Exercised		(10,493,465)		(8,844,400)
<b>Number of warrants, December 31, 2020</b>		<b>19,698,147</b>		<b>2,655,600</b>

During the year ended December 31, 2020, 10.5 million warrants with an exercise price of \$0.26 were exercised for proceeds of \$2.7 million (December 31, 2019 \$nil), including 5.1 million warrants exercised related to the Framework Agreement with Pressure Technologies (note 15); and 8.8 million warrants with an exercise price of \$0.70 were exercised for proceeds of \$6.2 million (December 31, 2019 \$nil). The fair value associated with the warrant exercises of \$0.9 million was transferred from contributed surplus to share capital.

Subsequent to the year-end, 2.6 million \$0.70 warrants and 5.9 million \$0.26 warrants were exercised for proceeds of \$3.3 million. On expiry of the \$0.70 warrants on February 19, 2021 65,000 warrants remained unexercised and were cancelled.

On January 27, 2021, the Company completed a bought deal offering with TD Securities Inc. (the “Underwriters”) through the issuance of 12,190,000 common shares, at a price of \$2.17 per share for gross proceeds of \$26.5 million and incurred \$2.0 million of transaction costs. The Company issued compensation warrants to the Underwriters entitling them to purchase an aggregate of 731,400 common shares at a price of \$2.17 for a period of one year from closing.

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### Stock options

The Company has a stock option plan whereby the Company may grant stock options to eligible employees, officers, directors and consultants at an exercise price, expiry date and vesting conditions to be determined by the Board of Directors. The maximum term to expiry is 10 years from the date of grant. All options are equity settled. The stock option plan provides for the issuance of up to 10% of the issued and outstanding common shares at the date of grant.

A summary of the Company's stock options outstanding for the year ended December 31, 2020, including options granted to agents is as follows:

	Number of options	Weighted average exercise price \$
<b>Balance, January 1, 2019</b>	1,175,000	0.10
Granted	5,787,350	0.20
Exercised	(52,570)	0.10
Forfeited	(117,000)	0.20
<b>Balance, December 31, 2019</b>	6,792,780	0.18
Granted	2,512,000	0.52
Exercised	(3,907,796)	0.26
Forfeited	(155,000)	0.26
<b>Balance, December 31, 2020</b>	5,241,984	0.27

Included in the 5,241,984 options outstanding at December 31, 2020 were 488,650 options held by agents, issued to agents in conjunction with the public offering in February 2020. At December 31, 2020, 3,604,650 options were exercisable (December 31, 2019 – 5,759,780).

The following table summarizes information about stock options outstanding as at December 31, 2020:

Exercise price	Number outstanding	Weighted average remaining life in years
\$0.10	675,000	7.83
\$0.20	2,976,334	3.44
\$0.39	142,000	4.66
\$0.50	1,223,650	2.70
\$0.75	225,000	4.82

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There were five option grants during the year. The value of the stock options issued was estimated using the Black-Scholes option pricing model with the following assumptions:

Grant date	February 19, 2020	May 26, 2020	August 28, 2020	October 14, 2020	November 17, 2020
Number of options granted	1,380,000	765,000	142,000	150,000	75,000
Fair value per option	\$0.17	\$0.35	\$0.25	\$0.40	\$0.48
Risk-free rate	1.61%	0.30%	0.22%	0.22%	0.22%
Expected volatility	86.7%	108.5%	101.9%	100.03%	98.56%
Expected life in years	1.0	3.5	3.5	3.5	3.5
Expected dividend yield	-	-	-	-	-

At December 31, 2020 stock options issued represented 4.1% of issued and outstanding common share capital (excluding options issued to agents). The Company recognized share-based compensation expense relating to stock options of \$0.4 million during the year ended December 31, 2020, including \$0.2 million relating to the 1,380,000 agent options issued as part of the February 19, 2020 equity raise, recorded as share issuance costs in the Statement of Changes in Equity (December 31, 2019- \$0.5 million, including \$0.2 million relating to the agent options issued on special warrants).

Subsequent to the year-end, 696,983 options were exercised for proceeds of \$0.3 million.

### Restricted Share Unit Plan

During the year, the Company adopted a restricted share unit plan, following shareholder and TSX Venture Exchange approval. Under the plan the Company may grant a maximum of 9,687,030 common shares of the Company to directors, officers and consultants. During the year, the Company granted 960,038 restricted share units ("RSUs") to officers and non-executive directors of the Company, with 586,000 issued to officers with annual vesting over a three-year period and 374,038 to non-executive directors vesting after one year. The weighted average fair value of \$0.42 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. The Company recognized share-based compensation expense of \$0.2 million during the year ended December 31, 2020, related to the RSUs.

On January 4, 2021, 130,414 RSUs were granted to non-executive directors of the Company vesting after one year.



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### 17 Cost of goods sold (excluding depreciation and amortization)

The following is a breakdown of the Company's cost of goods sold (excluding depreciation and amortization) by nature of the expense:

	<b>Year ended December 31, 2020</b>	<b>Year ended December 31, 2019</b>
	\$	\$
Inventory	790	863
Materials	13,473	3,814
Labour and consultants	1,823	1,248
Warranty additions and releases	(11)	-
	<u>16,075</u>	<u>5,853</u>

### 18 General and administration

The following is a breakdown of the Company's general and administration expenses by the nature of the expense:

	<b>Year ended December 31, 2020</b>	<b>Year ended December 31, 2019</b>
	\$	\$
Professional fees	652	578
Insurance	576	298
Investor relations	443	122
Consulting fees	241	353
IT expenses	227	146
Marketing	212	75
Travel and conference	98	218
Other	650	482
	<u>3,099</u>	<u>2,272</u>

### 19 Credit facilities

During the year, the Company issued a performance bond for US\$0.5 million through Atlantic Specialty Insurance Company, partially guaranteed by Export Development Canada to one customer, and a payment bond for US\$0.9 million through Atlantic Specialty Insurance Company to another customer.

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### 20 Related party transactions

Key management includes Directors, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), who have the authority and responsibility for the planning, directing and controlling the activities of the Company. The compensation paid to these key management personnel for the year ended December 31, 2020 and period ended December 31, 2019 is outlined below:

	Year ended December 31, 2020	Year ended December 31, 2019
	\$	\$
Salary	541	220
Share-based compensation	96	251
	<u>637</u>	<u>471</u>

At December 31, 2020 the Company owed Pressure Technologies, the former parent company of PT Biogas, \$0.4 million relating to intercompany invoices issued prior to the qualifying transaction in June 2019 and \$6.0 million for the promissory note (note 15). Both amounts due to Pressure Technology were fully repaid in February 2021.

### 21 Segmented information

The Company has one operating segment, which is further broken down into two revenue streams, system sales and aftercare service:

	Year ended December 31, 2020	Year ended December 31, 2019
	\$	\$
System sales	19,578	6,969
Aftercare services	2,922	2,154
	<u>22,500</u>	<u>9,123</u>

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The Company operates in North America and Europe and generates revenue from various regions internationally, as shown below.

	Year ended December 31, 2020 \$	Year ended December 31, 2019 \$
<b>System sales revenue</b>		
North America	19,578	6,913
Europe	-	56
	<u>19,578</u>	<u>6,969</u>
<b>Aftercare services revenue</b>		
North America	566	473
Europe	2,356	1,681
	<u>2,922</u>	<u>2,154</u>
<b>Total revenue</b>		
North America	20,144	7,386
Europe	2,356	1,737
	<u>22,500</u>	<u>9,123</u>

At December 31, 2020 the location of Company assets was as follows:

	Canada \$	Europe \$	US \$	Total \$
Current assets	23,004	1,117	4	24,125
Property and equipment	547	274	-	821
Goodwill	10,405	-	-	10,405
Intangible assets	-	7,821	-	7,821
	<u>33,956</u>	<u>9,212</u>	<u>4</u>	<u>43,172</u>

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The assets of the Company as at December 31, 2019 were located as follows:

	Canada	Europe	Total
	\$	\$	\$
Current assets	5,086	1,163	6,249
Property and equipment	714	233	947
Goodwill	10,405	-	10,405
Intangible assets	-	8,964	8,964
	<u>16,205</u>	<u>10,360</u>	<u>26,565</u>

The Company had two customers that each accounted for 10% or more of total revenue during the year ended December 31, 2020. These customers accounted for 32% and 11% of total revenue.

## 22 Income taxes

a) Income tax expense (recovery)

	December 31, 2020	December 31, 2019
	\$	\$
<b>Current tax expense (recovery)</b>		
Current period	-	(265)
<b>Deferred tax expense (recovery)</b>		
Origination and reversal of temporary differences	(414)	(897)
Change in tax rates	9	-
Change in unrecognized deductible temporary differences	<u>327</u>	<u>887</u>
Total income tax recovery	<u>(78)</u>	<u>(275)</u>

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The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to income before tax. These differences result from the following.

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
	\$	\$
Loss before tax	(2,549)	(5,328)
Statutory income tax rate	27.00%	27.00%
Expected income tax recovery	(688)	(1,439)
Increase(decrease) resulting from:		
Non-taxable items	143	32
Change in unrecognized deductible temporary differences	327	887
Change in tax rates	9	-
Tax rate differences	131	244
Other	-	1
Income tax recovery	<u>(78)</u>	<u>(275)</u>

### b) Recognized deferred tax assets and liabilities

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
	\$	\$
Deferred tax assets are attributable to the following:		
Property and equipment	-	2
Loss carryforwards	205	157
Lease liability	38	31
Other	-	3
Deferred tax assets	<u>243</u>	<u>193</u>
Deferred tax assets set off against deferred tax liability	<u>(243)</u>	<u>(193)</u>
Net deferred tax assets	<u>-</u>	<u>-</u>
Deferred tax liabilities are attributable to the following:		
Intangibles	(85)	(88)
Property and equipment	(158)	(183)
Deferred tax liabilities	<u>(243)</u>	<u>(271)</u>
Deferred tax liabilities set off against deferred tax assets	<u>243</u>	<u>193</u>
Net deferred tax liabilities	<u>-</u>	<u>(78)</u>

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c) Movement in deferred tax balances

	Balance at December 31, 2019	Recognized in profit (loss)	Balance at December 31, 2020
Property and equipment	2	(2)	-
Loss carryforwards	158	48	206
Lease liability	31	7	38
Other	2	(2)	-
Intangibles	(88)	3	(85)
Property and equipment	(183)	24	(159)
Net deferred tax assets (liabilities)	(78)	78	-

d) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

	December 31, 2020 \$	December 31, 2019 \$
Deductible temporary differences	3,379	2,357
Tax losses	5,938	3,272
Unrecognised amount for deferred tax assets	9,317	5,629

The Company has Canadian loss carryforwards of \$4.9 million (2019 - \$3.3 million) which expire between 2038 and 2040, and United Kingdom loss carryforwards of \$1.0 million (2019 - \$5,656) which carryforward indefinitely.

## 23 Financial instruments

Financial assets and liabilities recorded or disclosed at fair value in the consolidated statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value.

The Company's financial assets and financial liabilities, including the promissory note, are measured and/or disclosed at fair value by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's policy is to

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recognize transfers in and out of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfer. There were no such transfers during the year ended December 31, 2020.

At December 31, 2020 and December 31, 2019, the carrying amounts of cash and cash equivalents, accounts receivables, other receivables, accounts payable and accrued liabilities, approximate their fair value due to their short-term nature. The Company accounted for the new promissory note at fair value on initial recognition on July 2, 2020. Management has evaluated and determined that there have been no material changes in the fair value of the promissory note in the period to December 31, 2020.

a) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents, and accounts receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents 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 to be limited to the value of the provision for allowance for expected credit losses which has been recognized.

b) Foreign exchange rate risk

The Company is exposed to financial risk related to fluctuations of foreign exchange rates. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar, primarily the United States dollar ("US dollar"), UK pounds sterling ("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 US dollar, GBP and Euros cash on hand to fund its anticipated short-term foreign currency expenditures.

Foreign exchange risk arises from fluctuations in the future cash flows of a financial instrument because of changes in foreign exchange rates. The Company is exposed to foreign exchange rate risk on its foreign currency denominated cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and the promissory note.

The carrying amounts of the Company's foreign currency denominated monetary financial assets and monetary financial liabilities, shown as values in the foreign currency, at the reporting date are as follows:

	Financial assets		Financial liabilities	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
GBP	555	395	2,109	3,109
Euro	96	145	33	15
US dollar	5,199	1,013	7	39
New Zealand dollar	-	1	-	-

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The financial liabilities in British pounds sterling include 50% of the promissory note (interest and principal).

**Foreign currency sensitivity analysis**

The Company's exposure to a 10% exchange rate movement, shown in Canadian dollars, on its foreign currency denominated financial assets and financial liabilities results in the following gains and losses:

	<b>GBP</b>	<b>Euro</b>	<b>US</b>
10% strengthening of the Canadian dollar (increase)/decrease the net loss	246	(9)	(602)
10% weakening of the Canadian dollar (increase)/decrease the net loss	(300)	11	735

The use of a 10% movement in exchange rates is considered appropriate given recent movements in exchange rates.

A substantial amount of the Company's sales and purchases are transacted in foreign currencies. The exposure to foreign exchange rates varies throughout the year depending on the volume and timing of transactions in foreign currencies.

c) 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. At December 31, 2020 the Company's only interest-bearing financial instrument was the promissory note which carried a fixed rate of interest of 7% per annum and was paid off in full subsequent to the year-end (see note 15).

d) Liquidity and funding 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 out of cash. The Company's ability to do this relies on the Company maintaining sufficient cash in excess of anticipated needs and raising debt or equity financing in a timely manner.



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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:

### Payments due by period (as at December 31, 2020)

	<b>Less than one year \$</b>	<b>1 – 3 years</b>	<b>4 – 5 years</b>	<b>After 5 years</b>	<b>Total</b>
Accounts payable and other liabilities	8,773	-	-	-	8,773
Lease liabilities	264	456	34	-	754
Promissory note	5,957	-	-	-	5,957
	<b>14,994</b>	<b>456</b>	<b>34</b>	<b>-</b>	<b>15,484</b>

Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions.

## 24 Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash, promissory note (which was paid off in full subsequent to the year-end, see note 15) and equity comprising issued share capital and earnings.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, balances its overall capital structure through new common share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the period ended December 31, 2019.