

Greenlane Renewables Inc.

Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2020 and 2019
(Unaudited)

(expressed in thousands of Canadian dollars)

Greenlane Renewables Inc.

Condensed Consolidated Statements of Financial Position (Unaudited)

(Expressed in thousands of Canadian dollars)

	June 30, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	5,338	2,269
Accounts receivable	3,095	1,436
Inventory	296	223
Prepaid expenses and other receivables	868	576
Contract assets (note 4)	1,918	1,745
	<u>11,515</u>	<u>6,249</u>
Property and equipment	920	947
Intangible assets	8,180	8,964
Goodwill	10,405	10,405
	<u>31,020</u>	<u>26,565</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,339	4,456
Deferred revenue	56	40
Contract liabilities (note 4)	2,066	2,049
Lease liability, current portion	227	186
Warranty liability, current portion (note 5)	332	456
	<u>7,020</u>	<u>7,187</u>
Lease liability, non-current portion	563	638
Warranty liability, non-current portion (note 5)	21	-
Promissory note (note 6)	7,546	10,964
Deferred tax liability	78	78
	<u>15,228</u>	<u>18,867</u>
Shareholders' Equity		
Share capital (note 7)	20,791	11,282
Contributed surplus	2,455	1,510
Accumulated other comprehensive income (loss)	(175)	152
Deficit	(7,279)	(5,246)
	<u>15,792</u>	<u>7,698</u>
	<u>31,020</u>	<u>26,565</u>

Nature of operations and going concern (Note 1)

Subsequent events (Notes 6, 7 and 8)

Approved by the Board of Directors and authorized for issue on August 25, 2020

"Brad Douville" Director "David Blaiklock" Director

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

Greenlane Renewables Inc.

Condensed Consolidated Statements of Operations

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$	\$	\$
Revenue	4,241	911	7,171	911
Cost of goods sold	(3,152)	(476)	(4,794)	(476)
Gross profit	1,089	435	2,377	435
General and administrative	(2,014)	(758)	(4,373)	(816)
Operating loss	(925)	(323)	(1,996)	(381)
Other income (expenses):				
Finance expense	(128)	(54)	(294)	(54)
Change in fair value of special warrants	-	(55)	-	(55)
Transaction costs related to qualifying transaction and issuance of special warrants	-	(1,757)	-	(1,913)
Foreign exchange gain	113	127	257	127
Net loss	(940)	(2,062)	(2,033)	(2,276)
Basic and diluted loss per share	(0.01)	(0.41)	(0.02)	(0.45)
Weighted average numbers of shares	91,734,808	5,120,000	85,438,896	5,060,000

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

Greenlane Renewables Inc.

Condensed Consolidated Statements of Comprehensive Loss
For the three and six months ended June 30, 2020 and 2019
(Unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$	\$	\$
Net loss	(940)	(2,062)	(2,033)	(2,276)
Other comprehensive income (loss)				
Item that may be subsequently reclassified to net income (loss):				
Foreign currency translation adjustment	(428)	(19)	(327)	(19)
Total comprehensive loss	<u>(1,368)</u>	<u>(2,081)</u>	<u>(2,360)</u>	<u>(2,295)</u>

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

Greenlane Renewables Inc.

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020 and 2019

(Unaudited)

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

	Share capital (number of shares)	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total \$
Balance, January 1, 2019	9,000,000	549	81	-	(193)	437
Additional Initial Public Offering issue cost	-	(20)	-	-	-	(20)
Agent options issued on special warrants	-	-	195	-	-	195
Share based compensation expense	-	-	56	-	-	56
Currency translation adjustment	-	-	-	(19)	-	(19)
Net loss for the period	-	-	-	-	(2,276)	(2,276)
Balance, June 30, 2019	9,000,000	529	332	(19)	(2,469)	(1,627)
Balance, January 1, 2020	68,435,795	11,282	1,510	152	(5,246)	7,698
Share-based compensation expense	-	-	58	-	-	58
Warrants exercised	71,500	21	(3)	-	-	18
Options exercised	231,680	47	(13)	-	-	34
Shares/warrants issued	23,000,000	10,741	759	-	-	11,500
Agent options issued	-	-	235	-	-	235
Share issuance costs	-	(1,300)	(91)	-	-	(1,391)
Currency translation adjustment	-	-	-	(327)	-	(327)
Net loss for the period	-	-	-	-	(2,033)	(2,033)
Balance, June 30, 2020	91,738,975	20,791	2,455	(175)	(7,279)	15,792

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

Greenlane Renewables Inc.

Condensed Consolidated Interim Statements of Cash Flows For the six months ended June 30, 2020 and 2019 (Unaudited)

(Expressed in thousands of Canadian dollars)

	Six months ended June 30, 2020 \$	Six months ended June 30, 2019 \$
Cash provided by (used in)		
Operating activities		
Loss for the period	(2,033)	(2,276)
Adjustments for non-cash items		
Change in fair value of special warrants	-	55
Unrealised foreign exchange gain	(257)	(127)
Depreciation and amortization	759	79
Finance expense	294	54
Share-based compensation	58	56
	<u>(1,179)</u>	<u>(2,159)</u>
Other adjustments		
Issuance costs of special warrants	-	1,478
Changes in current assets	(1,924)	(467)
Changes in current liabilities	(385)	491
Changes in construction contract position	(156)	(527)
Interest paid on leases	(29)	-
	<u>(3,673)</u>	<u>(1,184)</u>
Cash used in operating activities		
Investing activities		
Net cash consideration paid for PT Biogas Holdings Limited.	-	(2,215)
Purchase of plant and equipment	(23)	-
Cash used in investing activities	<u>(23)</u>	<u>(2,215)</u>
Financing activities		
Share issuance costs	(1,157)	(20)
Proceeds from issuance of shares and warrants	11,500	-
Proceeds from options and warrants exercised	36	6,916
Payment on promissory note	(3,614)	-
Cash generated by financing activities	<u>6,765</u>	<u>6,896</u>
Increase in cash	3,069	3,497
Cash – Beginning of period	<u>2,269</u>	<u>524</u>
Cash – End of period	<u>5,338</u>	<u>4,021</u>

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

Greenlane Renewables Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

1 Nature of operations and going concern

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 vehicle fuel.

These condensed consolidated interim financial statements have been prepared by management using generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. In the six month period ended June 30, 2020, the Company incurred an operating loss of \$2.0 million and had an operating cash outflow of \$3.7 million. However, following the completion of a public offering of common shares and following the partial repayment of the promissory note (note 6) in the first quarter of 2020, as at June 30, 2020, the Company had a positive working capital of \$4.5 million including cash and cash equivalents of \$5.3 million.

The continuing operations of the Company are dependent upon its ability to continue to secure and to execute on upgrader contracts to realize profitable operations in the future. Contract awards are dependent on customer-related activities such as finalizing project design parameters, securing project funding, permitting, and feedstock and offtake contracts and government-related factors such as the continuance of existing and/or the introduction of new policies, mandates and regulations that encourage the use of renewable natural gas. There can be no assurance that management will be successful in securing these upgrader contracts. In addition, the timing of contract awards can be delayed longer than expected. In the event that upgrader contract awards are not secured or delayed and as a result, cash flow from operations does not adequately support the fixed costs of the Company, the Company may then be required to re-evaluate its planned expenditures and may require future financings in such a manner as the Board of Directors and management deem to be in the Company’s best interest. This may result in a substantial reduction of the scope of existing and planned operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the Company’s ability to continue as a going concern.

These condensed consolidated interim financial statements do not reflect any adjustments to the carrying values of assets and liabilities, which may be required should the Company be unable to continue as a going concern. These adjustments may be material.

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 has been affected; however, all suppliers returned to work during the second quarter. 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.

Greenlane Renewables Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

2 Basis of presentation

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, which is also the Company's functional currency. These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on August 25, 2020. Certain of the comparative period figures have been reclassified to conform to the current period's presentation.

3 Key judgements and estimates

The preparation of the condensed consolidated interim 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 percentage of completion of upgrader contracts, warranty provisions, the collectability of accounts receivable, valuation of inventory, the useful lives and recoverability of long-lived assets and the annual assessment of impairment of goodwill.

In addition, 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. Actual results could differ from those estimates.

4 Contract balances

	Balance at December 31, 2019 \$	Revenue Recognised \$	Progress Billings \$	Balance at June 30, 2020 \$
Contract assets	1,745	3,942	(3,769)	1,918
Contract liabilities	(2,049)	1,855	(1,872)	(2,066)
	<u>(304)</u>	<u>5,797</u>	<u>(5,641)</u>	<u>(148)</u>

The movement in contract balances since December 31, 2019 primarily relates to five projects.

Greenlane Renewables Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

5 Warranty liabilities

	\$
Balance at December 31, 2019	456
Additions in the period	226
Charges against provision	(62)
Provision expired	(266)
Foreign exchange	(1)
	<hr/>
Balance at June 30, 2020	353
Less: Current portion	<hr/> (332)
Non-current portion	<hr/> <hr/> 21

6 Promissory note

During the period, the Company paid Pressure Technologies plc (“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 7). The repayment 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.

Subsequent to the period end, 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 shares in the Company which were 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 Holdings Limited 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 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.

Greenlane Renewables Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

7 Share capital

Common shares

At June 30, 2020, the Company had unlimited authorized common shares without par value and 91,738,975 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 entitles 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 has been included 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 gives the holder the right to purchase one common share for \$0.50, for a one-year period ending on February 19, 2021.

During the period, 231,680 options were exercised, and the fair value of \$13,597 was transferred from contributed surplus to share capital.

At June 30, 2020, the Company had 6.3 million shares held in escrow, which are expected to be released on December 6, 2020. In addition, an additional 4.1 million shares were subject to a further contractual restriction of transfer, to be released on repayment of the promissory note in full and an additional 4.3 million shares were held by Pressure Technologies under a right to direct sales agreement, under which the Company had the option to direct Pressure Technologies to sell shares to directors and employees of the Company for \$0.60 per share.

Following the completion of the Framework Agreement (note 6) on July 2, 2020, the 4.1 million shares were released from the contractual restriction of transfer and the right to direct agreement was cancelled.

Warrants outstanding

At June 30, 2020, the Company had 41,620,112 warrants outstanding (December 31, 2019 – 30,191,612), as follows:

Warrant price	Number of warrants	Expiry
\$0.26	30,120,112	June 3, 2021
\$0.70	11,500,000	February 19, 2021

Greenlane Renewables Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

During the six month period ended June 30, 2020, 71,500 warrants with an exercise price of \$0.26 were exercised for proceeds of \$18,590 (six month period ended June 30, 2019 \$nil).

Subsequent to the period end, on July 8, 2020, 5,094,765 warrants were exercised for proceeds of \$1.3 million related to the Framework Agreement with Pressure Technologies (note 6).

8 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 six months ended June 30, 2020, including options granted to agents is as follows:

	Number of options	Weighted average exercise price \$
Outstanding, December 31, 2019	6,792,780	0.18
Granted	2,145,000	0.50
Exercised	(231,680)	0.14
Forfeited	(50,000)	0.20
	<hr/>	
Outstanding, June 30, 2020	<u>8,656,100</u>	<u>0.26</u>

At June 30, 2020, 7,500,780 options were exercisable (December 31, 2019 – 5,759,780). Included in the 8,656,100 options outstanding at June 30, 2020 were 4,133,100, options held by agents, issued to agents in conjunction with the 2018 IPO and the 2019 and 2020 equity raises.

The following table summarizes information about stock options outstanding as at June 30, 2020:

Exercise price	Number outstanding	Weighted average remaining life in years
\$0.10	991,950	5.8
\$0.20	5,519,150	2.6
\$0.50	2,145,000	2.2

Greenlane Renewables Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

As part of the issuance costs of the February 19, 2020 equity raise, the Company issued 1,380,000 options to agents. The fair value of the agents' options at the grant date was estimated at \$234,600 using the Black-Scholes option pricing model, applying the following assumptions:

Risk-free rate	1.61%
Expected volatility	86.7%
Expected life in years	1.0
Expected dividend yield	-

On May 26, 2020, 765,000 options were issued, at an estimated fair value of \$0.35 per option. The value of the stock options issued was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free rate	0.30%
Expected volatility	108.5%
Expected life in years	3.5
Expected dividend yield	-

At June 30, 2020 stock options issued represented 4.9% of issued and outstanding common share capital (excluding options issued to agents). The Company recognized share-based compensation expense of \$292,702 during the six months ended June 30, 2020 (six months ended June 30, 2019 – \$251,247), including \$234,600 relating to the agent options issued as part of the February 19, 2020 equity raise, recorded as share issuance costs in the Statement of Changes in Equity.

During the quarter, the Company adopted a restricted share unit plan (and "RSU Plan") and has granted to officers and non-executive directors an aggregate of 960,038 restricted share units ("RSUs"). The RSU Plan and subsequent RSU grant was approved by disinterested shareholders subsequent to June 30, 2020 and remains subject to final TSX Venture Exchange acceptance.

9 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 three and six months ended June 30, 2020 and 2019 is outlined below:

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$	\$	\$
Salary	135	33	270	33
Share-based compensation	7	56	9	56
	142	89	279	89

Greenlane Renewables Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

As at June 30, 2020, the Company owed Pressure Technologies, the former parent company of wholly owned subsidiary PT Biogas Holdings Limited, \$0.6 million relating to intercompany invoices issued prior to the acquisition by Greenlane, together with \$7.5 million for the promissory note (note 6).

10 Segmented information

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

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$	\$	\$
Upgrader projects	3,711	608	5,797	608
Aftercare services	530	303	1,374	303
	<u>4,241</u>	<u>911</u>	<u>7,171</u>	<u>911</u>

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

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
	\$	\$	\$	\$
Upgrader projects revenue				
Americas	3,711	608	5,797	608
Europe	-	-	-	-
	<u>3,711</u>	<u>608</u>	<u>5,797</u>	<u>608</u>
Aftercare services revenue				
Americas	184	42	299	42
Europe	346	261	1,075	261
	<u>530</u>	<u>303</u>	<u>1,374</u>	<u>303</u>
Total revenue				
Americas	3,895	650	6,096	650
Europe	346	261	1,075	261
	<u>4,241</u>	<u>911</u>	<u>7,171</u>	<u>911</u>

The Company had four customers that each accounted for 10% or more of total revenue during the period ended June 30, 2020. These customers accounted for 15%, 18%, 19% and 26% of total revenue.

Greenlane Renewables Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

11 Financial instruments

Financial assets and liabilities recorded or disclosed at fair value in the Condensed Consolidated Interim of financial position are categorized (level 1, level 2, level 3) based on the level of judgment associated with the inputs used to measure their fair value. There were no transfers between levels during the period ended June 30, 2020.

At June 30, 2020 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's promissory note was measured at fair value on initial recognition in June 2019, and management has determined that at June 30, 2020 the carrying amount of this loan approximates its fair value as there has not been a significant change in fair value since the date of initial recognition.