

Greenlane Renewables Inc.

Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2022 and 2021
(Unaudited)

(Expressed in thousands of Canadian dollars)

Greenlane Renewables Inc.

Condensed Consolidated Statements of Financial Position (Unaudited)

(Expressed in thousands of Canadian dollars)

	Notes	March 31, 2022 \$	December 31, 2021 \$
Assets			
Current assets			
Cash and cash equivalents		23,125	31,471
Restricted cash		1,567	1,655
Accounts receivable		11,047	16,096
Inventory		877	785
Prepaid expenses and other assets		1,725	1,242
Contract assets	5	16,852	9,837
		<u>55,193</u>	<u>61,086</u>
Deferred tax assets		111	111
Property and equipment		1,865	688
Intangible assets		10,554	6,496
Goodwill		17,223	10,405
		<u>84,946</u>	<u>78,786</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		21,301	20,148
Contract liabilities	5	2,714	1,446
Deferred consideration - share issuance	4	1,429	-
Lease liability, current portion		312	242
Warranty liability, current portion		260	102
		<u>26,016</u>	<u>21,938</u>
Deferred consideration - contingent earn-out	4	1,527	-
Lease liability, non-current portion		1,096	217
Warranty liability, non-current portion		145	150
Deferred tax liabilities	4	1,290	-
		<u>30,074</u>	<u>22,305</u>
Shareholders' Equity			
Share capital	6	64,076	64,074
Contributed surplus		2,944	2,395
Accumulated other comprehensive income		170	179
Deficit		(12,318)	(10,167)
		<u>54,872</u>	<u>56,481</u>
		<u>84,946</u>	<u>78,786</u>

Approved by the Board of Directors and authorized for issue on May 12, 2022

"Wade Nesmith"

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 and Comprehensive Loss For the three months ended March 31, 2022 and 2021 (Unaudited)

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

	Three months ended March 31, 2022	Three months ended March 31, 2021
	\$	\$
Revenue	16,273	12,205
Cost of goods sold, excluding amortization	(12,252)	(8,921)
	4,021	3,284
Amortization	(469)	(314)
Gross profit	3,552	2,970
Depreciation	(148)	(76)
General and administration	(3,358)	(2,325)
Research and development	(290)	(85)
Sales and marketing	(343)	(270)
Share-based compensation	(550)	(175)
Strategic initiatives	(321)	-
Operating (loss) income	(1,458)	39
Other income (expenses):		
Finance expense	(25)	(59)
Finance income	24	-
Other income	-	209
Foreign exchange loss	(692)	(419)
Net loss	(2,151)	(230)
Other comprehensive loss		
Item that may be subsequently reclassified to net loss:		
Foreign currency translation adjustment	(9)	119
Total comprehensive loss	(2,160)	(111)
Basic and diluted loss per share	(0.01)	(0.00)
Weighted average numbers of shares	150,299,916	130,593,823

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 three months ended March 31, 2022 and 2021

(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, 2021	114,681,456	31,927	1,547	111	(7,717)	25,868
Share-based compensation expense	-	-	175	-	-	175
Warrants exercised	11,304,677	4,650	(501)	-	-	4,149
Options exercised	696,983	395	(109)	-	-	286
Shares issued	12,190,000	26,452	-	-	-	26,452
Share issuance costs	-	(2,836)	-	-	-	(2,836)
Agent warrants issued	-	-	829	-	-	829
Currency translation adjustment	-	-	-	119	-	119
Net loss for the period	-	-	-	-	(230)	(230)
Balance, March 31, 2021	138,873,116	60,588	1,941	230	(7,947)	54,812
Balance, January 1, 2022	150,293,991	64,074	2,395	179	(10,167)	56,481
Share-based compensation expense	-	-	550	-	-	550
Options and restricted share units exercised	6,666	2	(1)	-	-	1
Currency translation adjustment	-	-	-	(9)	-	(9)
Net loss for the period	-	-	-	-	(2,151)	(2,151)
Balance, March 31, 2022	150,300,657	64,076	2,944	170	(12,318)	54,872

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 three months ended March 31, 2022 and 2021 (Unaudited)

(Expressed in thousands of Canadian dollars)

	Three months ended March 31, 2022	Three months ended March 31, 2021
Note	\$	\$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(2,151)	(230)
Adjustments for non-cash items		
Unrealised foreign exchange loss	692	419
Depreciation and amortization	617	390
Finance expense	25	59
Share-based compensation	550	175
Other income	-	(209)
Finance income	(24)	-
	<u>(291)</u>	<u>604</u>
Other adjustments		
Changes in current assets	5,419	(2,882)
Changes in current liabilities	(688)	4,575
Changes in contract assets and liabilities	(5,833)	(4,025)
Changes in restricted cash	88	-
Interest paid on leases	(25)	(11)
	<u>(1,330)</u>	<u>(1,739)</u>
Cash used in operating activities	<u>(1,330)</u>	<u>(1,739)</u>
Investing activities		
Cash consideration paid for Airdep, net of cash acquired	4 (6,887)	-
Purchase of property and equipment	(68)	(20)
Cash used in investing activities	<u>(6,955)</u>	<u>(20)</u>
Financing activities		
Proceeds from issuance of shares and warrants	-	26,452
Share issuance costs	-	(1,996)
Proceeds from options, restricted share units and warrants	1	4,431
Payments on promissory note	-	(6,041)
Interest received	24	-
Lease payments	(86)	(73)
Cash (used in) generated by financing activities	<u>(61)</u>	<u>22,773</u>
(Decrease) / increase in cash and cash equivalents	<u>(8,346)</u>	<u>21,014</u>
Cash and cash equivalents – Beginning of period	<u>31,471</u>	<u>16,442</u>
Cash and cash equivalents – End of period	<u>23,125</u>	<u>37,456</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 months ended March 31, 2022 and 2021

(Unaudited)

(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. 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.

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 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 May 12, 2022. Certain of the comparative period figures, including the presentation of expense categories within the Statement of Operations and geographic areas within the segmented information note, have been reclassified to conform to the current period’s presentation for more relevant information.

3 Key sources of estimation uncertainty

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. The judgements made by management in applying the Company’s accounting policies and key sources of estimation uncertainty remain consistent with those reported in the December 31, 2021 annual audited financial statements; however following the acquisition of Airdep S.R.L. (“Airdep”, see note 4 below), they also include estimates relating to the fair value of assets acquired and liabilities assumed and valuation of deferred consideration.

4 Business acquisition

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

Greenlane Renewables Inc.

Notes to Condensed Consolidated Interim Financial Statements

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

The consideration for the Acquisition was as follows:

	€	\$
Cash	5,500	7,858
Deferred consideration – shares issuance	1,000	1,429
Deferred consideration – contingent earn-out	1,069	1,527
Working capital adjustment and net financial position	695	992
	<u>8,264</u>	<u>11,806</u>

The share consideration will be issuable in four equal tranches (€250,000) based on the 5-day volume-weighted average price prior to share issuance date, issued over the four quarters following closing on February 1, 2022. As the consideration will be settled within 12 months, no discounting was applied.

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

The working capital adjustment and net financial position are customary closing payments and are expected to be paid during the second quarter of 2022. The amount recorded represent management's estimate and is subject to change.

The preliminary allocation of the purchase price to the fair value of the assets acquired and liabilities assumed is as follows:

	\$
Cash and cash equivalents	971
Accounts receivables	1,326
Other current assets	96
Contract assets	65
Inventory	192
Property and equipment	265
Right of use asset	1,051
Intangible assets with a defined life	4,778
Trade payables and other current liabilities	(1,255)
Contract liabilities	(160)
Deferred tax liability	(1,290)
Lease liabilities	(1,051)
Identifiable net assets of business acquired	<u>4,988</u>
Goodwill	<u>6,818</u>
	<u>11,806</u>

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Goodwill represents the excess of the cost of acquisition over the net identifiable tangible and intangible assets acquired and liabilities assumed at their acquisition-date fair values and represents the value attributable to management strength and experience of developing, selling and maintaining biogas desulfurization and air deodorization units. The fair value allocated to intangible assets is based on assumptions of management. The fair value of intangible assets acquired was calculated using level 3 unobservable inputs. The estimated fair value was calculated using an income approach, applying assumptions over the future expected cash flows arising from the intangible assets identified as revenue backlog and know-how. The intangible assets are amortized over a preliminary estimated life of 5 years.

Since the date of Acquisition, the Company has recognized \$0.9 million of revenue and \$0.2 million profit in the reported net loss and comprehensive loss related to Airdep. The pro-forma revenue and loss for the combined entity for the period ended March 31, 2022 assuming the Acquisition had occurred on January 1, 2022 is \$17.2 million and \$1.8 million, respectively.

5 Contract balances

	Balance at December 31, 2021	Balance acquired from Airdep	Revenue Recognized	Progress Billings	Balance at March 31, 2022
	\$	\$	\$	\$	\$
Contract Assets	9,837	65	14,040	(7,090)	16,852
Contract Liabilities	(1,446)	(160)	1,030	(2,138)	(2,714)
	<u>8,391</u>	<u>(95)</u>	<u>15,070</u>	<u>(9,228)</u>	<u>14,138</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 quarter and the contract balances at March 31, 2022 primarily relate to nine projects.

6 Share capital

Common shares

At March 31, 2022, the Company had unlimited authorized common shares without par value and 150,300,657 common shares issued and outstanding (December 31, 2021 – 150,293,991).

During the three months ended March 31, 2022, 6,666 options were exercised, and the fair value of \$831 was transferred from contributed surplus to share capital.

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Warrants outstanding

At March 31, 2022, the Company had no warrants outstanding (December 31, 2021 – 694,830). On January 27, 2022, the outstanding warrants expired (valued at \$2.17) and the 694,830 unexercised warrants were cancelled.

Incentive Plans

At March 31, 2022 stock options and restricted share units (RSUs) issued under the Company's omnibus incentive plan, legacy option plan and legacy RSU plan represented 6.4% of issued and outstanding common share capital.

Stock Options

A summary of the Company's stock options outstanding, for the three months ended March 31, 2022 is as follows:

	Number of options	Weighted average exercise price \$
Balance, January 1, 2022	5,069,137	0.54
Granted	2,507,779	1.15
Exercised	(6,666)	0.20
Forfeited	(25,000)	1.72
Balance, March 31, 2022	<u>7,545,250</u>	<u>0.74</u>

At March 31, 2022, 3,269,334 options were exercisable (December 31, 2021 – 3,202,666).

The following table summarizes information about stock options outstanding as at March 31, 2022:

Exercise price	Number outstanding	Weighted average remaining life in years
\$0.10 - \$0.50	3,985,001	3.14
\$0.51 - \$1.00	75,000	3.64
\$1.01 - \$1.50	2,507,779	4.85
\$1.51 - \$1.94	977,470	4.28

There were two option grants during the three month period ended March 31, 2022. The fair value of the stock options issued were estimated using the Black-Scholes option pricing model with the following assumptions:

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(Unaudited)

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

Grant date	February 2, 2022	March 15, 2022
Number of options granted	2,475,904	31,875
Exercise price	\$1.15	\$1.02
Fair value per option	\$0.70	\$0.60
Risk-free rate	1.10%	1.39%
Expected volatility	89.26%	88.35%
Expected life in years	3.5	3.5
Expected dividend yield	-	-

The Company recognized share-based compensation expense relating to stock options of \$0.4 million during the three months ended March 31, 2022 (March 31, 2021: \$0.1 million).

Restricted Share Unit Plan

A summary of the Company's RSUs outstanding for the three months ended March 31, 2022, is as follows:

	Number of RSUs
Balance, January 1, 2022	1,245,792
Granted	901,921
Balance, March 31, 2022	<u>2,147,713</u>

In February 2022, the Company granted 901,921 RSUs, including 261,956 to non-executive directors with vesting after one year and a fair value of \$0.3 million, and 639,965 to the management team and certain employees with vesting over 3 years and a fair value of \$0.7 million. The fair value per RSU was determined based on the Company's share price on the grant date with no adjustments for dividend yield or other terms and conditions. The Company recognized share-based compensation expense of \$0.2 million during the three months ended March 31, 2022, related to RSUs (March 31, 2021: \$0.1 million).

7 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 remuneration paid and payable to these key management personnel during the period ended March 31, 2022 and March 31, 2021 is outlined below:

Greenlane Renewables Inc.

Notes to Condensed Consolidated Interim Financial Statements

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(Unaudited)

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

	Three months ended March 31, 2022	Three months ended March 31, 2021
	\$	\$
Non-executive Directors fees (excluding share-based compensation)	103	76
Salaries and other short-term benefits	595	359
Share-based compensation	136	114
	<u>834</u>	<u>549</u>

8 Segmented information

The Company has one operating segment, which is further broken down into two revenue streams, system sales (including the sale of biogas desulfurization and air deodorization units, see note 4) and aftercare service.

	Three months ended March 31, 2022	Three months ended March 31, 2021
	\$	\$
System sales	15,070	11,568
Aftercare sales	1,203	637
	<u>16,273</u>	<u>12,205</u>

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

	Three months ended March 31, 2022	Three months ended March 31, 2021
	\$	\$
System sales revenue		
United States	10,430	10,703
Europe	1,226	-
Other	3,414	865
	<u>15,070</u>	<u>11,568</u>
Aftercare services revenue		
United States	132	28
Europe	971	459
Other	100	150
	<u>1,203</u>	<u>637</u>

Greenlane Renewables Inc.

Notes to Condensed Consolidated Interim Financial Statements

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(Unaudited)

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

Total revenue

United States	10,562	10,731
Europe	2,197	459
Other	3,514	1,015
	<u>16,273</u>	<u>12,205</u>

The Company had three customers that each accounted for 10% or more of total revenue during the three months ended March 31, 2022 (March 31, 2021: three). These customers accounted for 20%, 16% and 15% of total revenue (March 31, 2021: 34%, 32% and 17%).

9 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 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 recognize transfers in and out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no such transfers during the period ended March 31, 2022.

The contingent earn-out payment (note 4) was measured at fair value on Acquisition (February 1, 2022). Management determined that the carrying amount of this payment and its fair value at March 31, 2022 approximates its fair value at the date of initial recognition on February 1, 2022.

At March 31, 2022, the carrying amounts of cash and cash equivalents, restricted cash, accounts receivables, other receivables, accounts payable and accrued liabilities, approximate their fair value due to their short-term nature.