

Greenlane Renewables Inc.

Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 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	June 30, 2022 \$	December 31, 2021 \$
Assets			
Current assets			
Cash and cash equivalents		23,160	31,471
Restricted cash		1,616	1,655
Accounts receivable		14,150	16,096
Inventory		818	785
Prepaid expenses and other assets		2,138	1,242
Convertible promissory note receivable	9	476	-
Contract assets	5	10,506	9,837
		<u>52,864</u>	<u>61,086</u>
Deferred tax assets		111	111
Property and equipment		1,763	688
Intangible assets		10,683	6,496
Goodwill		16,051	10,405
		<u>81,472</u>	<u>78,786</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		20,954	20,148
Contract liabilities	5	1,209	1,446
Deferred consideration - share issuance	4	990	-
Lease liability		287	242
Warranty liability		621	102
		<u>24,061</u>	<u>21,938</u>
Deferred consideration - contingent earn-out	4	1,439	-
Lease liability		1,031	217
Warranty liability		133	150
Deferred tax liabilities	4	1,623	-
		<u>28,287</u>	<u>22,305</u>
Shareholders' Equity			
Share capital	6	64,438	64,074
Contributed surplus		3,575	2,395
Accumulated other comprehensive (loss) income		(338)	179
Deficit		(14,490)	(10,167)
		<u>53,185</u>	<u>56,481</u>
		<u>81,472</u>	<u>78,786</u>
Subsequent event	10		

Approved by the Board of Directors and authorized for issue on August 9, 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 and six months ended June 30, 2022 and 2021

(Unaudited)

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

	Three months ended June 30, 2022 \$	Three months ended June 30, 2021 \$	Six months ended June 30, 2022 \$	Six months ended June 30, 2021 \$
Revenue	18,091	12,583	34,364	24,788
Cost of goods sold, excluding amortization	(13,519)	(9,359)	(25,771)	(18,280)
	4,572	3,224	8,593	6,508
Amortization	(652)	(309)	(1,121)	(623)
Gross profit	3,920	2,915	7,472	5,885
Depreciation	(152)	(79)	(300)	(155)
General and administration	(3,953)	(2,563)	(7,311)	(4,888)
Research and development	(305)	(135)	(595)	(220)
Sales and marketing	(743)	(507)	(1,086)	(777)
Share-based compensation	(638)	(284)	(1,188)	(459)
Strategic initiatives	(782)	-	(1,103)	-
Operating loss	(2,653)	(653)	(4,111)	(614)
Other income (expenses):				
Finance expense	(20)	(10)	(45)	(69)
Finance income	10	-	34	-
Other income	-	-	-	209
Foreign exchange gain (loss)	491	(414)	(201)	(833)
Net loss	(2,172)	(1,077)	(4,323)	(1,307)
Other comprehensive income (loss)				
Item that may be subsequently reclassified to net loss:				
Foreign currency translation adjustment	(508)	(96)	(517)	23
Total comprehensive loss	(2,680)	(1,173)	(4,840)	(1,284)
Basic and diluted loss per share	(0.01)	(0.01)	(0.03)	(0.01)
Weighted average numbers of shares	150,538,114	144,194,466	150,416,727	137,431,715

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, 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	-	-	459	-	-	459
Warrants exercised	22,214,553	7,824	(839)	-	-	6,985
Options exercised	1,027,982	513	(170)	-	-	343
Shares issued	12,190,000	26,452	-	-	-	26,452
Share issuance costs	-	(2,836)	-	-	-	(2,836)
Agent warrants issued	-	-	829	-	-	829
Currency translation adjustment	-	-	-	23	-	23
Net loss for the period	-	-	-	-	(1,307)	(1,307)
Balance, June 30, 2021	150,113,991	63,880	1,826	134	(9,024)	56,816
Balance, January 1, 2022	150,293,991	64,074	2,395	179	(10,167)	56,481
Share-based compensation expense	-	-	1,188	-	-	1,188
Options and restricted share units exercised	56,666	22	(8)	-	-	14
Acquisition share issuance (note 4)	325,505	342	-	-	-	342
Currency translation adjustment	-	-	-	(517)	-	(517)
Net loss for the period	-	-	-	-	(4,323)	(4,323)
Balance, June 30, 2022	150,676,162	64,438	3,575	(338)	(14,490)	53,185

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, 2022 and 2021

(Unaudited)

(Expressed in thousands of Canadian dollars)

	Six months ended June 30, 2022	Six months ended June 30, 2021
Note	\$	\$
Cash generated by (used in)		
Operating activities		
Net loss for the period	(4,323)	(1,307)
Adjustments for non-cash items		
Unrealised foreign exchange loss	490	833
Depreciation and amortization	1,421	778
Finance expense	45	69
Share-based compensation	1,188	459
Other income	-	(209)
Finance income	(34)	-
	<u>(1,213)</u>	<u>623</u>
Other adjustments		
Changes in current assets	2,372	(6,405)
Changes in current liabilities	(428)	6,288
Changes in contract assets and liabilities	(867)	(6,060)
Changes in restricted cash	39	-
Interest paid on leases	(45)	(22)
	<u>(142)</u>	<u>(5,576)</u>
Cash used in operating activities		
	<u>(142)</u>	<u>(5,576)</u>
Investing activities		
Cash consideration paid for Airdep, net of cash acquired	4 (7,662)	-
Convertible promissory note receivable	(419)	-
Purchase of property and equipment	(77)	(53)
	<u>(8,158)</u>	<u>(53)</u>
Cash used in investing activities		
	<u>(8,158)</u>	<u>(53)</u>
Financing activities		
Proceeds from issuance of shares and warrants	-	26,452
Share issuance costs	-	(2,007)
Proceeds from options, restricted share units and warrants	14	7,475
Payments on promissory note	-	(6,041)
Interest received	34	-
Lease payments	(195)	(144)
	<u>(147)</u>	<u>25,735</u>
Cash (used in) generated by financing activities		
	<u>(147)</u>	<u>25,735</u>
Effect of foreign exchange on cash	136	-
(Decrease) / increase in cash and cash equivalents	(8,311)	20,106
Cash and cash equivalents – Beginning of period	31,471	16,442
Cash and cash equivalents – End of period	<u>23,160</u>	<u>36,548</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, 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 August 9, 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 judgments 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, liabilities assumed and valuation of deferred consideration.

4 Business combination

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.

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Notes to Condensed Consolidated Interim Financial Statements

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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	883	1,261
	<u>8,452</u>	<u>12,075</u>

The deferred share consideration is issuable in four equal tranches (€250,000) based on the 20-day volume-weighted average price prior to the share issuance date, issued over the four quarters following closing on February 1, 2022. As the consideration will be settled within 12 months, no discounting was applied.

The deferred contingent earn-out payment is payable in early 2025 based on the future financial performance of Airdep and will be payable in cash or a combination of cash and Company shares, at the Company's option, up to a maximum of €2.5 million. The fair value is based on a range of payout scenarios 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. In the quarter ended June 30, 2022, the Company made a payment of \$0.8 million with the remaining balance expected to be paid before the end of the year.

The Company revised its provisional determination of the fair value of tangible and intangible assets acquired and liabilities assumed in the acquisition. Intangible assets increased by \$1.4 million and contract liabilities decreased by \$0.1 million resulting in a net \$0.4 million decrease in deferred tax liability and \$0.8 million decrease in goodwill. The final allocation of the net assets acquired and aggregate consideration may be significantly different from the preliminary allocation presented below:

	\$
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	6,172
Trade payables and other current liabilities	(1,255)
Contract liabilities	(25)
Deferred tax liability	(1,722)
Lease liabilities	<u>(1,051)</u>
Identifiable net assets of business acquired	6,085
Goodwill	<u>5,990</u>
	<u>12,075</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 1 year for revenue backlog and 7 years for know-how.

Since the date of Acquisition, the Company has recognized \$2.9 million of revenue and \$0.6 million profit included in the reported net loss and comprehensive loss related to Airdep. The pro-forma revenue and loss for the Company for the period ended June 30, 2022 assuming the Acquisition had occurred on January 1, 2022 is \$35.3 million and \$4.0 million, respectively.

5 Contract balances

	Balance at December 31, 2021	Balance acquired from Airdep	Revenue Recognized	Progress Billings	Balance at June 30, 2022
	\$	\$	\$	\$	\$
Contract Assets	9,837	65	28,114	(27,510)	10,506
Contract Liabilities	(1,446)	(25)	3,333	(3,071)	(1,209)
	<u>8,391</u>	<u>40</u>	<u>31,447</u>	<u>(30,581)</u>	<u>9,297</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 June 30, 2022 primarily relate to thirteen projects.

6 Share capital

Common shares

At June 30, 2022, the Company had unlimited authorized common shares without par value and 150,676,162 common shares issued and outstanding (December 31, 2021 – 150,293,991).

During the six months ended June 30, 2022, 56,666 options were exercised, and \$8,168 was transferred from contributed surplus to share capital.

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Warrants outstanding

At June 30, 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 694,830 unexercised warrants were cancelled.

Incentive Plans

At June 30, 2022, stock options (“**Options**”) and restricted share units (“**RSUs**”) issued under the Company’s omnibus incentive plan, legacy Option plan and legacy RSU plan represented 6.5% of issued and outstanding common share capital.

Stock Options

A summary of the Company’s Options outstanding, for the six months ended June 30, 2022 is as follows:

	Number of options	Weighted average exercise price \$
Balance, January 1, 2022	5,069,137	0.54
Granted	2,760,779	1.11
Exercised	(56,666)	0.23
Forfeited	(127,500)	1.14
Balance, June 30, 2022	<u>7,645,750</u>	<u>0.74</u>

At June 30, 2022, 3,812,658 Options were exercisable (December 31, 2021 – 3,202,666).

The following table summarizes information about Options outstanding as at June 30, 2022:

Exercise price	Number outstanding	Weighted average remaining life in years
\$0.10 - \$0.50	3,920,001	2.91
\$0.51 - \$1.00	318,000	4.66
\$1.01 - \$1.50	2,430,279	4.60
\$1.51 - \$1.94	977,470	4.04

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There were three Option grants during the six month period ended June 30, 2022. The fair value of the Options issued was estimated using the Black-Scholes option pricing model with the following assumptions:

Grant date	February 2, 2022	March 15, 2022	June 24, 2022
Number of Options granted	2,475,904	31,875	253,000
Exercise price	\$1.15	\$1.02	0.68
Fair value per Option	\$0.70	\$0.60	\$0.46
Risk-free rate	1.10%	1.39%	3.30%
Expected volatility	89.26%	88.35%	86.77%
Expected life in years	3.5	3.5	3.5
Expected dividend yield	-	-	-

The Company recognized share-based compensation expense relating to Options of \$0.8 million during the six months ended June 30, 2022 (June 30, 2021 - \$0.2 million).

Restricted Share Unit Plan

A summary of the Company's RSUs outstanding for the six months ended June 30, 2022, is as follows:

	Number of RSUs
Balance, January 1, 2022	1,245,792
Granted	931,421
Forfeited	(3,840)
Balance, June 30, 2022	<u>2,173,373</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. An additional 29,500 RSUs were granted in June 2022 to certain employees, with a vesting over 3 years and a fair value of \$0.02 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 \$0.4 million during the six months ended June 30, 2022, related to RSUs (June 30, 2021 - \$0.3 million).

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(Unaudited)

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7 Related party transactions

Key management includes Directors, the Chief Executive Officer and the Chief Financial Officer, 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 three and six month periods ended June 30, 2022 and June 30, 2021 is outlined below:

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
	\$	\$	\$	\$
Non-executive Directors fees (excluding share-based compensation)	103	75	206	151
Salaries and other short-term benefits	242	356	837	715
Share-based compensation	162	150	297	264
	507	581	1,340	1,130

8 Segmented information

The Company has one operating segment consisting of two revenue streams: system sales (including the sale of biogas desulfurization and air deodorization units, see Note 4) and aftercare service.

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
	\$	\$	\$	\$
System sales	16,377	11,847	31,447	23,415
Aftercare sales	1,714	736	2,917	1,373
	18,091	12,583	34,364	24,788

Greenlane Renewables Inc.

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(Unaudited)

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

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

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
	\$	\$	\$	\$
System sales revenue				
United States	11,278	9,997	21,708	20,700
Europe	1,820	1,185	3,046	1,185
Canada	1,794	121	5,042	138
Other	1,485	544	1,651	1,392
	<u>16,377</u>	<u>11,847</u>	<u>31,447</u>	<u>23,415</u>
Aftercare services				
United States	139	62	271	90
Europe	1,459	403	2,430	756
Canada	63	3	133	48
Other	53	268	83	479
	<u>1,714</u>	<u>736</u>	<u>2,917</u>	<u>1,373</u>
Total revenue				
United States	11,417	10,059	21,979	20,790
Europe	3,279	1,588	5,476	1,941
Canada	1,857	124	5,175	186
Other	1,538	812	1,734	1,871
	<u>18,091</u>	<u>12,583</u>	<u>34,364</u>	<u>24,788</u>

The Company had two customers that each accounted for 10% or more of total revenue during the six months ended June 30, 2022. These customers accounted for 15% and 13% of total revenue (June 30, 2021 three customers accounting for 29%, 28% and 16%).

Greenlane Renewables Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Unaudited)

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9 Financial instruments

Financial assets and liabilities recorded at fair value in the consolidated statements of financial position or disclosed in the notes to the financial statements 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 June 30, 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 June 30, 2022 approximates its fair value at the date of initial recognition on February 1, 2022.

At June 30, 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.

The convertible promissory note receivable (the "**Note**") represents deployment of pre-construction development capital to a company focused on developing renewable natural gas projects in California. Under the terms of the Note, the Company has the option to convert the Note into an equity interest in the development company in addition to realizing a return of capital. The Note has been recorded at fair value through the profit and loss, in accordance with IFRS 9, Financial Instruments. The value attributable to the conversion feature is currently assessed as nil as the project is still in development.

10 Subsequent event

In July 2022, the Company increased its credit facility with Toronto Dominion Bank from \$12.5 million to \$20.0 million. The facility is secured by a guarantee from Export Development Canada to provide further guarantees and letters of credit to its customers for system supply contracts that require them.