

# **Greenlane Renewables Inc.**

(formerly Creation Capital Corp.)

Management's discussion and analysis of the financial condition and results of operations

For the three and six months ended June 30, 2019

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(in thousands of Canadian dollars)

This management's discussion and analysis ("MD&A") of Greenlane Renewables Inc., formerly Creation Capital Corp. ("Greenlane" or the "Company") has been prepared by management as of August 29, 2019 and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and related notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, applicable to the preparation of interim financial statements including International Accounting Standard 34 – Interim Financial Reporting (IAS 34). All dollar amounts herein are expressed in thousands of Canadian dollars (the presentation and functional currency of the Company's financial statements). Additional information can be found under the Company's profile at [www.sedar.com](http://www.sedar.com).

This MD&A contains forward-looking statements and should be read in conjunction with the risk factors described under "Risks and Uncertainties" and "Forward-Looking Statements" below.

## **Corporate profile**

Greenlane was incorporated under the Business Corporations Act (British Columbia) on February 15, 2018. The head office of the Company is located at 110-3605 Gilmore Way, Burnaby, B.C. V5G 4X5 and the registered and records office of the Company is located at 1500, 1055 West Georgia Street, Vancouver, BC, V6E 4N7.

The Company was a Capital Pool Company ("CPC") as defined in Policy 2.4 – Capital Pool Companies of the TSX Venture Exchange (the "TSXV"). The principal business of the Company was the identification and evaluation of a Qualifying Transaction ("QT") and, once identified and evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval, if required, and acceptance by regulatory authorities.

On June 3, 2019, the Company completed its QT, acquiring 100% of Pressure Technologies plc's wholly-owned subsidiary, PT Biogas Holdings Limited and its subsidiaries Greenlane Biogas North America Ltd., Greenlane Biogas UK Ltd., Greenlane Biogas Europe Ltd., and PT Biogas Technology Ltd., and the Company changed its name to Greenlane Renewables Inc.

Greenlane Renewables Inc. shares trade under the symbol "GRN" and warrants trade under the symbol "GRN.WT" on the TSXV.

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## Recent developments

### Qualifying transaction

On April 1, 2019, the Company entered into a share purchase agreement (the "Share Purchase Agreement") with Pressure Technologies plc ("Pressure Technologies"), a United Kingdom company listed on the AIM market of the London Stock Exchange, to acquire its wholly-owned subsidiary, PT Biogas Holdings Limited ("PTBH") and its subsidiaries Greenlane Biogas North America Ltd., Greenlane Biogas UK Ltd., Greenlane Biogas Europe Ltd., and PT Biogas Technology Ltd. (the "Acquisition") to constitute the Company's QT. PTBH designs and supplies the equipment used to upgrade biogas produced by the anaerobic digestion of organic waste to a high quality methane product suitable for either injection into the natural gas grid or direct use as vehicle fuel.

PTBH (and now Greenlane) is a world-leader in technology used to upgrade biogas generated from landfills, waste-water treatment plants and agricultural and food waste into a clean and marketable renewable natural gas product. Since the 1990's, over 100 Greenlane branded biogas upgrading systems have been installed in 18 countries.

Pursuant to the Share Purchase Agreement, the Company acquired 100% ownership of PTBH for a total purchase price of \$17.4 million. The consideration paid to Pressure Technologies pursuant to the Share Purchase Agreement comprised the following components:

	\$ 000's
Cash	3,415
Issuance of Special Warrants (1)	3,484
Issuance of promissory note (2)	10,497
<b>Total consideration</b>	<b>17,396</b>

(1) See "Financing related to the QT" for description of Special Warrants

(2) See "REVIEW OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION" for description of promissory note

The Acquisition, which was completed on June 3, 2019, has been accounted for as a business combination using the acquisition method.

The preliminary fair values of the assets acquired and liabilities assumed at the acquisition date were as follows:

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Cash and cash equivalents	1,201
Trade receivables	1,173
Other current assets	439
Inventory	237
Other non-current assets	133
Right of use asset	716
Intangible assets with a defined life	9,517
Trade payables and other current liabilities	(4,454)
Contract liabilities	(1,340)
Deferred tax liability	(1,044)
Lease liabilities	(716)
Net identifiable assets of business acquired	5,862
Goodwill	11,534
<b>Total consideration</b>	<b>17,396</b>

#### Financing related to the QT

On May 30, 2019, the Company closed a brokered and non-brokered private placement of 41,965,225 subscription receipts at a price of \$0.20 per subscription receipt, for gross proceeds of \$8.4 million. The subscription receipts were held in escrow until completion of the QT when they were converted, without payment of any additional consideration and without further action on the part of its holder, into one special warrant (the "Special Warrant"). On August 9, 2019, after the Company filed prospectuses with certain provincial securities commissions, each Special Warrant automatically converted, without the payment of any additional consideration and without further action on the part of the holder, into one common share and one-half of one share purchase warrant. Each whole share purchase warrant is exercisable for one common share of the Company at an exercise price of \$0.26 per common share until June 3, 2021.

The Company paid the agents cash commission and advisory fees and expenses of \$0.8 million and issued 2,537,350 compensation options, with each compensation option exercisable for one common

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share at a price of \$0.20 per share for a period of 24 months from the completion of the QT. Total expenses related to the financing were \$1.6 million.

The net proceeds of the financing were used to fund the cash consideration to Pressure Technologies, \$3.4 million, with the remaining \$3.4 million being available to the Company for working capital purposes in connection with the advancement of the business of Greenlane post-QT.

The Special Warrants do not meet the "fixed-for-fixed" criteria in IAS 32, Financial Instruments: Presentation and therefore do not qualify for equity presentation in the interim financial statements. A contract (a Special Warrant) to deliver a warrant is accounted for as a financial liability measured at fair value through profit and loss. The fact that the contract will result in the delivery of both a common share, as well as a warrant, on exercise does not impact the classification of the Special Warrant as a liability rather than as an equity instrument. On conversion of the Special Warrants on August 9, 2019, the common shares and warrants issued will be classified as equity instruments.

The Company recognized a loss of \$54,857 related to the change in fair value of the Special Warrants from the date of issuance to June 30, 2019. In addition, due to their classification as a financial liability, \$1.6 million of costs related to the issuance of the Special Warrants was expensed in the consolidated statement of operations and comprehensive loss. On August 9, 2019, the Special Warrants automatically converted into one common share and one-half of one share purchase warrant. Since the Company's common shares and share purchase warrants both meet the definition of equity, the carrying value of Special Warrants (being their fair value on August 9, 2019) was transferred from financial liabilities to equity. In its third quarter, the Company will recognize a gain of \$257,604 related to the change in fair value of the Special Warrants from June 30, 2019 to August 9, 2019.

### **Initial public offering**

On October 29, 2018, the Company completed an initial public offering ("IPO") and issued 5,000,000 common shares at a purchase price of \$0.10 for gross proceeds of \$0.5 million. The Company's shares commenced trading on Tier 2 of the TSXV on October 30, 2018 under the symbol CRN.P. Share issuance costs of \$148,992 (including \$20,289 in the three months ended March 31, 2019) were incurred in respect of the IPO. In addition to these fees and commissions, upon closing of the IPO, the Company issued options to purchase up to 500,000 shares of the Company to the broker at a price of \$0.10 per share exercisable until October 30, 2020. The fair value of these options was estimated at \$22,297 using the Black Scholes option pricing model and charged against share issuance costs, bringing total share issuance costs to \$171,289. In July 2019, the broker exercised options to purchase 6,500 common shares.

### **Overview of the Greenlane business**

Greenlane conducts its business through four 100% owned operating subsidiaries. PT Biogas Technology Limited owns the IP while the other three operating companies are sales and project execution entities responsible for particular geographic regions.

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Greenlane designs, develops, sells and services a range of biogas upgrading systems, using primarily its patented water wash technology as well as other methods depending on client requirements. Over 100 Greenlane branded biogas upgrading systems have been installed in 18 countries including the world's first and second largest biogas upgrading facilities in Canada and Germany, respectively. Greenlane's headquarters are located in Metro Vancouver, British Columbia, Canada.

Greenlane provides upgrading equipment that cleanses impurities and removes carbon dioxide from raw biogas to create high purity biomethane, also known as renewable natural gas ("RNG"), suitable for injection into the natural gas distribution network or use as vehicle fuel. Biogas, which is a mixture of approximately 60% methane, 40% carbon dioxide plus traces of other contaminant gases, is produced naturally when organic matter is broken down through anaerobic digestion.

Each biogas upgrader project is customer specific and typically has a standard core product with optional additional equipment as necessary for the particular application. Greenlane currently has five core product models of its patented water wash biogas upgrading equipment which range in capacity from 300 normal cubic metres per hour ("Nm<sup>3</sup>/hr") of inlet biogas to 5,000 Nm<sup>3</sup>/hr, with larger capacities achieved by installing multiple systems in parallel. Water wash technology is the most popular global biogas upgrading method. Greenlane also sells upgrader projects that use two other primary biogas upgrading technologies: pressure swing adsorption and membrane separation. Some projects are design, install and commission while others are design and commissioning only. The mix of models and scope of each project impacts the overall project revenue and margin.

Due to the long history of Greenlane branded products and Greenlane's prominent market position, geographic reach of its sales force and multi-technology offerings, the Company has visibility into proposed biogas upgrading projects around the world. Greenlane maintains a pipeline of prospective projects that it updates regularly based on quote activity to ensure that it is reflective of sales opportunities that can convert into orders within approximately a rolling 24 month time horizon. As of June 30th, 2019, the value of the sales pipeline was in excess of \$600 million, compared with a value of approximately \$450 million as of December 31st, 2018, or a 33% increase. Not all of these potential projects will proceed or proceed within the expected timeframe and not all of the projects that do proceed will be awarded to Greenlane.

PTBH and its predecessor companies historically focused on the UK and European markets where government feed-in tariffs and renewable energy policies are more established. More recently PTBH increased its sales activities in North America and developing markets such as South America. The Company supplies upgrading technology and maintenance services to a wide range of customers in the waste water, waste collection, agricultural, food waste, beverage, and pulp and paper industries.

Greenlane has several major competitors operating in the same geographical markets, many of which own, or have access to, similar biogas upgrading technology. As such Greenlane strives to differentiate itself by providing services to customers that combine the specialist expertise of its workforce and an appropriate mix of underlying technology. Greenlane is the only company to offer three primary biogas

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upgrading technologies (water wash, pressure swing adsorption ("PSA") and membrane separation) which allows it to offer its customers the optimal solution whatever the customer's needs.

The market for Greenlane's products is expected to grow as an increasing number of corporations and individuals action their sustainability targets and governments around the world enact and strengthen environmental policies designed to combat global warming by promoting clean, low carbon solutions and to deal with the effective disposal of organic waste as the world's population continues to expand.

### Results of Operations

The results of operations reflect 27 days of the Greenlane's operations from the acquisition date of PTBH on June 3, 2019 to June 30, 2019 and the operations of Creation Capital Corp. as a CPC from January 1, 2019 to June 3, 2019. Comparative amounts reflect the operations of the CPC, which was focused on the identification and evaluation of a business to acquire for the purpose of completing its QT.

	Three months ending June 30, 2019 \$ 000's	Six months ending June 30, 2019 \$ 000's
Revenue	911	911
Cost of sales	476	476
Gross profit	435	435
Gross margin %	48%	48%
General administrative expenses	758	816
<b>Operating loss</b>	<b>(323)</b>	<b>(381)</b>
Other net expenses	1,739	1,895
<b>Net loss</b>	<b>(2,062)</b>	<b>(2,276)</b>

The Company's operating loss for the three and six months ended June 30, 2019 was \$0.3 million and \$0.4 million, respectively. The operating loss post Acquisition related to the operations as Greenlane Renewables Inc. was \$0.1 million for both the three and six month period.

The Company recorded a net loss of \$2.1 million for the three months ended June 30, 2019 and \$2.4 million for the six months ended June 30, 2019. Included in these losses are non-operating expenses of \$1.7 million which relate to the classification of Special Warrants as financial liabilities. If the Special Warrants had met the definition of equity under IAS 32 when they were issued, \$1.6 million of these

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expenses would have been charged against equity as issue costs and the Special Warrants would not be required to be fair valued, thereby eliminating a fair value loss of \$0.1 million.

### Revenue

Revenue from upgrader projects is recognized using the percentage of completion method. Under the percentage of completion method, contract revenues and expenses are recognized by reference to the stage of completion of contract activity where the outcome of the construction contract can be measured reliably, otherwise revenue is recognized only to the extent of recoverable contract costs incurred. A typical upgrader project has five to eight milestones and a duration of nine to eighteen months.

Timing of biogas upgrader contract awards tends to be variable due to customer-related factors such as finalizing technical specifications and securing project funding, permits and RNG off-take and feedstock agreements. In its first 30 days post Acquisition, Greenlane secured two upgrader contracts with an aggregate value of \$6.1 million. This revenue will be recognized over the next nine to eighteen months. Many of Greenlane's upgrader project customers commit to a preventative maintenance contract for terms ranging from one to 20 years for a fixed annual fee. These contracts provide technical support and remote monitoring to maintain system availability typically in excess of 95%.

### Three and six months ended June 30, 2019

	\$ 000's
Upgrader projects	608
Aftercare services	303
<b>Total revenue</b>	<b>911</b>

Two thirds of Greenlane's revenue in the three and six-month period was derived from upgrader projects and one third from aftercare services. Historically aftercare services have constituted less than 10% of total revenue, however, the brief operating period and adjustments to service contracts skewed the revenue mix.

On June 3, 2019, Greenlane had an order back-log of \$7.8 million. The order back-log refers to revenue on sales contracts that will be recognized as completion of the project progresses. Contracts included in the order back-log are typically recognized over nine to eighteen months from when the contract is secured. Changes in the order back-log since Acquisition are reflected in the table below.

	\$ 000's
Order back-log acquired on June 3, 2019	7,865

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Revenue recognized June 3 to June 30, 2019	(608)
New contracts secured June 3 to June 30, 2019	3,441
Order back-log on June 30, 2019	<u>10,698</u>

On July 2, 2019, the Company announced it had secured an additional upgrader contract valued at \$2.7 million, which increased the sales back-log by 25% to \$13.4 million. This compares with the sales back-log as of December 31st, 2018 of \$10.7 million.

### **Cost of sales and gross profit**

The Company utilizes a capital-light fully outsourced supply chain model whereby it outsources manufacturing of its equipment to trusted fabricators in its key markets who meet Greenlane's quality standards.

#### **Three and six months ended June 30, 2019**

	\$ 000's
Cost of sales	476
Gross margin	435
Gross margin %	48%

Cost of sales for the three and six months ended June 30, 2019 was \$0.5 million. Gross profit of 48% is higher than is typical for the business due to profit adjustments on upgrader contracts which have been recognized in the period which have been amplified by there only being 27 days of revenue and to a higher proportion of aftercare service revenue in the current period, which has a higher margin than upgrader projects. Going forward, the gross profit margin is expected to be in the range of 23-27%.

### **Administrative expenses**

	Three months ending June 30, 2019 \$ 000's	Six months ending June 30, 2019 \$ 000's
General and administrative expenses	758	816



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General administrative expenses include personnel costs, travel, insurance, professional fees, office costs and other corporate expenses.

Personnel expenses accounted for \$0.4 million of total administrative expenses for the three and six months ended June 30, 2019 and reflect the personnel expenses related to the Greenlane Renewables business post June 3, 2019. At June 30, 2019 the Company had 38 employees: 26 employees based in Canada, nine based in the UK, two in Europe and one in the USA.

#### **Other net expenses**

	Three months ending June 30, 2019 \$ 000's	Six months ending June 30, 2019 \$ 000's
Issuance costs of Special Warrants	1,606	1,606
Fair value adjustments to Special Warrants	55	55
Accrued interest on the promissory note	54	54
Foreign exchange gain on the promissory note	(127)	(127)
QT expenses	151	307
<b>Total other net expenses</b>	<b>1,739</b>	<b>1,895</b>

#### ***Finance expense relating to special warrants***

Since the Special Warrants are classified as a financial liability measured at fair value through profit and loss for accounting purposes, the related issuance costs of \$1.6 million incurred by the Company in issuing the Special Warrants were charged to the consolidated statement of operations.

#### ***Loss on fair value of Special Warrants***

Due to their accounting classification, any change in their fair value of the Special Warrants is recorded in the profit and loss for the period. The Special Warrant liability was fair valued at \$11.9 million at June 3, 2019, based on the price of \$0.20 per Special Warrant paid by investors in the subscription receipts offering. The Special Warrant liability was re-valued to \$12.0 million at June 30, 2019, based on the increase in the Company's share price and the fair value of the underlying warrant calculated using the Black Scholes model, resulting in the difference of \$0.1 million being charged to the consolidated statement of operations.

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### ***Interest on the promissory note***

The promissory note bears interest at 7% per annum and during the three and six month months ended June 30, 2019, the Company accrued 27 days of interest. All interest, as well as principal is paid on the maturity date of June 3, 2023, unless the noteholder subordinates its security in certain circumstances, in which case interest is paid on a current basis.

### ***Foreign exchange gain on the promissory note***

The promissory note is denominated 50% in Canadian dollars and 50% in British pounds sterling. The British pounds sterling component of £3.05 million is translated into Canadian dollars at the period end exchange rate, with the change in value being recognized in profit and loss. Between June 3, 2019 and June 30, 2019, the Canadian dollar increased in value against the British pound sterling, resulting in a foreign exchange gain of \$0.1 million.

### ***QT Expenses***

Costs of negotiating and completing the QT are required to be expensed. The Company incurred \$0.2 million and \$0.3 million, respectively, of QT costs in the three and six months ended June 30, 2019. The majority of these costs relate to legal fees and United Kingdom stamp duty paid on the transfer of PTBH shares.

### **Adjusted EBITDA (loss)**

Management evaluates the Company's performance using a variety of measures, including "operating profit" and "Adjusted EBITDA". The non-IFRS measures should not be considered as an alternative to or more meaningful than revenue or net loss. These measures do not have a standardized meaning prescribed by IFRS and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies and should not be construed as an alternative to other financial measures determined in accordance with IFRS. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company. Management uses these and other non-IFRS financial measures to exclude the impact of certain expenses and income that must be recognized under IFRS when analyzing consolidated underlying operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

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#### Reconciliation of net loss to Adjusted EBITDA (Loss)

	Three months ending June 30, 2019 \$ 000's	Six months ending June 30, 2019 \$ 000's
Loss for the period	(2,062)	(2,276)
Add back:		
Share based compensation	56	56
Depreciation and amortization	79	79
Special Warrant issue costs and promissory note interest	1,660	1,660
Loss on change in fair value of Special Warrants	55	55
Foreign exchange gain on promissory note	(127)	(127)
QT Costs	151	307
<b>Adjusted EBITDA (Loss)</b>	<b>(188)</b>	<b>(246)</b>

#### Review of Consolidated Statement of Financial Position

At June 30, 2019, the Company had cash and cash equivalents of \$4.0 million and net working capital of \$0.8 million. Fluctuations in cash and cash equivalents, accounts receivable and accounts payable are primarily driven by the phasing of upgrader projects. The Company aims to ensure that projects are generally in a cash flow positive position (i.e. billings to customers are collected in advance of payments to suppliers). Other significant components of net working capital are contract liabilities, which reflect billings to customers in excess of revenues recognized on upgrader projects and the current portion of warranty liability, which represents an estimate of future warranty claims for upgrader projects under warranty.

Provision for warranty liabilities, which amounted to \$1.1 million at June 30, 2019, was assumed as part of the Acquisition and additions accrued during the contract recognition process at an amount equal to 3% of the contract for the 27 days to June 30, 2019. Typically, the Company provides a 12 to 24 month warranty after completion of a project. Any costs for warranty claims are recorded against the liability and the provision is reduced accordingly. At the end of the contracted warranty period any unclaimed warranty is released. The Company monitors the actual amount spent on warranties to ensure that the accrual rate of 3% is appropriate for future projects.

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The Company's long lived assets include: right-of-use assets for leased premises and property, plant and equipment; intangible assets representing patents, trademarks, know-how pertaining to its upgrader technology and goodwill. All of these long lived assets were recognized upon closing the Acquisition. The fair value of the intangible assets upon acquisition was \$9.5 million which will be amortized over a period of 7 years and 10 months, being the current life of the patents. Goodwill, amounting to \$11.5 million, represents the excess purchase price above the fair value of the net assets acquired. Goodwill is not amortized but rather is assessed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Long term liabilities consist primarily of the promissory note issued to Pressure Technologies as part of the consideration for the QT and the Special Warrant liability.

The promissory note, with a book value of \$10.4 million at June 30, 2019, is denominated 50% in British pounds sterling and 50% in Canadian dollars (fixed at an amount of \$5.3 million), bears interest at 7% per annum and matures on June 3, 2023. There are no principal or interest payments required prior to maturity unless Pressure Technologies subordinates its security for certain financings, in which case, the Company will be required to make interest payments on a current basis. The promissory note is secured by a pledge of all of the issued and outstanding ordinary shares and all of the assets of PT Biogas Holdings Limited and its subsidiaries.

As discussed above, the Special Warrants liability, recorded at \$11.9 million at June 30, 2019, is measured at fair value through profit and loss and is re-valued at each period end based on the share price at period end and the fair value of the one half of one warrant. Each Special Warrant was converted into one common share and one-half of one warrant on August 9, 2019 and the fair value of the liability at that time was transferred to shareholders' equity. After August 9, 2019, there will be no further fair value adjustments to the Special Warrants.

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### **Review of Cash Flows and Capital Resources**

#### **For the six months ended June 30, 2019**

The summarized cash flows in the periods are shown below:

	Six months ending June 30, 2019 \$ 000's	Period from February 15 to June 30, 2018 \$ 000's
Net cash flow used in operating activities	(1,184)	(26)
Net cash flow used in investing activities	(2,215)	-
Net cash flow from financing activities	6,896	200
Increase in cash	3,497	174
Cash and cash equivalents at the start of the period	524	-
Cash and cash equivalents at the end of the period	4,021	174

The Company's operating activities used \$1.2 million of cash in the six months ended June 30, 2019, primarily being the adjusted EBITDA loss of \$0.2 million, QT expenses of \$0.3 million and \$0.7 million of non-cash working capital outflows

From quarter to quarter, cash flow from operations can fluctuate significantly because it is dependent on the timing of upgrader contract awards which are sporadic. Contract awards are dependent on customer-related factors such as specifying system design, securing project funding and permitting and government-related factors such as the availability of environmental subsidies. In addition, once contracts are secured, management attempts to ensure that billings to customers are collected in advance of payments to suppliers for project costs, which means that if one quarter a project generates cash flow from operations, the next quarter it may use cash as suppliers are paid.

Cash flow used in investing activities in the six months ended June 30, 2019 comprises the cash of \$3.4 million paid to Pressure Technologies as part of the consideration for the Acquisition, net of cash of \$1.2 million included in the acquired business.

Cash flow from financing activities in the six months ended June 30, 2019 relates primarily to the \$6.9 million net proceeds received from the subscription receipts financing. In the period ended June 30,

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2018, the Company Received \$0.2 million from a private placement of common shares on its incorporation.

The Company has an irrevocable letter of guarantee facility of \$3.2 million with TD Bank which is guaranteed by Export Development Canada. The facility is used to provide advance payment and performance guarantees to certain customers. At June 30, 2019 the facility was fully utilized.

### **Going concern**

These condensed consolidated interim financial statements have been prepared by management on a going concern basis, 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 months ended June 30, 2019, the Company incurred an operating loss of \$0.4 million and had operating cash outflow of \$1.2 million. As of June 30, 2019, the Company has working capital (including cash) of \$0.8 million. The continuing operations of the Company are dependent upon its ability to continue to secure upgrader contracts to realize profitable operations in the future.

The award of an upgrader contract to the successful bidder generally takes many months or years from the commencement of initial discussions with a prospective customer. Factors that influence the duration to secure a customer commitment include specifying system design, arranging project funding and permitting and the availability of environmental subsidies and these factors often change over time. The Company's revenue, therefore, can be quite uneven. In the eight months from the end of its last fiscal year on September 29, 2018 to May 31, 2019, PTBH did not secure any new upgrader contracts, however, it did advance negotiations such that since the Acquisition was completed on June 3, 2019, the Company has secured three new upgrader contracts for a value of \$6.1 million.

Upon Acquisition the Company's order back-log was \$7.8m and increased to \$10.7m June 30, 2019 and is at \$13.4 million July 2, 2019. The pipeline of identified potential upgrader projects at the date of this MD&A is in excess of \$600 million. In the event that upgrader contract awards are delayed and cash flow from operations do not adequately support the fixed costs of the Company, the Company will then be required to re-evaluate its planned expenditures, reallocate its total resources 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.

The 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.

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### Contractual obligations

The Company has contractual obligations as at June 30, 2019 of \$12.6 million

	Due within one year \$ 000's	Due between one and five years \$ 000's	Due after five years \$ 000's	Total \$ 000's
Lease liability	146	515	42	703
PT trading balances	690			690
Promissory note		10,423		10,423
Contract liabilities	813			813
<b>Total</b>	<b>1,649</b>	<b>10,938</b>	<b>42</b>	<b>12,629</b>

### Outlook

The biogas upgrading market is estimated to grow from US\$0.33 billion in 2015 to US\$1.97 billion by 2022, a CAGR of 28.7%. This expected growth is driven by increasing demand for RNG caused primarily by a universal desire to reduce greenhouse gas emissions, supportive government regulations and incentives, strong interest in RNG as a transportation fuel and better efficiency than other renewable energy resources. As a global leader in the biogas upgrading business Greenlane expects to benefit from this trend.

Currently, Greenlane has visibility to more than 100 new projects, proposed or proceeding, worth a total estimated value of over \$600 million in biogas upgrading equipment sales for competitive bid. The Greenlane Biogas Group had a sales backlog of \$10.7 million at June 30, 2019.

The Company plans to scale up operations as the Company wins new upgrader projects as well as increasing working capital reserve to permit participation in more and larger projects, including bonding provisions. With an appropriate financing structure in place, Greenlane can also search out consolidation opportunities in the highly-fragmented biogas upgrading industry. Furthermore, management plans to expand Greenlane's business beyond equipment sales into project development to increase exposure to revenue from lucrative RNG off-take agreements.

# Greenlane Renewables Inc.

(formerly Creation Capital Corp.)

Management's discussion and analysis of the financial condition and results of operations

For the three and six months ended June 30, 2019

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(in thousands of Canadian dollars)

## 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 six months ended June 30, 2019 and 2018 is outlined below:

	6m 2019 000's	Period from February 15 to June 30, 2018 000's
Salary and management fees	33	0
Stock based compensation	56	0
<b>Total</b>	<b>89</b>	<b>0</b>

The Company also owes Pressure Technologies, the former parent company of PTBH an amount of \$0.7 million for intercompany invoices issued prior to the QT and the promissory note of \$10.4 million.

## Critical Accounting Estimates

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues earned and expenses incurred during the period. These estimates are based on historical experience and other assumptions that are believed to be reasonable under the circumstances.

The Company's significant accounting policies are those that affect its financial statements, and are summarized in Note 2 of the condensed interim consolidated financial statements for the three and six months ended June 30, 2019. Critical accounting policies and estimates in the period included revenue recognition for biogas upgrader projects, the assessment of impairment of long-lived assets and goodwill, the measurement of financial instruments and the recognition of provisions and contingent liabilities.

Actual results could differ from these estimates.



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## **Recent Accounting Pronouncements**

IFRS 16, *Leases*, was issued in January 2016 by the IASB and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company has adopted IFRS 16 retrospectively from 1 January 2019.

## **Outstanding Share Information**

As of August 29, 2019, the Company has 68,389,725 issued and outstanding common shares, 29,691,613 warrants convertible into 29,691,613 common shares, 3,825,000 options convertible into 3,825,000 common shares and 3,030,850 agent warrants and options convertible into 3,030,850 common shares.

## **Risks and Uncertainties**

Greenlane's business is exposed to risks and uncertainties that affect its outlook, results of operations and financial position. The risks and uncertainties described below are not the only ones that Greenlane faces. Additional risks and uncertainties, including those that management is not currently aware of or that management currently deems immaterial, may also adversely affect Greenlane's business. Please refer to the sections of the base shelf prospectus dated July 31, 2019 and the prospectus supplements dated August 1, 2019 entitled "Risk Factors" for a comprehensive discussion of the risk factors that the Company faces. In addition, please also refer to the risk factors identified in the Filing Statement dated May 13, 2019.

Macroeconomic and geopolitical risks and uncertainties that impact Greenlane's business include: the uncertain and unpredictable condition of the global economy; significant markets for RNG may never develop or may develop more slowly than expected; changes in government policies and regulations could hurt the market for Greenlane's products; competition from other developers and manufacturers of RNG products could reduce Greenlane's market share or reduce its gross margins; technological advances or the adoption of new codes and standards could impair Greenlane's ability to deliver its products and fluctuations in foreign exchange rates could impact Greenlane's revenues and costs.

The Company also faces many operating risks and uncertainties, including: Greenlane may not be able to implement its business strategy; Greenlane currently depends on a relatively limited number of customers for a majority of its revenues; Greenlane's insurance may not be sufficient to cover losses; Greenlane could be liable for environmental damages resulting from its activities; Greenlane's strategy for the sale of RNG products depends on developing partnerships with PSA and membrane biogas upgrading manufacturers and other market channel partners who incorporate Greenlane's products into their projects; Greenlane is reliant on third party suppliers for key materials and components for its products; Greenlane may not be able to manage the expected expansion of its operations; Greenlane's plan to expand into project development may not materialize or may not result in the benefits expected; Greenlane sells its products in many different countries which have different rules and regulations;

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Greenlane will need to recruit, train and retain key management and other qualified personnel to successfully operate and expand its business; Greenlane might acquire technologies or companies in the future and these acquisitions could disrupt its business; any failures of Greenlane's products could negatively impact its customer relationships and increase its costs; Greenlane's intellectual property could be compromised which could adversely affect its business; potential customers could reduce their spending on biogas upgrading projects; Greenlane may not be able to maintain the necessary liquidity level or secure the financing necessary to fulfill its business plan or continue as a going concern; and financing may not be available on favourable terms.

### **Forward-Looking Statements**

This MD&A contains forward-looking statements, including statements regarding the future success of the Greenlane's business, technology and market opportunities. Forward-looking statements typically contain words such as "believes", "expects", "anticipates", "plans", "continues", "could", "indicates", "will", "intends", "may", "projects", "schedules", "would" or similar expressions suggesting future outcomes or events, although not all forward-looking statements contain these identifying words. Examples of such statements include, but are not limited to, statements concerning: actions expected to be undertaken to achieve the Company's strategic goals; the key market drivers impacting the Company's success; intentions with respect to future biogas upgrading development work; expectations regarding business activities and orders that may be received in future years; trends in, and the development of, the Company's target markets; the Company's market opportunities; the benefits of the Company's products; expectations regarding competitors; the expected impact of the described risks and uncertainties; the management of the Company's liquidity risks in light of the prevailing economic conditions; and the ability of the Company to obtain financing in order to grow its business.

These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause the Company's actual results, level of activity or performance to be materially different from any future results, levels of activity or performance expressed in or implied by these forward-looking statements. These risks include, generally, risks related to revenue growth, operating results, industry and products, technology, competition, the economy and other factors. Although the forward-looking statements contained herein are based upon what management believes to be current and reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. Examples of such assumptions include, but are not limited to: trends in certain market segments and the economic climate generally; the pace and outcome of technological development and the expected actions of competitors and customers. The forward-looking statements contained herein are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Except to the extent required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements contained herein.