GREENLANE RENEWABLES INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2022 and 2021

(Audited)

(Expressed in thousands of Canadian dollars)

Independent auditor's report

To the Shareholders of Greenlane Renewables Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Greenlane Renewables Inc. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition – percentage of completion for system sales contracts *Refer to note 2(e) – Basis of presentation – Use of estimates and judgments, note 3 – Significant accounting policies, and note 22 – Revenue to the consolidated financial statements.* For the year ended December 31, 2022, the Company recognized revenue from system sales contracts of $65.6 million. For the Company's system sales contracts, control of goods or services transfers over time to the customer and revenue is recognized based on the extent of progress in each period towards completion of the performance obligation. As disclosed by management, the extent of progress towards completion is based on internal estimates of the proportion of work performed, which is based on the relative weight of each phase and the timeline to complete each phase of a system sales contract. Due to the nature of the work required to be performed on each system sales contract in order to satisfy the performance obligation, management's estimation of the percentage of completion is complex and requires significant judgment. Management has disclosed that there are significant assumptions and factors that can affect the accuracy of the estimates of the percentage of completion, including, but not limited to, the relative weight of each phase of a system sales contract and the estimated timelines to complete the relevant contract phase.	Our approach to addressing the matter included the following procedures, among others: • Tested the effectiveness of controls relating to the revenue recognition process, including the control over the estimates of the percentage of completion of system sales contracts. • Recalculated the revenue recognized for a sample of system sales contracts based on the overall sales price and percentage completed at period end. • Tested how management determined the percentage of completion for a sample of ongoing system sales contracts, which included the following: – Tested the underlying data, which included agreeing key contractual terms back to signed contracts, including amendments thereto. – Evaluated the reasonableness of significant assumptions used by management, including the assessment of management's judgment about the relative weight of each phase of the contract and the estimated timelines to complete the relevant contract phase by: ○ assessing the relative weight of each phase by considering the historical actual costs incurred on each phase of similar contracts; and

Key audit matter	How our audit addressed the key audit matter
We considered this a key audit matter due to significant auditor judgment and effort in performing procedures to evaluate the management estimates of the percentage of completion of system sales contracts, including the assessment of management's judgment about the relative weight of each phase of a system sales contract and the estimated timelines to complete the relevant contract phase.	○ assessing the completion of contract phases by inspecting supporting documents, including confirmation of delivery of technical documentation or equipment. • Performed look-back procedures for a sample of system sales contracts completed during the year by comparing the originally estimated and actual costs.
Valuation of process technologies intangible asset acquired in the Airdep S.R.L. (Airdep) business combination *Refer to note 2(e) – Basis of presentation – Use of estimates and judgments, note 3 – Significant accounting policies, note 5 – Business combination, and note 12 – Intangible assets to the consolidated financial statements.* The Company acquired 100% of the outstanding shares of Airdep for a total consideration of $12.1 million on February 1, 2022. The acquisition has been accounted for as a business combination using the acquisition method, which requires that assets acquired and liabilities assumed be measured at fair value on the acquisition date. The fair value of the identifiable assets acquired included $3.9 million in intangible assets, of which $3.8 million relate to process technologies. Management applied significant judgment in estimating the fair value of the process technologies intangible asset. To estimate the fair value management used the multi-period excess earnings method using a discounted cash flow model. Management developed significant assumptions related to revenue and gross margin forecasts, customer attrition rate and discount rate.	Our approach to addressing the matter included the following procedures, among others: • Tested how management estimated the fair value of the process technologies intangible asset, which included the following: – Read the purchase agreement. – Evaluated the appropriateness of management's discounted cash flow model and tested the mathematical accuracy thereof. – Tested the underlying data used by management in the discounted cash flow model. – Evaluated the reasonableness of significant assumptions used by management related to revenue and gross margin forecasts as well as customer attrition rate by considering the current and past performance of Airdep, as well as economic and industry data, as applicable. • Professionals with specialized skill and knowledge in the field of valuation assisted in the evaluation of the appropriateness of the multi-period excess earnings method, as well as the reasonableness of the discount rate.

Key audit matter	How our audit addressed the key audit matter
We considered this a key audit matter due to the significant judgment by management in estimating the fair value of the process technologies intangible asset, including the development of significant assumptions. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions used by management. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.	

Other information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor’s report is Paulina Prokop.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 9, 2023

Greenlane Renewables Inc.
Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

As at December 31,		2022		2021
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**21,381**	$	31,471
Restricted cash *(note 6)*		**1,694**		1,655
Accounts receivable *(note 7)*		**13,027**		16,368
Inventory *(note 8)*		**1,129**		785
Prepaid expenses and other assets		**1,266**		970
Contract assets *(note 9)*		**14,527**		9,837
		53,024		61,086
Non-current assets:				
Notes receivable *(note 10)*		**1,752**		-
Property and equipment *(note 11)*		**1,732**		688
Intangible assets *(note 12)*		**8,349**		6,496
Goodwill *(note 13)*		**18,082**		10,405
Deferred tax assets *(note 15)*		**448**		111
TOTAL ASSETS	**$**	**83,387**	$	78,786
LIABILITIES AND EQUITY				
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities *(note 16)*	**$**	**23,021**	$	20,148
Contract liabilities *(note 9)*		**1,069**		1,446
Deferred consideration – share issuance *(note 5)*		**361**		-
Current portion of lease liability *(note 17)*		**268**		242
Current portion of warranty liability *(note 18)*		**1,062**		102
		25,781		21,938
Non-current liabilities				
Deferred consideration – contingent earn-out *(note 5)*		**1,582**		-
Lease liability *(note 17)*		**967**		217
Warranty liability *(note 18)*		**838**		150
Deferred tax liability *(note 15)*		**736**		-
Total liabilities		**29,904**		22,305
Shareholders' equity				
Share capital *(note 19)*		**65,253**		64,074
Contributed surplus		**4,280**		2,395
Accumulated other comprehensive (loss) income		**(378)**		179
Deficit		**(15,672)**		(10,167)
Total shareholders' equity		**53,483**		56,481
TOTAL LIABILITIES AND EQUITY	**$**	**83,387**	$	78,786

See accompanying notes to the consolidated financial statements

Approved by the Board of Directors and authorized for issue on March 9, 2023

"Wade Nesmith" Director *"David Blaiklock"* Director

Greenlane Renewables Inc.
Consolidated Statements of Loss and Comprehensive Loss
(in thousands of Canadian dollars except number of shares and per share amounts)

For the years ended December 31,	2022	2021
Revenue *(note 22)*	**$ 71,241**	$ 55,351
Cost of goods sold (before amortization) *(note 23)*	**54,429**	41,215
	16,812	14,136
Amortization of:		
Intangible assets	**1,739**	1,242
Property and equipment	**146**	-
Gross profit	**14,927**	12,894
Operating expenses:		
Amortization of office equipment	**447**	329
General and administration *(note 24)*	**15,775**	10,791
Research and development	**1,061**	758
Sales and marketing	**1,944**	1,607
Share based compensation	**1,977**	1,098
Strategic initiatives	**1,592**	935
	22,796	15,518
Operating loss	**(7,869)**	(2,624)
Other items:		
Finance expense	**109**	87
Finance income	**(359)**	(162)
Other loss (income)	**37**	(207)
Foreign exchange (gain) loss	**(2,167)**	184
Loss before income taxes	**(5,489)**	(2,526)
Income taxes:		
Current	**739**	34
Deferred recovery	**(723)**	(110)
Total income taxes	**16**	(76)
Net loss	**(5,505)**	(2,450)
Other comprehensive loss (income)		
Item that may be subsequently reclassified:		
Exchange difference on translating foreign operations	**557**	(68)
NET LOSS AND COMPREHENSIVE LOSS	**$ (6,062)**	$ (2,382)
Basic and diluted loss per share	**$ (0.04)**	$ (0.02)
Weighted average number of shares	**150,917,997**	143,851,178
Diluted weighted average number of shares	**150,917,997**	143,851,178

See accompanying notes to the consolidated financial statements

Greenlane Renewables Inc.
Consolidated Statements of Changes in Equity
(in thousands of Canadian dollars, except for number of common shares)

	Common shares	Common shares	Contributed surplus	Cumulative translation adjustment	Deficit	Total
Balance, January 1, 2021	**114,681,456**	**$ 31,927**	**$ 1,547**	**$ 111**	**$ (7,717)**	**$ 25,868**
Share based compensation	-	-	1,098	-	-	1,098
Warrants exercised	22,214,553	7,824	(839)	-	-	6,985
Options and restricted share units exercised	1,207,982	707	(240)	-	-	467
Shares issued *(note 19)*	12,190,000	26,452	-	-	-	26,452
Share issuance costs	-	(2,836)	-	-	-	(2,836)
Agent warrants issued	-	-	829	-	-	829
Net loss and comprehensive loss	-	-	-	68	(2,450)	(2,382)
Balance, December 31, 2021	**150,293,991**	**$ 64,074**	**$ 2,395**	**$ 179**	**$ (10,167)**	**$ 56,481**
Balance, January 1, 2022	**150,293,991**	**$ 64,074**	**$ 2,395**	**$ 179**	**$ (10,167)**	**$ 56,481**
Share based compensation	-	-	1,977	-	-	1,977
Options and restricted share units exercised	359,398	170	(92)	-	-	78
Acquisition share issuance *(note 5)*	1,387,392	1,009	-	-	-	1,009
Net loss and comprehensive loss	-	-	-	(557)	(5,505)	(6,062)
Balance, December 31, 2022	**152,040,781**	**$ 65,253**	**$ 4,280**	**$ (378)**	**$ (15,672)**	**$ 53,483**

See accompanying notes to the consolidated financial statements

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

For the years ended December 31,		2022		2021
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	**$**	**(5,505)**	$	(2,450)
Adjustments for:				
Amortization of:				
Intangible assets		**1,739**		1,242
Property and equipment		**146**		-
Office equipment		**447**		329
Share based compensation		**1,977**		1,098
Finance expense		**109**		87
Finance income		**(359)**		(162)
Other loss (income)		**37**		(207)
Foreign exchange (gain) loss		**(2,167)**		184
Deferred income tax recovery		**(723)**		(110)
Cash (used in) provided by operating activities before non-cash working capital		**(4,299)**		11
Interest paid on lease liability		**(78)**		(39)
Interest received		**194**		153
Net change in non-cash working capital *(note 26)*		**4,223**		(10,601)
Net cash provided by (used in) operating activities		**40**		(10,476)
CASH FLOWS FROM INVESTING ACTIVITIES				
Business combination, net of cash acquired *(note 5)*		**(7,813)**		-
Notes receivable		**(1,584)**		-
Purchase of intangible assets		**-**		(30)
Purchase of property and equipment		**(515)**		(187)
Net cash used in investing activities		**(9,912)**		(217)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of shares and warrants		**-**		26,452
Share issuance costs		**-**		(2,007)
Proceeds from options, restricted share units and warrants		**78**		7,600
Payment on promissory note		**-**		(6,041)
Lease principal payments		**(309)**		(282)
Net cash (used in) provided by financing activities		**(231)**		25,722
Net change in cash and cash equivalents		**(10,103)**		15,029
Cash and cash equivalents, beginning of period		**31,471**		16,442
Effect of translation on foreign cash		**13**		-
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$**	**21,381**	**$**	31,471

See accompanying notes to the consolidated financial statements

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

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). The Company's significant accounting policies are described in note 3.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company (the "**Board**") on March 9, 2023.

(b) Functional and presentation currency

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

The Company and its subsidiaries each determine their functional currency based on the currency of the primary economic environment in which they operate. Transactions denominated in a currency other than the functional currency of an entity are translated at the exchange rate in effect on the transaction date. The resulting exchange gains and losses are included in each entity's net earnings in the period in which they arise.

The Company has foreign operations which are translated to the Company's presentation currency for inclusion in the consolidated financial statements. Foreign-denominated monetary and non-monetary assets and liabilities of foreign operations are translated at exchange rates in effect at the end of the reporting period and revenue and expenses are translated at exchange rates in effect on the transaction date. The resulting translation gains and losses are included in other comprehensive income ("**OCI**") with cumulative gains or losses reported in Accumulated Other Comprehensive Income (Loss) ("**AOCI**"). Amounts previously recognized in AOCI are recognized in net earnings when there is a reduction in a foreign net investment as a result of a disposal, partial disposal, or loss of control.

The functional currency for each subsidiary is included in the table in note 2(c) – Basis of consolidation.

(in thousands of Canadian dollars, except as noted and per share amounts)

2. BASIS OF PRESENTATION *(continued)*

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries.

Subsidiaries are entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. These entities are fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date control ceases. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

The consolidated financial statements of Greenlane include the following significant subsidiaries ("**Subsidiary**") listed below. The ultimate holding entity of the entities listed is Greenlane.

			Ownership Interest	
Entity	Jurisdiction	Functional Currency	2022	2021
Airdep S.r.l.	Italy	Euro	100%	0%
Greenlane Biogas Global Limited	Canada	Canadian dollar	100%	100%
Greenlane Biogas Italy S.r.l.	Italy	Euro	100%	100%
Greenlane Biogas North America Limited	Canada	Canadian dollar	100%	100%
Greenlane Biogas U.K. Limited	United Kingdom	Great Britain pound	100%	100%
Greenlane Biogas US Corp.	United States	United States dollar	100%	100%
Greenlane Europe Limited	United Kingdom	Great Britain pound	100%	100%
Greenlane Europe B.V.	Netherlands	Euro	100%	100%
Greenlane Renewables Capital Inc.	United States	United States dollar	100%	0%
PT Biogas Holdings Limited	United Kingdom	Great Britain pound	100%	100%
PT Biogas Technology Limited	United Kingdom	Great Britain pound	100%	100%

(d) Basis of measurement and impact of Pandemic

The consolidated financial statements have been prepared on a going concern basis, using the historical cost convention, except as otherwise noted.

In response to the global COVID-19 pandemic, many countries including Canada, imposed unprecedented restrictions to mitigate the spread of COVID-19 and its variants, including travel restrictions, closures of non-essential business and occupancy limits. These restrictions resulted in a substantial reduction in economic activity in several industries throughout 2021 and into 2022. The Company maintains an asset light model, outsourcing its equipment manufacturing. The Company's supply chain and shipping abilities were affected by the global restrictions increasing the Company's risk that it would not be able to complete on certain of its current biogas upgrading contracts within the anticipated timeframes potentially negatively impacting profits. The Company has been actively working with its customers and suppliers and by the end of 2022 has addressed the impacts.

2. BASIS OF PRESENTATION *(continued)*

(e) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the carrying amount of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. Actual results may differ from these estimates and the differences could be material.

Estimates, judgements and assumptions are reviewed on a continuous basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods. Key areas of estimation where management has made difficult, complex or subjective assumptions, often as a result of matters inherently uncertain are as follows:

i. Revenue

Revenue is recognized when performance obligations are identifiable and recorded when goods or services are delivered to customers. Transaction prices are derived from specific selling prices either at the time of delivery or when the contract is signed with the customer for future delivery of products or services. The Company determines revenue to be transferred at a point in time when the physical asset or service is immediately transferred or consumed by the end customer. Revenue is considered to be transferred over a period of time when a series of activities are performed over a longer period of time to deliver a service or good to the customer.

Greenlane applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction.

i. System sales contracts

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

Prior to this recognition, stage receipts from customers are recorded in the statement of financial position as a contract liability.

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

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

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

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

2. BASIS OF PRESENTATION *(continued)*

(e) Use of estimates and judgements

i. Revenue *(continued)*

ii. Aftercare services and spare part sales

The Company generates additional revenue from after-sales service and maintenance, and sale of spare parts. Aftercare services revenue is recognized on a straight-line basis over the term of the maintenance or service agreement. Spare parts sales revenue is recognized when the risks and rewards of ownership have transferred to the customers.

ii. Fair value of assets and liabilities acquired in a business combination

Acquired assets and assumed liabilities are recognized at fair value on the date the Company effectively obtains control. The measurement of each business combination is based on the information available on the acquisition date. The estimate of fair value of the acquired intangible assets (including goodwill), property, plant and equipment, other assets, liabilities assumed, and contingent consideration are based on assumptions. The measurement is largely based on revenue, gross margin and attrition rates. Management applies significant judgment in estimating the fair value of intangible assets using the multi-period excess earnings method through a discounted cash flow model. Management develops significant assumptions related to revenue and gross margin forecasts, customer attrition rate and discount rate.

iii. Impairment of non-current assets

Impairment exists when the carrying value of an asset or cash generating unit ("**CGU**") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. Cash flows are derived from the projection for the next five years and do not include restructuring activities that the Company has not yet committed to or significant future investments that will enhance as asset's performance. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

iv. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured at a point in time and may change in subsequent periods.

Where possible, fair value is determined by reference to quoted prices in the most advantageous active market available to the Company. In the absence of an active market, fair value is determined on the basis of valuation models, including discounted cash flow model. These models require assumptions of the amount and timing of future cash flows, discount rates and market conditions at the measurement date. External observable market data are used for these assumptions when available. When such data is not available, the Company uses the best possible estimate.

2. BASIS OF PRESENTATION *(continued)*

(e) Use of estimates and judgements *(continued)*

v. Allowance for doubtful accounts

The Company applies an expected credit loss approach in determining allowances for doubtful accounts. The approach that the Company has taken for trade receivables and notes receivable is a provision matrix approach whereby lifetime credit losses are recognized based on aging characterization and credit worthiness of customers. Specific provisions may be used where there is information that a specific customer's expected credit losses have increased.

vi. Useful lives of property and equipment and intangible assets

The Company estimates the useful lives of property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of relevant assets. In addition, the estimation of the useful lives is based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in estimated useful lives would increase the recorded expenses and decrease the non-current assets.

vii. Accrued liabilities

Measurement of accrued liabilities involves the use of estimates to be made by management for determining the amount to be accrued and/or disclosed in the consolidated financial statements. These estimates are based on financial information available to management at the time of preparation of the consolidated financial statements.

viii. Provision for income tax

Provision for income tax is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of each reporting period. However, it is possible that at some future date an additional liability could result from audits by tax authorities of the jurisdictions in which the Company operates. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such difference will affect the tax provisions in the period in which such determination is made. Deferred tax assets are reviewed at the end of each reporting period and recognized to the extent that it is probable that sufficient tax profits will be available to allow all or part of the asset to be recovered. Management applies judgement in determining the likelihood of future taxable profits.

ix. Determination of CGUs

For purposes of assessing impairment of non-financial assets, the Company must determine CGUs. Assets and liabilities are grouped into CGUs at the lowest level of separately identifiable cash flows. Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. The Company has determined that its CGUs are the system sales which lead into the generation of aftercare sales and the operations acquired in the February 1, 2022 acquisition of Airdep S.r.l. ("**Airdep**").

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are applied consistently to the periods presented.

(a) Subsidiaries and business combinations

Greenlane uses the acquisition method to account for the acquisition of subsidiaries and assets that meet the definition of a business. The acquisition method is applied as follows:

- The cost of an acquisition is measured as the fair value of identifiable assets acquired, equity instruments issued, and liabilities incurred or assumed at the acquisition date.
- Identifiable assets acquired and liabilities assumed are measured at their fair value as the acquisition date.
- The excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill and is allocated to each of the CGUs or group of CGUs expected to benefit from the acquisition's synergies.
- If the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is reassessed and any remaining difference is recognized directly in profit and loss.
- Transaction costs incurred in connection with a business combination, other than those associated with the issue of debt or equity, are expensed as incurred.

If the initial accounting for assets acquired or liabilities assumed in a business combination can only be determined provisionally, subsequent adjustments to the allocation may be recognized if they occur within 12 months of the acquisition. After 12 months, adjustments are recognized through profit and loss. The adjustments made as a result of finalizing the provisional accounting are retrospectively recognized from the acquisition date. As a result, adjustments to amortization are retrospectively recorded to reflect the final accounting for the business combination.

(b) Financial instruments

Greenlane's financial instruments are:

Financial instrument	Initial measurement	Subsequent measurement
Cash and cash equivalents	Fair value	Amortized cost
Restricted cash	Fair value	Amortized cost
Accounts receivable	Fair value	Amortized cost
Notes receivable	Fair value	Fair value through profit and loss
Accounts payable and accrued liabilities	Fair value	Amortized cost
Deferred consideration – contingent earn-out	Fair value	Fair value through profit and loss

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Cash and cash equivalents

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

Cash equivalents comprise short-term, highly liquid investments with maturities of three months or less from acquisition that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value. Cash equivalents are presented as part of current assets in the statement of financial position. Cash equivalents were $nil at December 31, 2022 (2021 - $1.6 million)

(d) Restricted cash

Restricted cash is comprised of cash that is held by a bank or insurance company as collateral for stand-by letters of credit and surety bonds issued by the Company. These balances are subject to collateral restrictions and are therefore not available for general use by the Company.

(e) Accounts receivable and contract assets

Accounts receivable and contract assets are recorded based on the revenue recognition policy and are presented net of allowances for doubtful accounts. The Company applies an expected credit loss approach in determining allowances for doubtful accounts. Contracts in progress represent the gross unbilled amounts expected to be collected from customers for contract work performed to date. These are measured at cost plus estimated fees earned to date less progress billings. If progress billings for a project exceed costs incurred plus estimated fees, the difference is presented as contract liabilities.

(f) Inventory

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

(g) Notes receivable

Notes receivable are comprised of convertible promissory notes receivable which have been recorded at fair value through profit and loss.

(h) Property and equipment

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Intangible assets

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

Patents, trademarks and design intangible assets are being amortized over the useful life of 7 years and 10 months, being the remaining useful life of the patents since they were acquired on June 3, 2019; Process technologies and Backlog are being amortized over 7 and 1 year respectively. Residual values and useful lives are reviewed at each reporting date. Where an indicator of impairment exists intangible assets are subject to impairment testing as described in “Impairment of assets” below.

Other intangible assets are amortised over the duration of the respective license.

(j) Goodwill

Goodwill arises in the acquisition of businesses, associates and joint ventures. Goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested at least annually for impairment.

(k) Impairment of assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Provisions

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

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

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

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

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

(m) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

(n) Contract liabilities

Contract liabilities are recorded based on the revenue recognition policy for contract assets on construction projects. Deposits received from customers prior to the satisfaction of performance obligations are recorded as contract liabilities. When the Company satisfies its performance obligations, these amounts are recognized as revenue.

(o) Lease liability

At the inception of a contract, Greenlane assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identifiable.
- Greenlane has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- Greenlane has the right to direct use of the asset. The right exists when Greenlane has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Lease liability *(continued)*

At inception or upon reassessment of a contract that contains a lease component, Greenlane allocates consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The asset is initially measured at cost, which is comprised of the initial lease liability adjusted for any payments made at or before the commencement date plus any initial direct costs incurred and the estimate of any costs to dismantle and remove an asset or restore the asset or site where the asset is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The estimated useful lives of right-of-use assets are applied on a consistent basis of property and equipment, in addition, right-of-use assets are periodically reduced for impairment losses, if any, and adjusted for certain re-measurement of the lease liability.

Lease payments included in the measurement of the lease liability are comprised of:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that Greenlane is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease, unless the Company is reasonably certain to not terminate early.

A lease liability is measured at amortized cost using the effective interest rate method. It is re-measured when there is a change in future lease payments caused by a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

Short-term leases and low-value leases

The Company has elected to not recognize a right-of-use asset or lease liability for short-term leases that have a term of one year or less and leases of low-valued assets. Greenlane recognizes the lease payment of these leases as an expense on a straight-line basis over the lease term.

(p) Employee benefits

i. Short-term benefit

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under the short-term cash bonus plans of the Company where there is a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Employee benefits *(continued)*

ii. Termination benefits

Termination benefits are recognized as an expense when the Company is committed to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary retirement.

iii. Share based compensation

The fair value of share based compensation awards granted to employees is recognized as an expense on the grant date with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related services and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

(q) Taxation

Income tax provision comprises current and deferred tax. Income tax provision is recognized in income except to the extent that it relates to items recognized directly in equity or OCI.

Current tax is the expected tax payable on the taxable income, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset to the extent the Company has the legal right to settle on a net basis.

Deferred tax assets and liabilities are recognized for temporary differences between reported amounts for financial statement and tax purposes using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are only recognized for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable profits will be available to utilize these amounts.

Deferred tax is not recognized from the initial recognition (other than in a business combination) of other assets or liabilities in a transaction that affects neither taxable profit nor accounting profit. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax rates and laws that are enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset to the extent that the Company has the legal right to settle on a net basis.

(r) Foreign currency translation

Transactions denominated in foreign currencies are translated using the exchange rate prevailing at the date of the transaction. At each reporting date, foreign currency denominated monetary assets and liabilities are translated at period end exchange rates. Exchange differences arising from the transactions are recorded in income. These differences are recognized in OCI as currency translation differences until the disposal of the net investment. Exchange differences arising from operating transactions are recorded in income for the period, exchange differences related to financing transactions are recognized as finance costs or income, or in OCI.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Foreign currency translation *(continued)*

The assets and liabilities of a foreign operation are translated into Canadian dollars at period-end exchange rates. Income and expenses, and cash flows of a foreign operation are translated into Canadian dollars using average exchange rates, Differences resulting from translating foreign operations are reported as translation differences in OCI. When a foreign operation is disposed of, the translation differences previously recognized in OCI are reclassified as income.

(s) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

(t) Share based compensation

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

(u) Equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Share capital is recorded at the cost of common shares. Costs related to the issuance of common shares, or share options are reported in equity, net of tax, as a deduction of the issuance proceeds.

(v) Per share amounts

Basic earnings per share ("**EPS**") is calculated by dividing the net income attributable to common shareholders of Greenlane by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive instruments.

(w) Segmented reporting

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

The Company has one operating segment represented in 4 geographical locations.

(x) Related party transactions

Related party transactions are in the normal course of operations and are recorded at the exchange amount.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Finance income and costs

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

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

(z) Recent accounting pronouncements

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

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Financial instruments measured at fair value on the statement of financial position require classification into one of the following levels of the fair value hierarchy:

- Level 1: Valuation based on quoted prices in active markets for identical assets or liabilities;
- Level 2: Valuations based on observables inputs other than quoted active market prices; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methods.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

(a) Notes receivable

The fair value of notes receivable is estimated as the present value of future cash flows, discounted at the market rate of interest as at the reporting date. This fair value is determined for disclosure purposes. The fair value approximates the carrying value due to the short-term maturity.

(b) Share based compensation transactions

The fair value of share options is measured using the Black-Scholes pricing model. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments adjusted for forfeitures (based on historical experience and general holder behavior), the expected dividends and the risk-free interest rate (based on government bonds). Services and non-market performance conditions are not taken into account in determining fair value.

(c) Deferred consideration – contingent earn-out

The fair value of deferred consideration – contingent earn-out is estimated using the income approach which is the estimated present value of future cash flows, discounted at the market rate of interest at the reporting date.

(in thousands of Canadian dollars, except as noted and per share amounts)

5. 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.

The following tables set out the details of the Acquisition including consideration given and allocation of the purchase price to the fair value of the assets acquired and liabilities assumed. The Company reduced its provisional determination of the fair value of intangible assets by $2,214 resulting in a decrease to deferred tax liability of $618 and an increase to goodwill of $1,596.

Fair value of net assets acquired		
Cash and cash equivalents	$	971
Accounts receivable		1,326
Other current assets		97
Contract assets		65
Inventory		192
Property and equipment		1,316
Intangible assets		3,957
Goodwill		7,586
Accounts payable and accrued liabilities		(1,255)
Contract liabilities		(25)
Lease liability		(1,051)
Deferred tax liability		(1,104)
Net assets acquired	**$**	**12,075**

The goodwill acquired is not deductible for income tax purposes. The value of the goodwill is attributable to the value assigned to future customers and synergies.

Consideration given				
Cash on closing	€	5,500	$	7,858
Deferred consideration – share issuance		1,000		1,429
Deferred consideration – contingent earn-out		1,069		1,527
Working capital adjustment and net financial position		883		1,261
Total consideration	**€**	**8,452**	**$**	**12,075**

The deferred share consideration is issuable in four equal tranches (€0.25 million) 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 from €0.9 million to €2.5 million 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. Since the acquisition, the Company has made payments of $0.9 million with the remaining balance expected to be paid in 2023.

Since the date of acquisition, the Company has recognized $7.8 million of revenue and $1.4 million of net income included in the reported loss and comprehensive loss, related to Airdep. The pro-forma revenue and loss for the Company for the period ended December 31, 2022 assuming the Acquisition had occurred on January 1, 2022 is $71.6 million and $5.2 million, respectively.

(in thousands of Canadian dollars, except as noted and per share amounts)

6. RESTRICTED CASH

The balance at December 31, 2022 includes a $1.6 million cashable term deposit held by the Toronto-Dominion Bank ("TD") as security for a letter of credit related to one customer (December 31, 2021 - $1.6 million), and $55,000 term deposit for the Company's credit cards (December 31, 2021 - $55,000).

7. ACCOUNTS RECEIVABLE

As at December 31,		**2022**		2021
Trade accounts receivable, net of provision	**$**	**12,285**	$	16,275
Other receivables		**742**		93
	$	**13,027**	$	16,368

The aging analysis of trade receivables is as follows:

As at December 31,		**2022**		2021
<31 days	**$**	**8,763**	$	4,298
31 – 60 days		**443**		7,698
61 – 90 days		**594**		2,188
>90 days		**3,455**		2,129
Allowance for doubtful accounts		**(970)**		(38)
Trade accounts receivable, net of provision	**$**	**12,285**	$	16,275

The change in the allowance for doubtful accounts in respect to trade, accrued and other receivables was as follows:

For the year ended December 31,		**2022**		2021
Opening balance	**$**	**(38)**	$	(38)
Increase to allowance for doubtful accounts		**(942)**		-
Acquisition		**(28)**		-
Allowance for doubtful accounts reversed		**38**		-
Allowance for doubtful accounts	**$**	**(970)**	$	(38)

8. INVENTORY

As at December 31,		**2022**		2021
Spare parts	**$**	**1,129**	$	785
Inventory	**$**	**1,129**	$	785

(in thousands of Canadian dollars, except as noted and per share amounts)

9. CONTRACT ASSETS AND LIABILITIES

	Balance, December 31, 2021	Acquired from Airdep	Revenue recognized	Progress billings	Balance, December 31, 2022
Contract assets	$ 9,837	$ 65	$ 64,529	$ (59,904)	$ 14,527
Contract liabilities	$ (1,446)	$ (25)	$ 1,029	$ (627)	$ (1,069)

	Balance, December 31, 2020	Acquired from Airdep	Revenue recognized	Progress billings	Balance, December 31, 2021
Contract assets	$ 2,518	$ -	$ 48,584	$ (41,265)	$ 9,837
Contract liabilities	$ (1,661)	$ -	$ 3,469	$ (3,254)	$ (1,446)

The Company receives payments from customers based on the stage of completion of a contract. Contract assets relate to the Company's conditional right to consideration for the completed performance under the contract. Accounts receivable are recognized when the right to consideration becomes unconditional. Contract liabilities relate to stage payments that are received in advance of performance under the contract.

The revenue recognized during the year and the contract balances for the year ended December 31, 2022 primarily relate to 25 projects (17 projects or the year ended December 31, 2021).

10. NOTES RECEIVABLE

During 2022, the Company made two investments in the form of convertible promissory notes receivable (the "**Notes**"). The Notes were provided to two companies ("**DevCo's**") in the pre-construction development phase on renewable natural gas projects.

Under the terms of the Notes, the maximum principal amount committed is $1.5 million USD, payable in tranches as the projects achieve identified milestones. The Notes carry customary fees, bear interest at 12% per annum (compounded daily) and at the option of the Greenlane are convertible into equity interests of the DevCo's.

Upon achieving project construction financing, the Company is entitled to a special distribution (the "**Special Distribution**") equal to 100% of the principal amount and accrued interest outstanding on the Note. If the Special Distribution is not paid under the first advance of project construction financing, interest on the Special Distribution will continue to accrue at 12% per annum (compounded daily). The Special Distribution and accrued interest is payable on the earlier of (i) the date on which the project passes its acceptance date or (ii) the commercial operation date of the project which is not expected to occur in the next 12 months.

The balances outstanding are comprised of:

As at December 31,	**2022**	2021
Principal	**$ 1,584**	$ -
Accrued interest and fees	**168**	-
Notes receivable	**$ 1,752**	$ -

(in thousands of Canadian dollars, except as noted and per share amounts)

11. PROPERTY AND EQUIPMENT

	Machinery and equipment	Right-of-use assets	Total
Cost			
Balance, January 1, 2021	$ 232	$ 1,013	$ 1,245
Additions	186	-	186
Foreign exchange adjustment	2	5	7
Balance, December 31, 2021	420	1,018	1,438
Additions	491	24	515
Acquisitions	265	1,051	1,316
Disposals	(125)	-	(125)
Foreign exchange adjustment	13	20	33
Balance, December 31, 2022	**$ 1,064**	**$ 2,113**	**$ 3,177**
Accumulated amortization			
Balance, January 1, 2021	$ 85	$ 340	$ 425
Amortization	87	235	322
Foreign exchange adjustment	2	1	3
Balance, December 31, 2021	174	576	750
Amortization	466	341	807
Disposals	(125)	-	(125)
Foreign exchange adjustment	6	7	13
Balance, December 31, 2022	**$ 521**	**$ 924**	**$ 1,445**
Carrying value			
At December 31, 2021	246	$ 442	$ 688
At December 31, 2022	**$ 543**	**$ 1,189**	**$ 1,732**

(in thousands of Canadian dollars, except as noted and per share amounts)

12. INTANGIBLE ASSETS

	Patents, trademarks and design	Process technologies	Backlog	Software and licenses	Total
Cost					
Balance, January 1, 2021	$ 9,803	$ -	$ -	$ -	$ 9,803
Foreign exchange adjustment	(141)	-	-	-	(141)
Additions	-	-	-	30	30
Balance, December 31, 2021	9,662	-	-	30	9,692
Acquisitions	-	3,800	157	-	3,957
Disposals	-	-	-	(30)	(30)
Foreign exchange adjustment	(457)	45	2	-	(410)
Balance, December 31, 2022	**$ 9,205**	**$ 3,845**	**$ 159**	**$ -**	**$ 13,209**
Accumulated amortization					
Balance, January 1, 2021	$ 1,982	$ -	$ -	$ -	$ 1,982
Amortization	1,242	-	-	9	1,251
Foreign exchange adjustment	(37)	-	-	-	(37)
Balance, December 31, 2021	3,187	-	-	9	3,196
Amortization	1,175	504	145	21	1,845
Disposals	-	-	-	(30)	(30)
Foreign exchange adjustment	(151)	-	-	-	(151)
Balance, December 31, 2022	**$ 4,211**	**$ 504**	**$ 145**	**$ -**	**$ 4,860**
Carrying value					
As at December 31, 2021	$ 6,475	$ -	$ -	$ 21	$ 6,496
As at December 31, 2022	**$ 4,994**	**$ 3,341**	**$ 14**	**$ -**	**$ 8,349**

13. GOODWILL

	Total
Cost	
Balance, January 1, 2021	$ 10,405
Balance, December 31, 2021	10,405
Acquisitions	7,586
Foreign exchange adjustment	91
Balance, December 31, 2022	**$ 18,082**

(in thousands of Canadian dollars, except as noted and per share amounts)

14. IMPAIRMENT TESTING FOR INTANGIBLE ASSETS AND GOODWILL

The Company completed an impairment test for goodwill as at December 31, 2022, based on management's best estimates of market participant assumptions including weighted average cost of capital. The forecasts are based on management's best estimate using market participant assumptions considering historical and expected operating plans, current strategies, economic conditions, and the general outlook for the industry and markets in which the CGUs operate.

The recoverable amount of the CGUs was based on value in use using a discounted cash flow model, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates. The assumptions include the Company's pre-tax weighted average cost of capital at the assessment date (level 3 within the fair value hierarchy). Management has prepared cash flow estimates for a five-year period which are extrapolated using estimated terminal growth rate of 2% and a discount rate (pre-tax) of 11.6%.

The Company has concluded that no impairment of goodwill existed as a result of this assessment as at December 31, 2022.

15. INCOME TAXES

The income tax provision differs from the amount that would be computed by applying statutory income tax rates of 27.0% (2021 – 27.0%). The reconciliation of the differences is as follows:

For the years ended December 31,		**2022**		2021
Loss before income tax	**$**	**(5,489)**	$	(2,526)
Statutory income tax rate (%)		**27.0**		27.0
Expected income tax recovery		**(1,482)**		(682)
Non-taxable items		**401**		300
Change in unrecognized temporary differences		**1,065**		177
Adjustment for prior years		**266**		-
Change in tax rates		**(111)**		(59)
Tax rate differences		**(24)**		188
Other		**(99)**		-
Income tax expense (reduction)		**16**		(76)

The deferred tax assets and liabilities are attributed to the following:

As at December 31,		**2022**		2021
Deferred tax assets	**$**		$	
Loss carryforwards		**85**		161
Lease liabilities		**38**		117
Warranty liability		**513**		68
Deferred tax assets set off against deferred tax liabilities		**(188)**		(235)
Net deferred tax assets	**$**	**448**	$	111
Deferred tax liabilities:				
Intangible assets		**882**		98
Property and equipment		**42**		137
Deferred tax assets set off again deferred tax liabilities		**(188)**		(235)
Net deferred tax liabilities	**$**	**736**	$	-

(in thousands of Canadian dollars, except as noted and per share amounts)

15. INCOME TAXES *(continued)*

As at December 31, 2022, Greenlane has $10.1 million (2021 - $5.7 million) in Canadian loss carryforwards available to reduce future years' taxable income which expire between 2038 and 2042; $2.9 million (2021 - $3.2 million) in British loss carry forwards which carryforward indefinitely; $0.3 million (2021 - $0.4 million) in Dutch loss carryforwards that may be carried forward for six years; and $0.2 million (2021 - $nil) in Italian loss carryforwards that may be carried forward indefinitely.

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31,		**2022**		2021
Trade accounts payable	**$**	**3,944**	$	599
Income taxes payable		**510**		34
Accrued liabilities		**3,573**		3,537
Accrued costs related to system sales		**14,955**		15,962
Deferred aftercare revenue		**39**		16
Accounts payable and accrued liabilities	**$**	**23,021**	$	20,148

17. LEASE LIABILITIES

The Company recognizes right-of-use assets (Note 11) and lease liabilities in relation to office leases of Greenlane's head office in Burnaby, British Columbia, Canada, operations offices in Sheffield, United Kingdom and Vicenza, Italy, and vehicle leases in the United Kingdom.

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

As at December 31,		**2022**		2021
Balance, beginning of the year	**$**	**459**	$	686
Additional leases		**28**		-
Acquisitions		**1,051**		-
Lease payments		**(387)**		(263)
Finance fees		**78**		39
Foreign exchange adjustment		**6**		(3)
Balance, end of the year		**1,235**		459
Current portion		**(268)**		(242)
Non-current portion of lease liabilities	**$**	**967**	$	217

Payments of principal amounts owing are as follows:

2023	$	268
2024		120
2025		87
2026		89
2027 and after		671
	$	1,235

(in thousands of Canadian dollars, except as noted and per share amounts)

18. WARRANTY LIABILITIES

The Company provides a warranty following the sale of certain products and as such, the Company has recorded a provision for future warranty claims. Warranty periods vary between products but are typically one to two years from completion of commissioning of the equipment. The provision is based on management's best estimate of future claims, taking account of historical experience and knowledge of the installations covered by the warranty.

As at December 31,		2022		2021
Balance, beginning of the year	$	252	$	227
Additions in the year		1,997		152
Charges against provision		(103)		(15)
Provision expired		(246)		(112)
Balance, end of the year		1,900		252
Current portion		(1,062)		(102)
Non-current portion of warranty liabilities	$	838	$	150

19. EQUITY

(a) Common shares

At December 31, 2022, the Company had unlimited authorized common shares without par value and 152,040,781 common shares issued and outstanding (December 31, 2021 – 150,293,991).

On January 27, 2021, the Company completed an underwritten bought deal offering through the issuance of 12,190,000 common shares, at a price of $2.17 per share for gross proceeds of $26.5 million and incurred $2.0 million in cash expenses. The Company issued compensation warrants to the underwriters entitling them to purchase an aggregate of 731,400 common shares at an exercise price of $2.17 for a period of one year from closing. The fair value of the warrants issued (valued using the Black-Scholes pricing model, see below for list of assumptions) of $0.8 million has been included in share capital as part of the share issuance costs.

Number of warrants granted	731,400
Fair value per warrant	$1.13
Risk-free rate	0.13%
Expected volatility	109%
Expected life in years	1
Expected dividend yield	-

(in thousands of Canadian dollars, except as noted and per share amounts)

19. EQUITY *(continued)*

(b) Warrants outstanding

At December 31, 2022, the Company had nil warrants outstanding (December 31, 2021 – 694,830), as follows:

Warrant exercise price	$0.26	$0.70	$2.17	
Expiry	Jun 3, 2021	Feb 19, 2021	Jan 27, 2022	
Number of warrants, January 1, 2021	19,698,147	2,655,600	-	22,353,747
Granted	-	-	731,400	731,400
Exercised	(19,587,383)	(2,590,600)	(36,570)	(22,214,553)
Expired	(110,764)	(65,000)	-	(175,764)
Number of warrants, December 31, 2021	-	-	694,830	694,830
Expired	-	-	(694,830)	(694,830)
Number of warrants, December 31, 2022	**-**	**-**	**-**	**-**
Proceeds from exercise, 2021	$ 5,093	$ 1,813	$ 79	$ 6,985
Proceeds from exercise, 2022	**$ -**	**$ -**	**$ -**	**$ -**

On January 27, 2022 the $2.17 warrants expired and 694,830 unexercised warrants were cancelled.

20. SHARE BASED COMPENSATION

(a) Omnibus Incentive Plan

The Company has in place a stock option plan (the "**Legacy Option Plan**") and a restricted share unit plan (the "**Legacy RSU Plan**") which were adopted by the Company in 2018 and 2020, respectively. Following the Company's transition to the Toronto Stock Exchange ("**TSX**") in early 2021, the Company introduced a new omnibus incentive plan (the "**Omnibus Incentive Plan**") under which the Company can award both stock options ("**Options**") and restricted share units ("**RSUs**") following the policies, rules and regulations of the TSX.

The Omnibus Incentive Plan is a rolling plan where the Company is entitled to issue Options and RSUs in respect of a maximum number of common shares equal to 10% of the issued and outstanding common shares, less the aggregate number of common shares issuable under the existing Legacy Option Plan and Legacy RSU Plan. At December 31, 2022, Options and RSUs issued under the Legacy Option Plan, the Legacy RSU Plan and the Omnibus Incentive Plan represented 6% of issued and outstanding common share capital.

All Options granted under the Legacy Option Plan will continue to be governed by the Legacy Option Plan and all RSUs granted under the Legacy RSU Plan will continue to be governed by the Legacy RSU Plan. No further Options or RSUs will be granted under the Legacy Option Plan or Legacy RSU Plan.

(in thousands of Canadian dollars, except as noted and per share amounts)

20. SHARE BASED COMPENSATION *(continued)*

(b) Options

A summary of the Company's Options outstanding under both the Omnibus Incentive Plan and the Legacy Option Plan, including Options granted to agents, is as follows:

	Number of Options		Weighted average exercise price
Balance, January 1, 2021	5,241,984	$	0.27
Granted	1,147,470		1.74
Exercised	(1,145,316)		0.41
Forfeited	(175,001)		1.63
Balance, December 31, 2021	5,069,137		0.54
Granted	3,240,029		1.03
Exercised	(278,332)		0.28
Forfeited	(991,362)		1.15
Balance, December 31, 2022	**7,039,472**	**$**	**0.70**

As at December 31, 2022, 3,784,373 Options were exercisable (December 31, 2021 – 3,202,666).

	Share options outstanding December 31, 2022				Share options exercisable December 31, 2022		
Exercise Price	**Number of share option**	**Remaining contractual life**		**Weighted average exercise price**	**Number of share options**		**Weighted average exercise price**
$0.10	**675,000**	**5.84 years**	**$**	**0.10**	**675,000**	**$**	**0.10**
$0.20	**2,178,334**	**1.42 years**	**$**	**0.20**	**2,178,334**	**$**	**0.20**
$0.20	**100,000**	**1.79 years**	**$**	**0.20**	**100,000**	**$**	**0.20**
$0.50	**546,667**	**2.40 years**	**$**	**0.50**	**365,000**	**$**	**0.50**
$0.39	**127,000**	**2.66 years**	**$**	**0.39**	**84,667**	**$**	**0.39**
$0.74	**60,000**	**2.88 years**	**$**	**0.74**	**40,000**	**$**	**0.74**
$1.94	**50,000**	**3.21 years**	**$**	**1.94**	**16,667**	**$**	**1.94**
$1.68	**303,613**	**3.39 years**	**$**	**1.68**	**104,538**	**$**	**1.68**
$1.72	**380,000**	**3.63 years**	**$**	**1.72**	**200,000**	**$**	**1.72**
$1.66	**60,500**	**3.87 years**	**$**	**1.66**	**20,167**	**$**	**1.66**
$1.15	**1,896,483**	**4.09 years**	**$**	**1.15**	**-**	**$**	**1.15**
$1.02	**31,875**	**4.21 years**	**$**	**1.02**	**-**	**$**	**1.02**
$0.68	**175,750**	**4.48 years**	**$**	**0.68**	**-**	**$**	**0.68**
$0.77	**195,000**	**4.61 years**	**$**	**0.77**	**-**	**$**	**0.77**
$0.53	**259,250**	**4.87 years**	**$**	**0.53**	**-**	**$**	**0.53**
	7,039,472	**3.22 years**	**$**	**0.70**	**3,784,373**	**$**	**0.34**

(in thousands of Canadian dollars, except as noted and per share amounts)

20. SHARE BASED COMPENSATION *(continued)*

(b) Options *(continued)*

	Share options outstanding December 31, 2021				Share options exercisable December 31, 2021		
Exercise price	Number of share option	Remaining contractual life		Weighted average exercise price	Number of share options		Weighted average exercise price
$0.10	675,000	6.84 years	$	0.10	675,000	$	0.10
$0.20	2,388,000	2.42 years	$	0.20	2,165,333	$	0.20
$0.20	100,000	2.79 years	$	0.2	66,667	$	0.20
$0.50	686,667	3.40 years	$	0.50	223,333	$	0.50
$0.39	142,000	3.66 years	$	0.39	47,333	$	0.39
$0.74	75,000	3.88 years	$	0.74	25,000	$	0.74
$1.94	70,000	4.21 years	$	1.94	-	$	1.94
$1.68	371,970	4.39 years	$	1.68	-	$	1.68
$1.72	455,000	4.63 years	$	1.72	-	$	1.72
$1.66	105,500	4.87 years	$	1.66	-	$	1.66
	5,069,137	3.62 years	$	0.54	3,202,666	$	0.21

There were five Option grants during 2022. The value of the Options issued was estimated using the Black-Scholes option pricing model with the following assumptions:

Grant date	Feb 2, 2022	Mar 15, 2022	Jun 24, 2022	Aug 11, 2022	Nov 11, 2022
Options granted	2,475,904	31,875	253,000	195,000	284,250
Exercise price	$1.15	$1.02	$0.68	$0.77	$0.53
Fair value per Option	$0.70	$0.60	$0.46	$0.47	$0.32
Risk-free rate	1.10%	1.39%	3.30%	3.44%	4.56%
Expected volatility	89.26%	88.35%	86.77%	86.06%	84.84%
Expected life in years	3.50	3.50	3.50	3.50	3.50
Expected dividend yield	-	-	-	-	-

(c) Restricted Share Unit Plan

A summary of the Company's RSUs outstanding under both the Legacy RSU Plan and the Omnibus Incentive Plan is as follows:

	Number of RSUs
Balance, January 1, 2021	960,038
Granted	348,420
Exercised	(62,666)
Balance, December 31, 2021	1,245,792
Granted	931,421
Exercised	(81,066)
Forfeited	(127,260)
Balance, December 31, 2022	**1,968,887**

(in thousands of Canadian dollars, except as noted and per share amounts)

20. SHARE BASED COMPENSATION *(continued)*

(c) Restricted Share Unit Plan *(continued)*

In February 2022, the Company granted 261,956 RSUs to non-executive directors of the Company, vesting after one year and 639,965 to the management team and certain employees with vesting over 3 years with a fair value of $1.0 million. In June 2022, the Company granted 29,500 RSUs to the management team with vesting over 3 years and a fair value of $20,000. 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.

21. CREDIT FACILITIES

In July 2022, the Company entered into a $20.0 million standby letter of credit facility (the "**Facility**") that provides the Company the ability to issue standby letters of credit to its customers for system supply contracts that have advance payment and performance security requirements. As at December 31, 2022, the Company had issued $12.0 million in standby letters of credit under the Facility and anticipates issuing up to a maximum of $17.2 million to meet current contractual obligations.

The Company also has $7.2 million in advance payment bonds and performance bonds outstanding. The Company was required to provide a cash deposit of $1.6 million, classified as restricted cash, to partially secure the bonds.

Upon demand of any standby letter of credit, advance payment bond or performance bond, the Company would be required to compensate the counterparty for any losses and expenses incurred, as applicable.

22. REVENUE

For the years ended December 31,	**2022**	2021
System sales:		
United States	**$ 39,538**	$ 44,615
Europe	**6,974**	3,146
Canada	**9,174**	380
Brazil	**8,143**	3,596
Other	**1,729**	316
	65,558	52,053
Aftercare service:		
United States	**430**	129
Europe	**4,921**	1,901
Canada	**195**	186
Brazil	**-**	43
Other	**137**	1,039
	5,683	3,298
Total revenue:		
United States	**39,968**	44,744
Europe	**11,895**	5,047
Canada	**9,369**	566
Brazil	**8,143**	3,639
Other	**1,866**	1,355
	$ 71,241	$ 55,351

(in thousands of Canadian dollars, except as noted and per share amounts)

23. COST OF GOODS SOLD (BEFORE AMORTIZATION)

For the years ended December 31,		2022		2021
Inventory	$	2,299	$	1,496
Materials		46,026		36,501
Labour and consultants		4,353		3,178
Warranty additions and releases		1,751		40
	$	54,429	$	41,215

24. GENERAL AND ADMINISTRATION

For the years ended December 31,		2022		2021
Salaries and benefits	$	9,901	$	6,522
Professional fees		1,135		1,203
Bad debt expense		539		-
Consulting and contracting fees		1,154		735
Insurance		1,003		651
Public company expenses		261		324
Investor relations		288		290
Travel and conferences		249		110
Office operating costs		1,245		956
	$	15,775	$	10,791

25. COMPENSATION

The aggregate consolidated payroll expense of employees, officers and directors is as follows:

For the years ended December 31,		2022		2021
Personnel and personnel related expenses	$	14,430	$	10,473
Equity-based compensation		1,977		1,098
	$	16,407	$	11,571

26. NON-CASH WORKING CAPITAL

The net changes to non-cash working capital are as follows:

The years ended December 31,		2022		2021
Restricted cash	$	(38)	$	(1,655)
Accounts receivable		7,767		(13,494)
Inventory		(175)		839
Prepaid expenses and other assets		(302)		(168)
Contract assets		(4,626)		(7,318)
Accounts payable and accrued liabilities		352		11,424
Contract liabilities		1,245		(229)
	$	4,223	$	(10,601)

(in thousands of Canadian dollars, except as noted and per share amounts)

27. RELATED PARTY TRANSACTIONS

Key management includes Directors, the CEO, the Chief Financial Officer ("**CFO**") and the Chief Operating Officer ("**COO**"), who have the authority and responsibility for planning, directing and controlling the activities of the Company. The remuneration paid and payable to these key management personnel during the year ended December 31, 2022 and December 31, 2021 is outlined below:

For the years ended December 31,	**2022**	2021
Non-executive directors' fees	**$ 411**	$ 382
Salaries and short-term benefits	**1,109**	1,141
Equity-based compensation	**614**	551
	$ 2,134	$ 2,074

28. GEOGRAPHICAL SEGMENTS

At December 31, 2022 the location of Company assets was as follows:

	Canada	**Europe**	**United Kingdom**	**United States**	**Total**
Current assets	**$ 43,802**	**$ 7,536**	**$ 1,479**	**$ 207**	**$ 53,024**
Property and equipment	**362**	**1,222**	**148**	**-**	**1,732**
Intangible assets	**-**	**3,355**	**4,994**	**-**	**8,349**
Goodwill	**10,405**	**7,677**	**-**	**-**	**18,082**
Other assets	**448**	**-**	**-**	**1,752**	**2,200**
	$ 55,017	**$ 19,790**	**$ 6,621**	**$ 1,959**	**$ 83,387**

At December 31, 2021 the location of Company assets was as follows:

	Canada	United Kingdom	United Kingdom	United States	Total
Current assets	$ 57,443	$ 2,092	$ 1,472	$ 79	$ 61,086
Property and equipment	495	-	193		688
Intangible assets	20	-	6,476	-	6,496
Goodwill	10,405	-	-	-	10,405
Other	111	-	-	-	111
	$ 68,474	$ 2,092	$ 8,141	$ 79	$ 78,786

29. FINANCIAL INSTRUMENTS

The Company is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Company's risk exposure and concentration.

(a) Fair value

Due to the short-term nature of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities, the Company has determined that the carrying amounts approximate fair value.

(in thousands of Canadian dollars, except as noted and per share amounts)

29. FINANCIAL INSTRUMENTS *(continued)*

(b) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents, restricted cash, accounts receivable and notes receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents and restricted cash with high credit quality financial institutions, and through the performance of credit checks for all new customers. The Company considers its credit risk with respect to accounts receivable and notes receivable to be limited to the value of the provision for allowance for expected credit losses which has been recognized.

(c) Foreign exchange rate risk

The Company is exposed to financial risk related to fluctuations of foreign exchange rates. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar, primarily the United States dollar ("**USD**"), Great Britain Pound ("**GBP**") and Euros. The Company believes that its results of operations, financial position and cash flows could be affected by a sudden change in foreign exchange rates but would not impair or enhance its ability to pay its foreign currency obligations. The Company manages foreign exchange risk by maintaining USD, GBP and Euros cash on hand to fund its anticipated short-term foreign currency expenditures.

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

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

	Financial assets		Financial liabilities	
As at December 31,	**2022**	2021	**2022**	2021
GBP	**£ 874**	£ 906	**£ 308**	£ 302
Euro	**€ 5,722**	€ 1,625	**€ 3,176**	€ 1,122
USD	**$ 24,731**	$ 6,706	**$ 104**	$ 164

Foreign currency sensitivity analysis

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

	GBP	Euro	USD
10% strengthening of Canadian dollar (increase) decrease net loss	$ 35	$ 176	$ 1,818
10% weakening of Canadian dollar (increase) decrease net loss	$ (35)	$ (176)	$ (1,818)

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

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

(d) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At December 31, 2022 the Company has no variable-rate interest-bearing financial assets or liabilities.

(in thousands of Canadian dollars, except as noted and per share amounts)

29. FINANCIAL INSTRUMENTS *(continued)*

(e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations with cash. The Company's ability to do this relies on the Company maintaining sufficient cash in excess of anticipated needs and raising debt or equity financing in a timely manner.

The Company enters into contracts that give rise to commitments in the normal course of business for future minimum payments. The following table summarizes the remaining contractual maturities of its financial liabilities, operating and capital commitments, shown in contractual undiscounted cash flows:

as at December 31, 2022		**Carrying amount**		**Contractual cash flow**		**Less than 12 months**		**1 - 2 years**		**2 – 3 years**		**Thereafter**
Accounts payable and accrued liabilities	**$**	**23,021**	**$**	**23,021**	**$**	**23,021**	**$**	**-**	**$**	**-**	**$**	**-**
Deferred consideration – share issuance		**361**		**-**		**-**		**-**		**-**		**-**
Lease liability		**1,235**		**1,557**		**331**		**305**		**260**		**661**
Warranty liability		**1,900**		**1,900**		**1,062**		**838**		**-**		**-**
Deferred consideration – contingent earn-out		**1,582**		**1,745**		**-**		**1,745**		**-**		**-**
	$	**28,099**	**$**	**28,223**	**$**	**24,414**	**$**	**2,888**	**$**	**260**	**$**	**661**

as at December 31, 2021		Carrying amount		Contractual cash flow		Less than 12 months		1 - 2 years		2 – 3 years		Thereafter
Accounts payable and accrued liabilities	$	20,148	$	20,148	$	20,148	$	-	$	-	$	-
Lease liability		459		498		270		228		-		-
Warranty liability		252		252		102		150		-		-
	$	20,859	$	20,898	$	20,520	$	378	$	-	$	-

30. CAPITAL MANAGEMENT

The Company manages its capital to maintain its ability to continue as a going concern and to execute on its strategic objectives. The capital structure of the Company consists of cash and cash equivalents, restricted cash and equity comprising issued share capital and earnings.

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

The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the period ended December 31, 2021.

31. CONTINGENT LIABILITIES

As part of normal ongoing operations, it is possible that the Company could become involved in litigation and claims from time to time. Management is not presently aware of any litigation or claims where likelihood and quantum of liability can be reasonably estimated and which would materially affect the financial position or financial performance of the Company.