Greenlane Renewables Inc.

Consolidated Financial Statements
For the years ended
December 31, 2021 and 2020

(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, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of operations 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.

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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, 2021. 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 – system sales contracts *Refer to note 3 – Significant accounting policies, note 5 – Key sources of estimation uncertainty and note 22 – Segmented information to the consolidated financial statements.* For the year ended December 31, 2021, the Company recognized revenue from system sales contracts of $52.1 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. • 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: o assessing the relative weight of each phase by considering the historical actual costs incurred on each phase of similar contracts; o assessing the completion of contract phases by inspecting supporting documents, including confirmation of delivery of technical documentation or equipment;

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	o assessing the estimated timeline to complete the phases that are in progress to supporting documents, including communication of estimated timelines from subcontractors, as applicable; and o assessing the factors that could affect the accuracy of the estimates of the percentage of completion of system sales contracts, including inquiries with project managers. • Performed look-back procedures for a sample of system sales contracts completed during the year by comparing the originally estimated and actual timelines

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 Craig McMillan.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 10, 2022

Greenlane Renewables Inc.
Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

	Notes	December 31, 2021 $	December 31, 2020 $
Assets			
Current assets			
Cash and cash equivalents		31,471	16,442
Restricted cash	6	1,655	-
Accounts receivable	7	16,096	2,416
Inventory	8	785	1,624
Prepaid expenses and other receivables		1,242	1,125
Contract assets	13	9,837	2,518
		61,086	24,125
Deferred tax assets	23	111	-
Property and equipment	9	688	821
Intangible assets	10	6,496	7,821
Goodwill	11	10,405	10,405
		78,786	43,172
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12	20,148	8,773
Contract liabilities	13	1,446	1,661
Lease liability, current portion	14	242	225
Warranty liability, current portion	15	102	121
Promissory note	16	-	5,957
		21,938	16,737
Lease liability, non-current portion	14	217	461
Warranty liability, non-current portion	15	150	106
		22,305	17,304
Shareholders' Equity			
Share capital	17	64,074	31,927
Contributed surplus		2,395	1,547
Accumulated other comprehensive income		179	111
Deficit		(10,167)	(7,717)
		56,481	25,868
		78,786	43,172

Nature of operations (Note 1)
Subsequent events (Notes 17 and 26)

Approved by the Board of Directors and authorized for issue on March 10, 2022

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

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

Greenlane Renewables Inc.

Consolidated Statements of Operations and Comprehensive Loss

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

	Notes	Year ended December 31, 2021 $	Year ended December 31, 2020 $
Revenue	22	55,351	22,500
Cost of goods sold (excluding depreciation and amortization)	18	(41,215)	(16,075)
		14,136	6,425
Amortization (patents, trademarks and design)		(1,242)	(1,238)
Gross Profit		12,894	5,187
General and administration	19	(5,864)	(3,099)
Salaries and benefits		(7,776)	(5,027)
Depreciation and amortization		(329)	(288)
Share-based payments	17	(1,098)	(414)
Operating loss		(2,173)	(3,641)
Other income (expenses):			
Finance expense		(87)	(495)
Finance income		162	-
Other Income		207	1,777
Transaction costs related to business acquisition		(451)	-
Foreign exchange loss		(184)	(190)
Net loss before taxes		(2,526)	(2,549)
Income tax recovery, net	23	76	78
Net loss		(2,450)	(2,471)
Other comprehensive income (loss)			
Item that may be subsequently reclassified to net loss:			
Foreign currency translation adjustment		68	(41)
Total comprehensive loss		(2,382)	(2,512)
Basic and diluted loss per share		(0.02)	(0.03)
Weighted average numbers of shares		143,851,178	92,833,394

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

Greenlane Renewables Inc.

Consolidated Statement of Changes in Equity

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

	Notes	Share capital (number of shares)	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
			$	$	$	$	$
Balance, January 1, 2020		68,435,795	11,282	1,510	152	(5,246)	7,698
Share-based compensation expense	17	-	-	414	-	-	414
Warrants exercised	17	19,337,865	9,829	(909)	-	-	8,920
Options exercised	17	3,907,796	1,375	(371)	-	-	1,004
Shares/warrants issued		23,000,000	10,741	759	-	-	11,500
Agent options issued	17	-	-	235	-	-	235
Share issuance costs		-	(1,300)	(91)	-	-	(1,391)
Currency translation adjustment		-	-	-	(41)	-	(41)
Net loss for the year		-	-	-	-	(2,471)	(2,471)
Balance, December 31, 2020		114,681,456	31,927	1,547	111	(7,717)	25,868
Share-based compensation expense	17	-	-	1,098	-	-	1,098
Warrants exercised	17	22,214,553	7,824	(839)	-	-	6,985
Options exercised	17	1,145,316	681	(214)	-	-	467
Restricted Share Units exercised	17	62,666	26	(26)	-	-	-
Shares issued	17	12,190,000	26,452	-	-	-	26,452
Share issuance costs	17	-	(2,836)	-	-	-	(2,836)
Agent warrants issued		-	-	829	-	-	829
Currency translation adjustment		-	-	-	68	-	68
Net loss for the year		-	-	-	-	(2,450)	(2,450)
Balance, December 31, 2021		150,293,991	64,074	2,395	179	(10,167)	56,481

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

Greenlane Renewables Inc.
Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Year ended December 31, 2021	Year ended December 31, 2020
	$	$
Cash provided by (used in)		
Operating activities		
Net loss	(2,450)	(2,471)
Adjustments for non-cash items		
Unrealised foreign exchange loss	184	190
Depreciation and amortization	1,571	1,526
Finance expense	87	495
Income tax recovery, net	(76)	(78)
Share-based compensation	1,098	414
Other income	(207)	(1,777)
Finance income	(162)	-
	45	(1,701)
Other adjustments		
Changes in current assets	(12,961)	(2,941)
Changes in current liabilities	11,515	3,811
Changes in contract assets and liabilities	(7,534)	(1,161)
Changes in restricted cash	(1,655)	-
Interest received	153	-
Interest paid on leases	(39)	(53)
Cash used in operating activities	(10,476)	(2,045)
Investing activities		
Purchase of intangible assets	(30)	-
Purchase of property and equipment	(187)	(53)
Cash used in investing activities	(217)	(53)
Financing activities		
Proceeds from share issuance	26,452	11,500
Share issuance costs	(2,007)	(1,157)
Proceeds from options exercised	467	1,004
Proceeds from warrants exercised	7,133	8,772
Payments on promissory note	(6,041)	(3,614)
Lease payments	(282)	(234)
Cash generated by financing activities	25,722	16,271
Increase in cash and cash equivalents	15,029	14,173
Cash and cash equivalents – Beginning of year	16,442	2,269
Cash and cash equivalents – End of year	31,471	16,442

The accompanying notes are an integral part of these 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.

COVID-19 impact

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, occupancy limits. These restrictions resulted in a substantial reduction in economic activity in countries that have had significant outbreaks of COVID-19. The Company maintains an asset light model, outsourcing its equipment manufacturing. While the Company's supply chain was initially affected; all suppliers have since returned to work however more recently the Company has seen the effect of the global shipping delays and although the Company is working with customers and suppliers to manage some delays experienced there is a risk that it may not be able to complete on certain of its current biogas upgrading contracts within the anticipated timeframes. The Company continues to monitor the situation closely to plan and adjust accordingly.

At this time, given the continued uncertainty surrounding global supply chain challenges as a result of COVID-19, it is not possible to reliably estimate the full impact this will have on the Company's ability to complete its current biogas upgrading contracts within the anticipated timeframe, with the further result that the Company's recording of revenues from these contracts may be deferred to later fiscal reporting periods and profits may be impacted negatively.

2 Basis of presentation

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. Certain of the comparative period figures have been reclassified to conform with the current period's presentation.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 10, 2022.

3 Significant accounting policies

a) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis.

b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

i) Subsidiaries:

The consolidated financial statements include the following wholly owned subsidiaries:

Name of the entity	Jurisdiction
Greenlane Biogas Global Limited	Canada
PT Biogas Holdings Limited	UK
Greenlane Biogas North America Limited	Canada
PT Biogas Technology Limited	UK
Greenlane Biogas Europe Limited	UK
Greenlane Biogas Europe B.V.	Netherlands
Greenlane Biogas Netherlands Holding B.V.	Netherlands
Greenlane Biogas Italy S.R.L	Italy
Greenlane Biogas UK Limited	UK
Greenlane Biogas US Corp	US

The Company also owns a non-controlling minority interest in a joint venture Greenlane Biogas Finance B.V. located in the Netherlands.

Intercompany transactions, balances and unrealized gains and losses on transactions are eliminated on consolidation.

ii) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree.

The acquiree's identifiable assets and liabilities that meet the conditions for recognition are recognized at their fair value at the acquisition date except for certain assets and liabilities which are recognized and measured in accordance with the applicable IFRS guidance. Goodwill arising on acquisition is recognized as an asset and is measured as the fair value of consideration paid less the fair value of the net identifiable assets and liabilities recognized.

If the Company's interest in the fair value of the acquiree's net identifiable assets and liabilities exceeds the fair value of consideration paid, the excess is recognized immediately in the statement of operations as a bargain purchase. Transaction costs, other than those associated with the issuance of debt or equity securities that the Company incurs in connection with a business combination, are expensed as incurred.

c) Foreign currency translation

i) Functional and presentation currency

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

The Company has determined that the functional currency of the Company is the Canadian dollar. The subsidiary companies have the following functional currencies: for Greenlane Biogas Global Limited and Greenlane Biogas North America Limited the Canadian dollar, for PT Biogas Holdings Limited ("PT Biogas"), PT Biogas Technology Limited and Greenlane Biogas UK Limited the British pound sterling, for Greenlane Biogas US Corp the US dollar, for Greenlane Biogas Europe Limited, Greenlane Biogas Europe B.V., Greenlane Biogas Netherlands Holding B.V., Greenlane Biogas Italy S.R.L. and Greenlane Biogas Finance B.V. the Euro.

The results of overseas subsidiary undertakings are translated at the monthly average exchange rate (being an approximation of the rate at the date of transactions throughout the period) and the statement of financial position of such undertakings is translated at the period-end exchange rates. Exchange differences arising on the retranslation of opening net assets of overseas subsidiary undertakings are charged/credited to other comprehensive income/(loss) and subsequently recognized in the accumulated other comprehensive income account in equity.

ii) Transactions and balances

Foreign currency transactions are translated into the Company's functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate).

Foreign exchange gains and losses resulting from the re-measurement of monetary items denominated in foreign currency at period-end exchange rates are recognized in profit or loss.

Non-monetary items are not retranslated at period-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined. Where a gain or loss on a non-monetary item is recognized in other comprehensive income the foreign exchange component of that gain or loss is also recognized in other comprehensive income/(loss).

d) 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.

e) 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.

f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligations are discharged. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

a) Financial assets: classification and measurement

Financial assets are classified in the following measurement categories:

i) those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss); and

ii) those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are either recorded in profit or loss or OCI. At present, the Company classifies all financial assets of principal and interest receivable as held at amortized cost. All other financial assets are measured at fair value through profit or loss.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets depends on their classification. The Company classifies its financial assets as amortized cost, for assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included as finance income using the effective interest rate method.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all accounts receivable.

b) *Financial liabilities*

A financial liability is classified as FVTPL if it is held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. The fair value changes to financial liabilities at FVTPL are presented as follows: where the Company optionally designates financial liabilities at FVTPL the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of the change in the fair value is presented in profit or loss. At this time the Company has no financial liabilities classified as FVTPL.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities and warranty liability are measured at amortized cost.

c) *Equity*

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Company’s common shares are classified as equity. Transaction costs on the issue of shares are deducted from the share capital account arising on that issue.

g) 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.

h) Property and equipment

Property and equipment (PE) 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. PE 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 PE.

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

Gains or losses arising on the disposal of PE 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.

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. 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 license.

j) Impairment of assets

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

All individual assets or cash-generating units 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.

k) Leases

Where the Company is a lessee, a right-of-use asset is initially recognized at the present value of all lease payments and any lease inducements over the length of the contract, discounted at an applied interest rate implicit in the lease. If the implicit rate cannot be determined, the Company's incremental borrowing rate is used. Direct costs incurred in negotiating and arranging a lease are included in the cost of the asset.

For leases of real estate the Company applies a practical expedient and does not separate lease components and non-lease components and accounts for these as a single lease component when they are inseparable from the contracts.

Right-of-use assets are depreciated on a straight-line basis over the lease term. Lease payments are apportioned between capital repayments and interest charge using the effective interest rate method to amortize the balance of the lease liability at a fixed rate. Lease assets and liabilities are remeasured when a change to the lease payments or terms arises.

l) Provisions, contingent assets and contingent liabilities

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) Income taxes

(a) Income tax:

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity. Income tax expense is recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year.

(b) Deferred tax:

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax is not recognized for:

- Temporary differences on the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss; and

- Temporary differences related to investments in subsidiaries, associates and interests in joint ventures where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venture and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax relating to items recognized in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

n) Revenue recognition

Greenlane applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction. The consideration received from multiple-component transactions is allocated to each separately identifiable component in proportion to its relative fair value.

(a) 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 the period as the Company's performance does not create an asset with an alternative use to the entity and the entity has 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. Revenue is recognized in proportion to the total costs expected on the contract.

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.

(b) 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.

o) Finance income and costs

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

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

p) General and administrative expenses

General and administrative expenses are recognized in profit or loss upon utilization of the service or as incurred.

q) Short-term employee benefits

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 short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. In certain of the countries that the Company operates in, the Company also offers extended dental and health plans as well as matching group savings plans to employees and state plans. The cost of these plans is recorded when services are rendered by employees, which is generally at the same time the contributions are made.

r) Income (loss) per share

Basic income (loss) per share is computed by dividing income (loss) by the weighted average number of common shares outstanding during the period. The computation of diluted income (loss) per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or contingent issuance would have a dilutive effect on income (loss) per share. For this purpose, the treasury stock method is used for the assumed proceeds upon the exercise of stock options and warrants that are used to purchase common shares at the average market price during the period.

s) Share-based payments

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 operations (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 operations. 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.

t) Segment 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 for upgrader services, which is further broken down into two revenue streams, system sales and aftercare services.

u) Investments in associates and jointly controlled entities

Associates are those entities in which the Company has significant influence, but not control, over the financial operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

Jointly controlled entities are those entities over whose activities the Company has joint control, established by contractual agreement.

Investments in associates and jointly controlled entities are accounted for using the equity method and are recognized initially at cost. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Company's share of the net income and equity movements of equity investments, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity investment, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has any obligation to make, or has made, payments on behalf of the investee.

v) 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 Critical judgements in applying accounting policies

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations (note 5), that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

(a) Determination of cash generating units

In performing impairment assessments, assets that cannot be assessed individually are grouped together, in management's judgment, into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Management has determined that there is one CGU, the main product being system sales contracts which leads to the generation of aftercare sales.

(b) Determination of functional currency

The functional currency for each of the Company's subsidiaries, joint ventures and investments in associates is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

5 Key sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of estimates include the following:

(a) Revenue recognition – system sales contracts

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. The extent of progress towards completion is based on internal estimates, with reference to the proportion of work performed during 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 percentage of completion is complex and requires significant judgment. The significant assumptions and factors that can affect the accuracy of the estimate, include but are not limited to, the relative weight of each phase of the contract and the percentage of completion within each contract phase.

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

(b) Impairment of goodwill

In assessing impairment, management estimates the recoverable amounts of the cash-generating unit based on expected future cash flows and uses a weighted average cost of capital to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

(c) Other areas of estimation

Other areas of estimation uncertainty include collectability of accounts receivable, valuation of inventory, the useful lives and recoverability of long-lived assets and the warranty provision.

There is also an estimation uncertainty relating to the COVID 19 pandemic, see note 1 for details on the current estimated impact. Actual results could differ from those estimates.

6 Restricted cash

The balance at December 31, 2021 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, and $55,000 term deposit for the Company's credit cards. Subsequent to the year-ended December 31, 2021, the Company transferred a further $3.1 million to restricted cash (See Note 26).

7 Accounts receivable

	December 31, 2021	**December 31, 2020**
	$	**$**
Receivables due within normal terms of payment	5,486	1,714
Past due receivables	10,647	740
	16,133	2,454
Allowance for expected credit losses	(37)	(38)
Accounts receivables, net of allowance for expected credit losses	16,096	2,416

The Company manages credit risk exposure by principally transacting with high-quality counterparties. As at December 31, 2021, the collection risks from the Company's outstanding accounts receivable were considered low, and the allowance for estimated credit losses was from one customer related to the age of receivable.

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

8 Inventory

	December 31, 2021 $	December 31, 2020 $
Spare parts	785	300
Upgrading equipment held-for-sale	-	1,324
	785	1,624

9 Property and equipment

	Machinery and Equipment $	Right-of-use Assets $	Total $
Cost			
Balance at January 1, 2020	180	903	1,083
Additions	53	109	162
Balance at December 31, 2020	233	1,012	1,245
Additions	187	-	187
Balance at December 31, 2021	420	1,012	1,432
Accumulated depreciation			
Balance at January 1, 2020	30	106	136
Depreciation	56	232	288
Balance at December 31, 2020	86	338	424
Depreciation	84	236	320
Balance at December 31, 2021	170	574	744
Net book value			
December 31, 2020	147	674	821
December 31, 2021	**250**	**438**	**688**

Property and equipment comprise office equipment such as IT and office furniture and site related equipment such as tools and gas measuring devices. Refer to note 14 for further details on the right-of-use assets.

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

10 Intangible assets

	Patents, trademarks and design $	Software and licenses $	Total $
Cost			
Balance at January 1, 2020	9,686	-	9,686
Foreign exchange movement	117	-	117
Balance at December 31, 2020	9,803	-	9,803
Additions	-	30	30
Foreign exchange movement	(141)	-	(141)
Balance at December 31, 2021	9,662	30	9,692
Accumulated amortization			
Balance at January 1, 2020	722	-	722
Amortization	1,238	-	1,238
Foreign exchange movement	22	-	22
Balance at December 31, 2020	1,982	-	1,982
Amortization	1,242	9	1,251
Foreign exchange movement	(37)	-	(37)
Balance at December 31, 2021	3,187	9	3,196
Net book value			
December 31, 2020	7,821	-	7,821
December 31, 2021	**6,475**	**21**	**6,496**

The Company's definite life intangible assets primarily represent the patents, trademarks, design and other intellectual property as a part of the acquisition of the biogas business in 2019 ("Acquisition"). At the time of recognition on Acquisition it was determined that the individual assets were not able to be separated and valued individually. Amortization is based on the useful life of the intangible assets which is identifiable.

11 Goodwill

Goodwill of $10.4 million arose from the Acquisition. Goodwill is allocated to CGUs at a level no greater than the operating segment and the recoverable amount is determined based on an assessment of the value of the applicable CGU. The recoverable amount of the biogas system sales division, which is considered to be the CGU, has been determined using a value in use calculation.

A discounted cash flow model is used to determine the value-in-use amount of the biogas system sales division CGU. As part of this annual goodwill impairment test, assumptions are made in relation to future sales of biogas systems and future operating and capital costs, based on industry growth forecasts and Company specific estimates. The most significant assumptions contained in the model are based on the 2022 forecast and an annual growth rate over the next five years for revenue and cost of sales of 20% and 10% for operating costs, with a terminal value calculated using a 2% growth rate.

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

The model uses a pre-tax weighted average cost of capital of 15.5%. At December 31, 2021, the calculated recoverable amount of the biogas system sales division CGU exceeded the carrying value of the CGU, and therefore no goodwill impairment charge has been recorded.

12 Accounts payable and accrued liabilities

	December 31, 2021 $	December 31, 2020 $
Accounts payable	633	670
Accrued liabilities	3,537	1,160
Accrued costs related to projects	15,962	6,929
Contract liabilities – aftercare services	16	14
	20,148	8,773

13 Contract balances

	Balance at January 1, 2021 $	Revenue Recognized $	Progress Billings $	Balance at December 31, 2021 $
Contract Assets	2,518	48,584	(41,265)	9,837
Contract Liabilities	(1,661)	3,469	(3,254)	(1,446)
	857	52,053	(44,519)	8,391

	Balance at January 1, 2020 $	Revenue Recognized $	Progress Billings $	Balance at December 31, 2020 $
Contract Assets	1,745	8,189	(7,416)	2,518
Contract Liabilities	(2,049)	11,389	(11,001)	(1,661)
	(304)	19,578	(18,417)	857

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.

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

The revenue recognized during the year and the contract balances at December 31, 2021 primarily relate to seventeen projects (seven projects as at December 31, 2020).

14 Lease liabilities

The Company recognizes right-of-use assets (note 9) and lease liabilities in relation to office leases of Greenlane's headquarters in Burnaby, British Columbia, and operations office in Sheffield, UK, and auto leases for the service team in the UK.

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 entered into.

	December 31, 2021 **$**	**December 31, 2020** **$**
Balance, beginning of the year	686	824
Additions	-	93
Lease payments	(263)	(287)
Interest expenses	39	53
Foreign exchange movement	(3)	3
Balance, end of the year	459	686
Less: Current portion of lease liabilities	242	225
Non-current portion of lease liabilities	217	461

The lease payments for the remaining term are presented in the following table:

	Office lease in Canada **$**	**Office lease in UK** **$**	**Auto leases in UK** **$**	**Total** **$**
Year 1	190	46	29	265
Year 2	141	46	4	191
Year 3	-	34	-	34

15 Warranty liabilities

The Company provides a warranty following the sale of certain products. As a consequence, 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 the warranties expire within less than 24 months, no discounting has been assumed.

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

	December 31, 2021 $	December 31, 2020 $
Balance, beginning of the year	227	456
Additions in the period	153	273
Charges against provision	(15)	(221)
Provision expired	(112)	(284)
Foreign exchange	(1)	3
Balance, end of the year	252	227
Less: Current portion	102	121
Non-current portion	150	106

16 Promissory note

As part of the consideration for the Acquisition, the Company issued a promissory note in the amount of £6.1 million, denominated 50% in British pounds sterling and 50% in Canadian dollars. The Canadian dollar component was fixed at an amount of $5.3 million. The promissory note incurred interest at 7% per annum with an original maturity date of June 3, 2023.

In February 2020 the Company paid Pressure Technologies plc ("Pressure Technologies) $3.4 million principal and $0.2 million interest on the promissory note, with partial use of proceeds from an equity raise in February 2020. On July 2, 2020, the Company executed a framework agreement with Pressure Technologies (the "Framework Agreement"), under which the principal value of the promissory note was reduced by $1.8 million to $5.2 million following the disposition of Pressure Technologies entire equity interest in the Company issued to Pressure Technologies in connection with the Company's acquisition of PT Biogas in June 2019. In order to facilitate the transaction, Brad Douville (President, Chief Executive Officer and Director of the Company) and Creation Partners LLP (a partnership owned and controlled by certain Directors of the Company, collectively "the Parties"), as parties to the Framework Agreement, agreed to release Pressure Technologies from its obligations under certain agreements entered into with the Parties that required Pressure Technologies to place certain common shares and warrants in escrow pending repayment in full of the promissory note. In exchange Pressure Technologies agreed to complete the immediate transfer of common shares and warrants in escrow to the Parties from their free-trading and escrow positions. Under the Framework Agreement the maturity date of the remaining balance of the promissory note advanced from June 3, 2023 to June 30, 2021. On February 12, 2021, the promissory note was repaid early, in full, including interest and principal.

In accordance with IFRS 9 – Financial Instruments, the Company accounted for the transaction as an extinguishment of the original promissory note and a new promissory note was recorded to reflect the terms per the Framework Agreement, with a revised principal amount of $5.2 million. The Company recorded a gain of $1.8 million (net of transaction costs) in the statement of operations in 2020.

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

	Balance $
Balance, January 1, 2020	10,964
Repayments	(3,616)
Settlement of promissory note (Framework Agreement)	(7,046)
Issuance of new promissory note (Framework Agreement)	5,174
Interest accrual	465
Foreign exchange movement	16
Balance, December 31, 2020- new promissory note	5,957
Interest accrual	47
Foreign exchange movement	37
Repayments	(6,041)
Balance, December 31, 2021	-

17 Share capital

Common shares

At December 31, 2021, the Company had unlimited authorized common shares without par value and 150,293,991 common shares issued and outstanding (December 31, 2020 – 114,681,456).

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.

Grant date	**January 27, 2021**
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	-

During the year ended December 31, 2021, 1,145,316 options were exercised, and the fair value of $0.2 million was transferred from contributed surplus to share capital; 62,666 restricted share units (RSUs) were exercised, and the fair value of $0.03 million was transferred from contributed surplus to share capital; and 22,214,553 warrants were exercised, and the fair value of $0.8 million was transferred from contributed surplus to share capital.

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

Warrants outstanding

At December 31, 2021, the Company had 0.7 million warrants outstanding (December 31, 2020 – 22.4 million), as follows:

Warrant exercise price	**$0.26**	**$0.70**	**$2.17**	**Total**
Expiry	Jun 3, 2021	Feb 19, 2021	Jan 27, 2022	
Number of warrants, January 1, 2020	30,191,612	-	-	30,191,612
Granted	-	11,500,000	-	11,500,000
Exercised	(10,493,465)	(8,844,400)	-	(19,337,865)
Number of warrants, December 31, 2020	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
Proceeds from exercise, 2020	$2,728	6,192	-	$8,920
Proceeds from exercise, 2021	$5,093	$1,813	$79	$6,985

During the year ended December 31, 2021, a total of 22.2 million warrants were exercised for $7.0 million (December 31, 2020: 19.3 million warrants for $8.9 million). The fair value associated with the warrant exercises of $0.8 million was transferred from contributed surplus to share capital (December 31, 2020: $0.9 million). On expiry of the $0.70 warrants on February 19, 2021, and $0.26 warrants on June 3, 2021, 65,000 and 110,764 warrants, respectively, remained unexercised and were cancelled.

Subsequent to December 31, 2021, on January 27, 2022 the $2.17 warrants expired and 694,830 unexercised warrants were cancelled.

Omnibus Incentive Plan

The Company has in place a stock option plan (“Legacy Option Plan”) and restricted share unit plan (“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 (with shareholder approval received at the June 23, 2021 Annual General Meeting) under which the Company can award both stock options and 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, 2021 stock options and RSUs issued under both the legacy plans and new Omnibus Incentive Plan represented 4% of issued and outstanding common share capital.

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

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.

Stock options

A summary of the Company's stock 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, 2020	6,792,780	0.18
Granted	2,512,000	0.52
Exercised	(3,907,796)	0.26
Forfeited	(155,000)	0.26
Balance, December 31, 2020	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

As at December 31, 2021, 3,202,666 options were exercisable (December 31, 2020 – 3,604,650).

The following table summarizes information about stock options outstanding as at December 31, 2021:

Exercise price	Number outstanding	Weighted average remaining life in years
$0.10	675,000	6.84
$0.20	2,488,000	2.42
$0.39	142,000	3.66
$0.50	686,667	3.40
$0.74	75,000	3.88
$1.66	105,500	4.87
$1.68	371,970	4.39
$1.72	455,000	4.63
$1.94	70,000	4.21

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

There were four option grants during the year. The value of the stock options issued was estimated using the Black-Scholes option pricing model with the following assumptions:

Grant date	**March 16, 2021**	**May 21, 2021**	**August 17, 2021**	**November 12, 2021**
Number of options granted	190,000	381,970	470,000	105,500
Exercise price	$1.94	$1.68	$1.72	$1.66
Fair value per option	$1.26	$1.07	$1.07	$1.00
Risk-free rate	0.21%	0.21%	0.27%	0.67%
Expected volatility	99.67%	97.05%	94.29%	91.21%
Expected life in years	3.5	3.5	3.5	3.5
Expected dividend yield	-	-	-	-

The Company recognized share-based compensation expense relating to stock options of $0.6 million during the year ended December 31, 2021 (December 31, 2020: $0.4 million, including $0.2 million relating to the agent options issued).

Subsequent to the year-end, 6,666 options were exercised for proceeds of $1,333 and 2,016,270 options were granted at an exercise price of $1.15.

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, 2020	-
Granted	960,038
Balance, January 1, 2021	960,038
Granted	348,420
Exercised	(62,666)
Balance, December 31, 2021	1,245,792

In January 2021, the Company granted 130,414 RSUs to non–executive directors with vesting after one year and a fair value of $0.3 million. In May 2021, the Company granted 218,006 RSUs to the management team with vesting over 3 years and a fair value of $0.4 million. The fair value per RSU was determined based on the Company's share price on the grant date with no adjustments for dividend yield or other terms and conditions. The Company recognized share-based compensation expense of $0.5 million during the year ended December 31, 2021, related to RSUs (December 31, 2020: $0.2 million).

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

Subsequent to the year-end, 261,957 RSUs were granted to non-executive directors of the Company, vesting after one year, and 870,504 RSUs were granted to the management team and certain employees with vesting over 3 years.

18 Cost of goods sold (excluding depreciation and amortization)

The following is a breakdown of the Company's cost of goods sold (excluding depreciation and amortization) by nature of the expense:

	Year ended December 31, 2021 $	Year ended December 31, 2020 $
Inventory	1,496	790
Materials	36,501	13,473
Labour and consultants	3,178	1,823
Warranty additions and releases	40	(11)
	41,215	16,075

19 General and administration

The following is a breakdown of the Company's general and administration expenses by the nature of the expense:

	Year ended December 31, 2021 $	Year ended December 31, 2020 $
Professional fees	1,203	652
Research and development	758	85
Consulting fees	735	241
Insurance	651	576
Other	648	546
Public company expenses	635	50
Strategic initiatives	484	-
Investor relations	290	393
IT expenses	218	227
Travel and conference	134	218
Trade subscriptions	108	111
	5,864	3,099

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

20 Credit facilities

In 2020 the Company issued a performance bond for US$0.5 million through Atlantic Specialty Insurance Company ("ASIC"), partially guaranteed by Export Development Canada ("EDC") to one customer. The performance bond remained in effect throughout 2021. In 2021, a payment bond issued in 2020 for US$0.9 million, through ASIC to another customer, was cancelled.

In 2021, the Company issued a standby letter of credit for €0.8 million through TD to a customer, secured by a $1.6 million term deposit with TD.

Upon demand of either the performance bond or the letter of credit, the Company would be required to compensate ASIC, EDC or TD for any losses and expenses as applicable.

21 Related party transactions

Key management includes Directors, the CEO and the Chief Financial Officer (CFO), who have the authority and responsibility for the planning, directing and controlling the activities of the Company. The remuneration paid and payable to these key management personnel during the year ended December 31, 2021 and December 31, 2020 is outlined below:

	Year ended December 31, 2021 $	Year ended December 31, 2020 $
Non-executive Directors fees (excluding share-based compensation)	382	-
Salary and other short-term benefits	1,141	672
Share-based compensation	551	96
	2,074	768

In February 2021, the Company settled all amounts due to the former parent company of PT Biogas, relating to the acquisition of PT Biogas by the Company in June 2019, including the outstanding promissory note and accrued interest ($6.0 million, Note 16) and intercompany invoices ($0.4 million).

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

22 Segmented information

The Company has one operating segment, which is further broken down into two revenue streams, system sales and aftercare service and spare part sales:

	Year ended December 31, 2021 $	Year ended December 31, 2020 $
System sales	52,053	19,578
Aftercare services and spare part sales	3,298	2,922
	55,351	22,500

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

	Year ended December 31, 2021 $	Year ended December 31, 2020 $
System sales revenue		
United States	44,615	15,538
Europe	3,146	-
Other	4,292	4,040
	52,053	19,578
Aftercare services revenue		
United States	129	181
Europe	1,901	2,356
Other	1,268	385
	3,298	2,922
Total revenue		
United States	44,744	15,719
Europe	5,047	2,356
Other	5,560	4,425
	55,351	22,500

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

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

	Canada $	**Europe $**	**US $**	**Total $**
Current assets	57,443	3,564	79	61,086
Property and equipment	495	193	-	688
Deferred tax assets	111		-	111
Goodwill	10,405	-	-	10,405
Intangible assets	20	6,476	-	6,496
	68,474	10,233	79	78,786

At December 31, 2020 the location of Company assets was as follows:

	Canada $	**Europe $**	**US $**	**Total $**
Current assets	23,004	1,117	4	24,125
Property and equipment	547	274	-	821
Goodwill	10,405	-	-	10,405
Intangible assets	-	7,821	-	7,821
	33,956	9,212	4	43,172

23 Income taxes

a) Income tax (expense) recovery

	December 31, 2021 $	**December 31, 2020 $**
Current tax expense		
Current period	(34)	-
Deferred tax (expense) / recovery		
Origination and reversal of temporary differences	228	414
Change in tax rates	59	(9)
Change in unrecognized deductible temporary differences	(177)	(327)
Total income tax recovery, net	76	78

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

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to income before tax. These differences result from the following.

	December 31, 2021 $	December 31, 2020 $
Loss before tax	(2,526)	(2,549)
Statutory income tax rate	27.00%	27.00%
Expected income tax recovery	682	688
(Increase) / decrease resulting from:		
Non-taxable items	(300)	(143)
Change in unrecognized deductible temporary	(177)	(327)
Change in tax rates	59	(9)
Tax rate differences	(188)	(131)
Total income tax recovery, net	76	78

b) Recognized deferred tax assets and liabilities

	December 31, 2021 $	December 31, 2020 $
Deferred tax assets are attributable to the following:		
Loss carryforwards	161	205
Lease liability	117	38
Other	68	-
Deferred tax assets	346	243
Deferred tax assets set off against deferred tax liability	(235)	(243)
Net deferred tax assets	111	-
Deferred tax liabilities are attributable to the following:		
Intangibles	(98)	(85)
Property and equipment	(137)	(158)
Deferred tax liabilities	(235)	(243)
Deferred tax liabilities set off against deferred tax assets	235	243
Net deferred tax liabilities	-	-

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

c) Movement in deferred tax balances

	Balance at January 1, 2021	Recognized in profit (loss)	Balance at December 31, 2021
Loss carryforwards	205	(44)	161
Lease liability	38	79	117
Other	-	68	68
Intangibles	(85)	(13)	(98)
Property and equipment	(158)	21	(137)
Net deferred tax assets (liabilities)	-	111	111

d) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

	December 31, 2021 $	December 31, 2020 $
Deductible temporary differences	4,120	3,379
Tax losses	9,266	5,938
Unrecognized amount for deferred tax assets	13,386	9,317

The Company has Canadian loss carryforwards of $5.7 million (2020 - $4.9 million) which expire between 2038 and 2042; United Kingdom loss carryforwards of $3.2 million (2020 - $1.0 million) which carryforward indefinitely; US federal net operating loss carryforwards of $0.02 million (2020 - $nil) which carryforward indefinitely; and Netherlands loss carryforwards of $0.4 million (2020 - $nil) that may be carried forward for six years.

24 Financial instruments

Financial assets and liabilities recorded or disclosed at fair value in the consolidated statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value.

The Company's financial assets and financial liabilities are measured and/or disclosed at fair value by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's policy is to recognize transfers in and out of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfer. There were no such transfers during the year ended December 31, 2021.

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

At December 31, 2021 and December 31, 2020, the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, other receivables, accounts payable and accrued liabilities, approximate their fair value due to their short-term nature.

a) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents, restricted cash and accounts 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 to be limited to the value of the provision for allowance for expected credit losses which has been recognized.

b) 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 ("US dollar"), UK pounds sterling ("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 US dollar, 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, accounts payable and accrued liabilities and the promissory note (prior to the repayment in full in February 2021).

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**	
	December 31, 2021	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
GBP	906	555	302	2,109
Euro	1,625	96	1,122	33
US dollar	6,706	5,199	164	7

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

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	US
10% strengthening of the Canadian dollar (increase)/decrease the net loss	115	61	922
10% weakening of the Canadian dollar (increase)/decrease the net loss	(94)	(50)	(754)

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.

c) 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, 2021 the Company has no interest bearing financial liabilities.

d) 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 out of 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:

	Payments due by period (as at December 31, 2021)				
	Less than one year $	1 – 3 years $	4 – 5 years $	After 5 years $	Total $
Accounts payable and other liabilities	20,148	-	-	-	20,148
Lease liabilities	242	217	-	-	459
Warranty liabilities	102	150	-	-	252
Contract liabilities	1,446	-	-	-	1,446
	21,938	367	-	-	22,305

25 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, 2020.

26 Subsequent events

In January 2022, the Company issued a further standby letter of credit to one customer for €0.8 million, secured by an additional $1.6 million term deposit with TD (see note 20 for details of the first letter of credit). In addition, in January 2022, the Company issued a performance bond for US$4.8 million through ASIC to a customer, partially secured by a cash deposit of US$1.2 million.

On February 1, 2022, the Company acquired 100% outstanding shares of Airdep S.R.L.("Airdep"), a provider of biogas desulfurization and air deodorization products based in Vicenza, Italy. Consideration for the acquisition of Airdep comprised of $8.0 million (€5.5 million) in cash paid on closing and $1.4 million (€1.0 million) in the Company's shares issuable in equal tranches over the following 4 quarters, with additional contingent earn-out consideration of up to $3.6 million (€2.5 million). The earn-out will be calculated based on future company financial performance, and if thresholds are met, become payable in early 2025 in cash, or a combination of cash and the Company shares, at the Company's option. The total maximum consideration for the acquisition is $13.0 million (€9.0 million). The initial purchase price accounting for the business combination is incomplete at this time due to the transaction only closing on February 1, 2022.

In February 2022, the Company entered into a new $12.5 million credit facility with TD secured by a guarantee from EDC to provide further guarantees and letters of credit to its customers for system supply contracts that require them.