Greenlane Renewables Inc.
(formerly Creation Capital Inc.)

Consolidated Financial Statements
For the year ended
December 31, 2019 and the period
from February 15, 2018 to December
31, 2018
(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. (formerly Creation Capital Corp.) and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the year then ended and for the period beginning February 15, 2018 and ended December 31, 2018 in accordance with international reporting standards as issued by 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, 2019 and 2018;
- the consolidated statements of operations for the year ended December 31, 2019 and for the period beginning February 15, 2018 and ended December 31, 2018;
- the consolidated statements of comprehensive loss for the year ended December 31, 2019 and for the period beginning February 15, 2018 and ended December 31, 2018;
- the consolidated statements of changes in equity for the year ended December 31, 2019 and for the period beginning February 15, 2018 and ended December 31, 2018;
- the consolidated statements of cash flows for the year ended December 31, 2019 and for the period from February 15, 2018 (date of incorporation) to December 31, 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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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Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

The engagement partner on the audit resulting in this independent auditor's report is Craig McMillan.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 28, 2020

Greenlane Renewables Inc.

(formerly Creation Capital Corp.)
Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

	December 31, 2019 $	December 31, 2018 $
Assets		
Current assets		
Cash and cash equivalents	2,269	524
Accounts receivable (note 7)	1,436	-
Inventory (note 8)	223	-
Prepaid expenses and other receivables	576	4
Contract assets	1,745	-
	6,249	528
Property and equipment (note 9)	947	-
Intangible assets (note 10)	8,964	-
Goodwill (note 11)	10,405	-
	26,565	528
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	4,456	91
Deferred revenue	40	-
Contract liabilities (note 13)	2,049	-
Lease liability, current portion (note 9)	186	-
Warranty liability, current portion (note 14)	456	-
	7,187	91
Lease liability, non-current portion (note 9)	638	-
Promissory note (note 15)	10,964	-
Deferred tax liability (note 23)	78	-
	18,867	91
Shareholders' Equity		
Share capital (note 16)	11,282	549
Contributed surplus	1,510	81
Accumulated other comprehensive income	152	-
Deficit	(5,246)	(193)
	7,698	437
	26,565	528

Nature of operations and going concern (Note 1)
Subsequent event (Note 26)

Approved by the Board of Directors and authorized for issue on April 28, 2020

"Brad Douville" Director *"David Blaiklock"* Director

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

Greenlane Renewables Inc.

(formerly Creation Capital Corp.)
Consolidated Statements of Operations

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

	Year ended December 31, 2019 $	Period beginning February 15, 2018 ended December 31, 2018 $
Revenue	9,123	-
Cost of goods sold (note 18)	(5,853)	-
Gross profit	3,270	-
General and administrative (note 19)	(5,959)	(193)
Operating loss	(2,689)	(193)
Other income (expenses):		
Finance expense	(446)	-
Change in fair value of special warrants (note 16)	194	-
Transaction costs related to Qualifying Transaction and issuance of Special Warrants	(2,270)	-
Foreign exchange loss	(117)	-
Loss before taxes	(5,328)	(193)
Income tax recovery (note 23)	275	-
Net loss	(5,053)	(193)
Basic and diluted loss per share	(0.16)	(0.04)
Weighted average numbers of shares	31,864,610	5,000,000

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

Greenlane Renewables Inc.

(formerly Creation Capital Corp.)
Consolidated Statements of Comprehensive Loss

(in thousands of Canadian dollars)

	Year ended December 31, 2019 $	Period beginning February 15, 2018 ended December 31, 2018 $
Net loss	(5,053)	(193)
Other comprehensive Income (loss)		
Item that may be subsequently reclassified to net income:		
Foreign currency translation adjustment	152	-
Total other comprehensive income	152	-
Total comprehensive loss	(4,901)	(193)

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

Greenlane Renewables Inc.

(formerly Creation Capital Corp.)

Consolidated Statement of Changes in Equity

For the period from February 15, 2018 (date of incorporation) to December 31, 2019

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

	Share capital (number of shares)	Share capital $	Contributed surplus $	Accumulated other comprehensive income $	Deficit $	Total $
Private placement on incorporation February 15,2018	4,000,000	200	-	-	-	200
Initial public offering (IPO) – net of issue costs	5,000,000	371	-	-	-	371
Options issued to agent in conjunction with IPO	-	(22)	22	-	-	-
Share-based payments	-	-	59	-	-	59
Net loss for the period	-	-	-	-	(193)	(193)
Balance – December 31, 2018	9,000,000	549	81	-	(193)	437
Additional IPO costs	-	(20)	-	-	-	(20)
Agent options issued on special warrants (note 17)	-	-	195	-	-	195
Share-based compensation expense (note 17)	-	-	301	-	-	301
Options exercised	52,570	7	(3)	-	-	4
Conversion of special warrants	59,383,225	10,746	936	-	-	11,682
Currency translation adjustment	-	-	-	152	-	152
Net loss for the period	-	-	-	-	(5,053)	(5,053)
Balance – December 31, 2019	68,435,795	11,282	1,510	152	(5,246)	7,698

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

Greenlane Renewables Inc.

(formerly Creation Capital Corp.)
Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	Year ended December 31, 2019 $	February 15 to December 31, 2018 $
Cash provided by (used in)		
Operating activities		
Loss for the period	(5,053)	(193)
Adjustments for non-cash items		
Unrealised foreign exchange loss	133	-
Gain on change in fair value of special warrants	(194)	-
Depreciation and amortization	845	-
Finance expense	446	-
Transaction costs related to Qualifying Transaction and issuance of Special Warrants	1,478	-
Deferred income tax recovery	(275)	-
Share-based compensation	496	59
	(2,124)	(134)
Other adjustments		
Changes in current assets	(262)	(2)
Changes in current liabilities	216	89
Changes in construction contract position	(614)	-
Interest paid on leases	(27)	-
Cash used in operating activities	(2,811)	(47)
Investing activities		
Purchase of plant and equipment	(47)	
Cash consideration paid for PT Biogas	(3,415)	
Cash acquired on acquisition of PT Biogas	1,201	-
Cash used in investing activities	(2,261)	
Financing activities		
Transaction costs	(1,498)	-
Proceeds from options exercised	4	
Lease payments	(81)	
Proceeds from private placement	8,392	571
Cash generated by financing activities	6,817	571
Increase in cash	1,745	524
Cash – Beginning of period	524	-
Cash – End of period	2,269	524

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

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

1 Nature of operations and going concern

Greenlane Renewables Inc (formerly Creation Capital Corp.) (“Greenlane” or “the Company”) was incorporated under the British Columbia Business Corporations Act on February 15, 2018. The Company was classified as a Capital Pool Company as defined in the TSX Venture Exchange (the Exchange) Policy 2.4. The principal business of the Company was the identification and evaluation of a Qualifying Transaction (QT) and, once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval, if required, and acceptance by regulatory authorities.

On April 1, 2019, the Company entered into a share purchase agreement (the Share Purchase Agreement) with Pressure Technologies plc (Pressure Technologies), a United Kingdom company listed on the AIM market of the London Stock Exchange, to acquire its wholly-owned subsidiary PT Biogas Holdings Limited (PT Biogas), trading as Greenlane Biogas (the Acquisition). The Acquisition constituted the Company’s QT. On May 30, 2019, the Company completed a private placement of subscription receipts for gross proceeds of $8.4 million, which were partially used to fund the Acquisition. On June 3, 2019 the Company completed the Acquisition and changed its name from Creation Capital Corp. to Greenlane Renewables Inc.

These consolidated financial statements reflect the business of Creation Capital Corp. for all periods shown and the business and operations of PT Biogas from June 3, 2019. Following the acquisition of PT Biogas on June 3, 2019 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 comparative information for 2018 in the consolidated statement of operations, consolidated statement of comprehensive loss and the consolidated statement of cash flows reflects the period from the date of incorporation on February 15, 2018 to December 31, 2018.

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.

Going concern

These consolidated financial statements have been prepared by management using generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. In the year ended December 31, 2019, the Company incurred an operating loss of $2.7 million and had an operating cash outflow of $2.8 million. As of December 31, 2019, the Company has a working capital deficit (including cash) of $0.9 million. Subsequent to December 31, 2019, in February 2020, the Company completed a public offering of common shares for gross proceeds of $11.5 million (refer to subsequent events note 26 for further details); a portion of the proceeds are to be used for general corporate purposes and for working capital.

The continuing operations of the Company are dependent upon its ability to continue to secure upgrader contracts to realize profitable operations in the future. Contract awards are dependent on customer-related

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

factors such as specifying system design, securing project funding and permitting, government-related factors such as the continuance of existing and the introduction of new policies, mandates and regulations that encourage the use of renewable natural gas. There can be no assurance that management will be successful in securing these upgrader contracts. In addition, the timing of contract awards can be delayed longer than expected. In the event that upgrader contract awards are not secured or delayed and as a result, cash flow from operations does not adequately support the fixed costs of the Company, the Company may then be required to re-evaluate its planned expenditures and may require future financings in such a manner as the Board of Directors and management deem to be in the Company's best interest. This may result in a substantial reduction of the scope of existing and planned operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern.

These consolidated financial statements do not reflect any adjustments to the carrying values of assets and liabilities, which may be required should the Company be unable to continue as a going concern. These adjustments may be material.

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. 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 on April 28, 2020.

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.

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

i) Subsidiaries:

The Company's subsidiaries comprise PT Biogas, Greenlane Biogas North America Limited, PT Biogas Technology Limited, Greenlane Biogas Europe Limited and Greenlane Biogas UK Limited which are wholly owned. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated.

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

iii) 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 North America Limited the Canadian dollar, for PT Biogas, PT Biogas Technologies Limited and Greenlane Biogas UK Limited the British pound sterling and for Greenlane Biogas Europe Limited the Euro.

The results of overseas subsidiary undertakings are translated at the 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 are 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

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

comprehensive income and subsequently recognized in the accumulated other comprehensive income/(loss) 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.

d) Cash and cash equivalents

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

Cash equivalents comprise short-term, highly liquid investments with maturities of three months or less from inception 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) 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.

The Company adopted IFRS 9, Financial Instruments, on its incorporation.

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

b) *Financial assets: classification and measurement*

The Company classifies its financial assets 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. There are three measurement categories under which the Company classifies its financial assets:

i) Amortized cost: 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.

ii) Fair value through OCI (FVOCI): Debt instruments that are held for collection of contractual cash flows and for selling the debt instruments, where the respective asset's cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue, and foreign exchange gains and losses which are recognized in profit or loss. When the debt instrument is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these debt instruments is included as finance income using the effective interest rate method.

iii) Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is

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

recognized in profit or loss and presented net as revenue in the statement of operations in the period in which it arises.

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

c) *Financial liabilities*

A financial liability is classified as at 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. The Company's special warrants were classified as financial liabilities at 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.

At present, the Company designate accounts payable and accrued liabilities, and warranty liability at FVTPL, and the promissory note as held at amortized cost.

d) *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.

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 future technology or other market-driven changes.

g) 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.

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

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.

h) Intangible assets

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

The intangible assets are being amortized over 7 years and 10 months, being the period over which the patents are currently held. 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.

i) 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 CGUs) 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

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

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.

j) Leases

The Company adopted IFRS 16, Leases, on acquisition of PT Biogas on June 3, 2019, prior to this date the Company did not hold any leases. In accordance with IFRS 16, leases of assets that confer a right to use in exchange for payment over a term exceeding 12 months recognize an asset and liability at the commencement of the lease contract.

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 arise.

k) 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.

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

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.

l) 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 recognised 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 transactions, 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.

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

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.

m) 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) Upgrader Contracts

Contract revenue for biogas upgrader projects is recognized in accordance with IFRS 15 Revenue from Contracts with Customers.

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. The stage of completion of a contract is determined by internal estimates, with reference to the proportion of costs incurred and the proportion of work performed. Revenue is recognized in proportion to the total revenue expected on the contract.

Prior to this recognition, stage payments received from customers and made to suppliers are recorded in the statement of financial position as contract assets and contract liabilities as appropriate.

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 recognised in revenue are in excess of amounts invoiced an asset is recognized. Similarly, a liability is recognized (“Contract liability”) where billings to date exceed revenue recognized.

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

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

b) Aftercare Services

The Company generates additional revenue from after-sales service and maintenance. Revenue on these maintenance and service agreements is recognized in accordance with IFRS 15. Revenue is recognized on a straight line basis over the term of the maintenance or service agreement.

n) 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.

o) General and administrative expenses

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

p) 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 group 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. Pension contributions are recognized as an employee benefit expense in profit or loss in the period during which services are rendered by employees.

q) 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. The number of instruments that could potentially dilute basic earnings per share in the future, but were not included in a calculation of diluted earnings per share because they are antidilutive for the period presented is 35,951,392. This is based on warrants outstanding and vested options at December 31, 2019.

r) 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. 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

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

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.

s) 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 CEO) to make decisions about resources allocated to the segment and to assess the segment's performance.

The Company has one operating segment.

t) Recent accounting pronouncements

At this time, we do not expect future accounting changes to impact our significant accounting policies.

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 upgrading 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.

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

(c) Purchase price allocations

Purchase prices related to business combinations are allocated to the underlying acquired assets and liabilities based on their estimated fair value at the time of acquisition. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding future events. The allocation process is inherently subjective and impacts the amounts assigned to individually identifiable assets and liabilities. As a result, the purchase price allocation impacts the Company's reported assets and liabilities and future net earnings due to the allocation's impact on future depreciation and amortization expense and impairment tests.

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 collectability of accounts receivable, valuation of inventory, the useful lives and recoverability of long-lived assets, the annual assessment of impairment of goodwill, percentage of completion of upgrader contracts, warranty provisions, special warrant liability and determining the fair value of assets acquired and liabilities assumed when accounting for a business combination. There is also an estimation uncertainty relating to the COVID 19 pandemic, see subsequent events note 26 for details on the current estimated impact. Actual results could differ from those estimates.

6 Business combination and qualifying transaction

On June 3, 2019, the Company acquired the alternative energy division of Pressure Technologies through the purchase of all of the outstanding shares of PT Biogas for a price of $17.4 million (£10.1 million), after adjustments for working capital. 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 consideration paid by the Company to Pressure Technologies at the date of acquisition was as follows:

	$
Cash	3,415
Issuance of special warrants	3,484
Issuance of promissory note	10,497
	17,396

The issuance of the special warrants and promissory note to Pressure Technologies to the value of $14.0 million were non-cash items.

The fair value of the assets acquired and liabilities assumed were as follows:

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

	$
Cash and cash equivalents	1,201
Accounts receivables	1,111
Other current assets	467
Inventory	237
Other non-current assets	133
Right of use asset	716
Intangible assets with a defined life	9,517
Trade payables and other current liabilities	(4,670)
Contract liabilities	(917)
Deferred tax liability	(88)
Lease liabilities	(716)
Identifiable net assets of business acquired	6,991
Goodwill	10,405
	17,396

Goodwill represents the excess of the cost of acquisition over the net identifiable tangible and intangible assets acquired and liabilities assumed at their acquisition-date fair values and represents the value attributable to management strength and experience of developing, selling and maintaining biogas upgrading facilities. The fair value allocated to tangible and intangible assets acquired and liabilities assumed is based on assumptions of management. The fair value of intangible assets acquired was calculated using level 3 unobservable inputs. The estimated fair value was calculated using a weighted average of market approach and income approach (royalty method). The market approach was based on publicly available similar intellectual property valuations, made as part of the sale transactions in comparable acquisitions. The assumptions used in the income approach include the future expected cash flows arising from the intangible assets identified as revenue backlog, customer relationships and trademarks.

Since the date of Acquisition, the Company has recognized $9.1 million of revenue and $4.9 million loss in the consolidated statement of operations and consolidated statement of comprehensive loss. The loss includes $2.1 million of non-recurring expenses mainly comprising issue costs of, and fair value adjustments to, the special warrants and expenses of the QT.

The revenue and loss for the combined entity for the period ended December 31, 2019 assuming the Acquisition had occurred on January 1, 2019 is $11.2 million and $7.7 million, respectively. The loss includes $2.1 million of non-recurring expenses as described in the previous paragraph.

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

7 Accounts receivable

	December 31, 2019 $	December 31, 2018 $
Receivables due within normal terms of payment	585	-
Past due receivables	893	-
	1,478	-
Allowance for expected credit losses	(42)	-
Accounts receivables, net of allowance for expected credit losses	1,436	-

8 Inventory

Inventory consists of spare parts required to maintain upgrader plants. Cost of goods sold includes $0.9 million related to spare parts.

9 Property and equipment

Property and equipment is a combination of equipment and right-of-use assets related to the Company office leases.

	$
Property and equipment	150
Right-of-use assets	797
	947

Property and equipment comprises office equipment such as IT and office furniture and site related equipment such as tools and gas measuring devices.

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

	$
Cost	
Balance at December 31, 2018	-
Assets acquired (note 6)	133
Additions	47
Balance at December 31, 2019	180
Accumulated depreciation	
Balance at December 31, 2018	-
Additions	30
Balance at December 31, 2019	30
Net book value	
At December 31, 2019	150
At December 31, 2018	-

Right-of-use assets and lease liability

The Company recognized a right-to-use asset and lease liability in relation to an office lease of Greenlane's headquarters in Burnaby, British Columbia, which it assumed as part of its QT (note 6).

During the year ended December 31, 2019 the Company recognized a right-to-use asset and lease liability in relation to an office lease of the Company's UK operations in Sheffield, UK.

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

The incremental borrowing rate applied was 7% per annum.

Building leases	**Right of use assets $**	**Lease liability $**
Balance at December 31, 2018	-	-
Assets / liabilities acquired (note 6)	716	716
Additions	174	174
Depreciation	(106)	-
Lease payment	-	(108)
Interest expense	-	29
Foreign exchange movement	13	13
Carrying value at December 31, 2019	797	824

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

Current portion of lease liabilities	186
Non-current portion of lease liabilities	638

The lease for the Company’s headquarters in Burnaby, British Columbia, has a remaining term of four years and future payments are presented in the following table:

	$
Year 1	191
Year 2	191
Year 3	196
Year 4	196

The lease for the Company’s UK office in Sheffield, United Kingdom, has a remaining term of five years and future payments are presented in the following table:

	$
Year 1	43
Year 2	43
Year 3	43
Year 4	43
Year 5	43

10 Intangible assets

The Company’s definite life intangible assets represent the patents, trademarks, design and other intellectual property acquired as part of the Company’s QT (note 6). The individual assets are not able to be separated and valued individually. Amortization is based on the life of the patents which is identifiable.

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

	Patents, trademarks and design $
Cost	
Balance at December 31, 2018	-
Assets acquired (note 6)	9,517
Foreign exchange movement	169
Balance at December 31, 2019	9,686
Accumulated amortization	
Balance at December 31, 2018	-
Amortization	709
Foreign exchange movement	13
Balance at December 31, 2019	722
Net book value	
At December 31, 2019	8,964
At December 31, 2018	-

11 Goodwill

Goodwill of $10.4 million arose from the acquisition of PT Biogas (note 6), on June 3, 2019. 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 upgrader 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 upgrader sales division CGU. As part of this annual goodwill impairment test, assumptions are made in relation to future sales of biogas upgraders 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 2020 forecast and an annual growth rate over the next five years for revenue and cost of sales of 14% and 2.5% for operating costs, with a terminal value calculated using a 2% growth rate.

The model uses a pre-tax weighted average cost of capital of 15%. At December 31, 2019, the calculated recoverable amount of the biogas upgrader division CGU exceeded the carrying value of the CGU, and therefore no goodwill impairment charge has been recorded.

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

12 Accounts payable and accrued liabilities

	December 31, 2019 $	December 31, 2018 $
Accounts payable	978	91
Accrued liabilities	787	-
Accrued costs related to projects	2,691	-
	4,456	91

13 Contract balances

	$
Balance at December 31, 2018	-
Contract balance acquired (note 6)	(917)
Revenue recognized	6,969
Progress billings	(6,356)
	(304)
Represented by:	
Contract assets balance at December 31, 2019	1,745
Contract liabilities balance at December 31, 2019	(2,049)
	(304)

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 increase in the contract liabilities since the date of acquisition is due to four projects where billings have been invoiced to customers that have not yet been recognized in revenue.

14 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 installation. 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 are short-term in nature, no discounting has been assumed.

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

	$
Balance at December 31, 2018	-
Provision acquired (note 6)	819
Additions in the period	408
Charges against provision	(311)
Provision expired	(480)
Foreign exchange	20
Balance at December 31, 2019	456
Less: Current portion	(456)
Non-current portion	-

15 Promissory note

As part of the consideration for the Acquisition (note 6), 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 bears interest at 7% per annum and matures on June 3, 2023. There are no principal or interest payments required prior to maturity unless i) the Company complete an equity financing, prior to repayment of the promissory in note in full, in which case the Company is required to pay down the promissory note by the lessor of 50% of the net proceeds of any such equity financing and such amount that results in the aggregate principal amount falling under £4.1 million, and ii) Pressure Technologies subordinates its security for certain financings, in which case the Company will be required to pay interest on a current basis. The promissory note is secured by a pledge of all of the issued and outstanding ordinary shares and all of the assets of PT Biogas.

The movement in the period from June 3 to December 31, 2019 is due to foreign exchange movements on 50% of the note denominated in British pounds.

See subsequent events note 26 for details of a partial repayment made subsequent to December 31, 2019.

16 Share capital

Common shares

At December 31, 2019, the Company had unlimited authorized common shares without par value and 68,435,795 common shares issued and outstanding (December 31, 2018 – 9,000,000)

On May 30, 2019, the Company completed a private placement (the “Financing”) of an aggregate of 41,965,225 subscription receipts at $0.20 per subscription receipt for gross proceeds of $8.4 million.

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

Each subscription receipt automatically converted, upon satisfaction of the escrow release conditions, into one special warrant on June 3, 2019. In addition, in connection with the QT, the Company issued 17,418,000 special warrants to Pressure Technologies. The special warrants were convertible instruments which, upon conversion, resulted in another convertible instrument (the warrant) being issued. As a result, the special warrants did not meet the definition of equity, as defined in IAS 32 Financial Instruments, and instead were initially recognized as a financial liability measured at fair value through profit and loss.

On August 9, 2019, 58,383,225 special warrants automatically converted, without the payment of any additional consideration and without further action on the part of the holder thereof, into one common share and one-half of one warrant after the Company filed qualifying prospectuses, and the associated special warrant liability ($11.5 million), which had previously been recorded as a liability, was transferred to equity. On October 1, 2019, a further 1,000,000 special warrants issued to Beacon Securities Limited automatically converted into one common share and one warrant (a further $0.2 million was transferred to equity from liabilities). Included in amounts transferred to equity was $0.9 million (included in contributed surplus) to reflect the fair value of warrants transferred.

The Company recorded a non-cash gain of $0.2 million related to the special warrants, based primarily on changes in the market price of the Company's common shares, from the date of issuance to conversion on August 9, 2019. In addition, the classification of the special warrants initially as financial liabilities required issuance costs of $1.9 million to be expensed in the consolidated statement of operations, rather than being deducted from equity.

The Company paid commissions and other fees and expenses to brokers of $0.8 million and issued 2,537,350 agents' options. Each agent option gives the holder the right to purchase one common share for $0.20 and the agents' options expire May 30, 2021 (note 17).

The Company received net proceeds of $6.9 million from the Financing after deducting cash expenses of $1.5 million.

During the year, 52,570 $0.10 agents' options were exercised, and the fair value of the options ($2,345) was transferred from contributed surplus to share capital.

At December 31, 2019, the Company had 12.6 million shares held in escrow, which are expected to be released from escrow, as follows:

	000's
June 6, 2020	6,307
December 6, 2020	6,307
	12,614

Included in the shares to be released from escrow on June 6, 2020 are 0.8 million shares that are subject to contractual restriction on transfer, along with an additional 3.3 million shares not reflected in the table above

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

(for a total of 4.1 million shares). The shares subject to contractual restrictions on transfer are to be released on repayment of the promissory note in full.

In addition, 4.3 million shares are held by Pressure Technologies under a right to direct sales agreement, under which the Company has the option to direct Pressure Technologies to sell shares to directors and employees of the Company for $0.60 per share. The right to direct expires June 3, 2021.

Refer to subsequent events note 26 for details of the equity raise completed subsequent to December 31, 2019.

Warrants outstanding

At December 31, 2019, the Company had 30,191,612 warrants outstanding (December 31, 2018 nil), with an exercise price of $0.26 and expiry of June 3, 2021. The warrants were issued on August 9, 2019 and October 1, 2019 in connection with the Financing.

17 Stock options

The Company has a stock option plan whereby the Company may grant stock options to eligible employees, officers, directors and consultants at an exercise price, expiry date and vesting conditions to be determined by the Board of Directors. The maximum term to expiry is 10 years from the date of grant. All options are equity settled. The stock option plan provides for the issuance of up to 10% of the issued and outstanding common shares at the date of grant.

A summary of the Company's stock options outstanding for the year ended December 31, 2019, including options granted to agents is as follows:

	Number of options	**Weighted average exercise price $**
Outstanding, December 31, 2018	1,175,000	0.10
Granted	5,787,350	0.20
Exercised	(52,570)	0.10
Forfeited	(117,000)	0.20
Outstanding, December 31, 2019	6,792,780	0.18

At December 31, 2019 5,759,780 options were exercisable (December 31, 2018 – 1,175,000). Included in the 6,792,780 options outstanding at December 31, 2019 were 2,984,780, options held by agents, issued to agents in conjunction with the 2018 IPO and 2019 special warrants.

The following table summarizes information about stock options outstanding as at December 31, 2019:

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

Exercise price	Number outstanding $	Weighted average remaining life in years $
$0.10	1,122,430	5.8
$0.20	5,670,350	3.1

As part of the issuance costs of the special warrants in 2019, the Company issued 2,537,350 options to agents. The fair value of the agents' options at the grant date was estimated at $0.2 million using the Black-Scholes option pricing model, applying the following assumptions:

Risk-free rate	1.37%
Expected volatility	69%
Expected life in years	2.0
Expected dividend yield	-

On June 3, 2019 3,150,000 were issued, at an estimated fair value of $0.125 per option. The value of the stock options issued in the period was estimated using the Black-Scholes option pricing model using the following assumptions:

Risk-free rate	1.34%
Expected volatility	92.7%
Expected life in years	3.5
Expected dividend yield	-

On October 15, 2019, 100,000 options were issued, at an estimated fair value of $0.12 per option. The value of the stock options issued in the period was estimated using the Black-Scholes option pricing model using the following assumptions:

Risk-free rate	1.47%
Expected volatility	88.0%
Expected life in years	3.5
Expected dividend yield	-

At December 31, 2019 stock options issued represented 5.6% of issued and outstanding common share capital (excluding options issued to agents). The estimated aggregate fair value of the options granted during the year ended December 31, 2019 was $584,973. The Company recognized share-based compensation expense of $496,583 for the year ended December 31, 2019 (2018 – $80,897), including $194,690 relating to the agent options issued on special warrants (2018 - $22,297 related to agent options issued on IPO).

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

18 Cost of goods sold

The following is a breakdown of the Company's cost of goods sold by nature of the expense.

	Twelve months ended December 31, 2019 $	Period from February 15 to December 31, 2018 $
Inventory	863	-
Materials	4,574	-
Labour	416	-
	5,853	-

19 General and Administrative

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

	Twelve months ended December 31, 2019 $	Period from February 15 to December 31, 2018 $
Labour	2,541	-
Other indirect overheads	1,077	-
Consultancy	845	104
Amortization	815	-
Share-based compensation	301	59
Travel	158	-
Marketing	146	-
Other	46	30
Depreciation	30	-
	5,959	193

20 Credit facilities

In 2019, the Company issued an irrevocable letter of guarantee of $2.5 million (December 31, 2018: nil) through TD Canada Trust Bank, and guaranteed in full by Export Development Canada ("EDC"), relating to an advance payment guarantee with one customer. Refer to note 26 for additional bond placement subsequent to December 31, 2019.

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

21 Related party transactions

Key management includes Directors, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), who have the authority and responsibility for the planning, directing and controlling the activities of the Company. The compensation paid to these key management personnel for the year ended December 31, 2019 and period ended December 31, 2018 is outlined below:

	Twelve months ended December 31, 2019 $	Period from February 15 to December 31, 2018 $
Salary	220	-
Share-based compensation	251	59
	471	59

The Company owes Pressure Technologies, the former parent company of PT Biogas, $0.7 million relating to intercompany invoices issued prior to the QT and $11.0 million for the promissory note (note 15).

22 Segmented information

The Company has one operating segment, which is further broken down into two revenue streams, upgrader projects and aftercare service:

	Twelve months ended December 31, 2019 $	Period from February 15 to December 31, 2018 $
Upgrader projects	6,969	-
Aftercare services	2,154	-
	9,123	-

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

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

	Twelve months ended December 31, 2019 $	Period from February 15 to December 31, 2018 $
Upgrader projects revenue		
North America	6,913	-
Europe	56	-
	6,969	-
Aftercare services revenue		
North America	473	-
Europe	1,681	-
	2,154	-
Total revenue		
North America	7,386	-
Europe	1,737	-
	9,123	-

At December 31, 2019 the location of Company assets was as follows:

	Canada $	Europe $	Total $
Current assets	5,086	1,163	6,249
Property and equipment	714	233	947
Goodwill	10,405	-	10,405
Intangibles	-	8,964	8,964
	16,205	10,360	26,565

The assets of the Company as at December 31, 2018 were all located in Canada.

The Company had two customers that each accounted for 10% or more of total revenue during the year ended December 31, 2019. These customers accounted for 36% and 12% of total revenue.

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

23 Income taxes

a) Income tax expense (recovery)

	December 31, 2019 $	December 31, 2018 $
Current tax expense (recovery)		
Current period	(265)	-
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	(897)	-
Change in unrecognized deductible temporary differences	887	-
Total income tax recovery	(275)	-

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, 2019 $	December 31, 2018 $
Loss before tax	(5,328)	(193)
Statutory income tax rate	27.00%	27.00%
Expected income tax recovery	(1,439)	(52)
Increase resulting from:		
Non-taxable items	32	16
Change in unrecognized deductible temporary differences	887	42
Tax rate differences	244	-
Other	1	(6)
Income tax recovery	(275)	-

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

b) Recognized deferred tax assets and liabilities

	December 31, 2019 $	December 31, 2018 $
Deferred tax assets are attributable to the following:		
Property, plant and equipment	2	-
Loss carryforwards	157	-
Lease liability	31	-
Other	3	-
Deferred tax assets	193	-
Deferred tax assets set off against deferred tax liability	(193)	-
Net deferred tax assets	-	-
Deferred tax liabilities are attributable to the following:		
Intangibles	(88)	-
Property, plant and equipment	(183)	-
Deferred tax liabilities	(271)	-
Deferred tax assets	193	-
Net deferred tax liabilities	(78)	-

c) Movement in deferred tax balances

	Balance at December 31, 2018	Acquired in a business combination	Recognized in profit (loss)	Balance at December 31, 2019
Property, plant and equipment	-	3	(1)	2
Loss carryforwards	-	-	158	158
Lease liability	-	-	31	31
Other	-	2	-	2
Intangibles	-	(94)	6	(88)
Property, plant and equipment	-	1	(184)	(183)
Net deferred tax assets (liabilities)	-	(88)	10	(78)

d) Movement in deferred tax balances

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.

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

	December 31, 2019 $	December 31, 2018 $
Deductible temporary differences	2,357	-
Tax losses	3,272	161
Unrecognised deferred tax assets	5,629	161

The Company has Canadian loss carryforwards of $3.2 million (2018 - $161) which expire between 2038 and 2039, and has United Kingdom loss carryforwards of $5,656 (2018 - nil) which carryforward indefinitely.

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 following fair value hierarchy reflects the significance of inputs in valuation techniques used in making fair value measurements and/or disclosures.

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and are unobservable (supported by little or no market activity).

The Company's financial assets and financial liabilities, including the promissory note, are measured and/or disclosed at fair value by level within the fair value hierarchy described above. 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, 2019.

At December 31, 2019 and December 31, 2018, the carrying amounts of cash and cash equivalents, accounts receivables, other receivables, accounts payable and accrued liabilities, approximate their fair value due to their short-term nature. The Company's promissory note was initially measured at fair value on acquisition on June 3, 2019 and is subsequently measured at amortized cost.

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

a) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents, and accounts receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents 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.

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, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
GBP	395	-	3,109	-
Euro	145	-	15	-
US dollar	1,013	-	39	-
New Zealand dollar	1	-	-	-

The financial liabilities in British pounds sterling include 50% of the promissory note.

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:

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

	GBP	**Euro**	**US dollar**	**New Zealand dollar**
10% weakening of the Canadian dollar (increase)/decrease the net loss	(521)	21	142	1
10% strengthening of the Canadian dollar (increase)/decrease the net loss	426	(17)	(117)	(1)

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 or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's only interest bearing financial instrument is the promissory note which carries a fixed rate of interest of 7% per annum.

d) Liquidity and funding 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 (note 1) 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, 2019)				
	Less than one year	**1 – 3 years**	**4 – 5 years**	**After 5 years**	**Total**
Accounts payable and other liabilities	4,456	-	-	-	4,456
Promissory note	-	10,964	-	-	10,964
	4,456	10,964	-	-	15,420

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

Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions.

25 Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders (note 1). The capital structure of the Company consists of cash, promissory note 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, 2018.

26 Subsequent Events

On February 19, 2020, the Company completed a public offering through the issuance of 23,000,000 units, at a price of $0.50 per unit for gross proceeds of $11.5 million. Each unit is comprised of one common share and one-half of one common share warrant. Each full warrant entitles the holder to purchase one additional common share of the Company for $0.70 per share, for a one-year period ending February 19, 2021. The Company also issued compensation options to the underwriters entitling them to purchase an aggregate of 1,380,000 common shares at a price of $0.50 per share for a period of one year from closing. Part of the use of the proceeds was a partial repayment of the promissory note with Pressure Technologies (note 15) of $3.4 million (comprising a £1.0 million and $1.7 million repayment) plus accrued interest ($0.2 million). This repayment was made subsequent to the closing of the offering.

On March 11, 2020, the World Health Organization ("WHO") declared CoVID-19, the respiratory disease caused by the novel coronavirus, a global pandemic. In an effort to contain and mitigate the spread of COVID-19, many countries including, Canada, have imposed unprecedented restrictions on travel, and there have been business closures and a substantial reduction in economic activity in countries that have had significant outbreaks of COVID-19. The Company maintains an asset light model and outsources much of its equipment manufacturing. The Company's supply chain in Italy, India and Quebec have been affected and the Company continues to monitor the situation closely to plan and adjust accordingly. The Company's supplier in China suffered a brief manufacturing disruption, however manufacturing of Company components has re-commenced. The Company has still been able to provide maintenance and aftercare services, at this time, through remote monitoring and controlled emergency site visits.

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

The Company continues to operate its business at this time. While the impact of CoVID-19 is expected to be temporary, the Company's business may be impacted, with a result that it may not be able to complete on 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.

In April 2020, the Company issued a performance bond for US$0.5 million through Atlantic Specialty Insurance Company, partially guaranteed by EDC of Canada, to one customer.