

K.B. RECYCLING INDUSTRIES LTD.

INTERIM FINANCIAL STATEMENTS

AS OF MARCH 31, 2020

UNAUDITED

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STATEMENTS OF FINANCIAL POSITION

	March 31, 2021	December 31, 2020
	U.S. dollars in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	810	1,617
Trade receivables	434	401
Other accounts receivable	139	191
Inventories	71	127
	<u>1,454</u>	<u>2,336</u>
NON-CURRENT ASSETS:		
Right of use assets	973	1,046
Long-term deposits	69	71
Property, plant and equipment, net	1,748	1,869
Other assets	284	237
	<u>3,074</u>	<u>3,223</u>
	<u>4,528</u>	<u>5,559</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Credit from banks	90	94
Current maturities of lease liabilities	105	117
Trade payables	291	379
Other payables	536	719
	<u>1,022</u>	<u>1,309</u>
NON-CURRENT LIABILITIES:		
Lease liabilities	1,006	1,065
Other liabilities	150	161
Convertible Note	4,336	4,152
Warrant	457	414
	<u>5,949</u>	<u>5,792</u>
EQUITY:		
Share capital and share premium	35,697	35,697
Adjustments arising from translating financial statements from functional currency to presentation currency	67	(10)
Reserve from share-based payment transactions	740	548
Accumulated deficit	(38,947)	(37,777)
	<u>(2,443)</u>	<u>(1,542)</u>
Total equity	<u>4,528</u>	<u>5,559</u>

The accompanying notes are an integral part of the financial statements.

May 30, 2021	<i>(signed)</i> "Yoav Horowitz"	<i>(signed)</i> "Shmuel Porre"	<i>(signed)</i> "Danny Haklai"
Date of approval of the financial statements	Yoav Horowitz Chairman of the Board	Shmuel Porre Chief Executive Officer	Danny Haklai Chief Financial Officer

STATEMENTS OF COMPREHENSIVE LOSS

	Three months ended	
	March 31,	
	2021	2020
	U.S. dollars in thousands	
Revenues from sales	313	328
Cost of sales	<u>577</u>	<u>684</u>
Gross loss	(264)	(356)
Development expenses (net of Government grants)	55	34
Selling and marketing expenses	35	84
General and administrative expenses	419	284
Other expenses, net	<u>-</u>	<u>1</u>
Operating loss	(773)	(759)
Finance expenses	<u>(397)</u>	<u>(46)</u>
Loss	<u>(1,170)</u>	<u>(805)</u>
Other comprehensive income:		
Amounts that will not be reclassified subsequently to profit or loss:		
Adjustments arising from translating financial statements from functional currency to presentation currency	<u>77</u>	<u>70</u>
Total comprehensive loss	<u>(1,093)</u>	<u>(735)</u>
Basic and diluted loss per share (in U.S. dollars)	<u>(0.02)</u>	<u>(* (0.01)</u>

*) Adjusted to reflect the split of the Company's shares – see Note 5(3).

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

	Share capital and share premium	Foreign currency translation reserve	Reserve from share-based payment transactions	Accumulated deficit	Total equity
U.S. dollars in thousands					
Balance at January 1, 2021	35,697	(10)	548	(37,777)	(1,542)
Loss	-	-	-	(1,170)	(1,170)
Other comprehensive income	-	77	-	-	77
Total comprehensive loss	-	77	-	(1,170)	(1,093)
Cost of share-based payment	-	-	192	-	192
Balance at March 31, 2021	<u>35,697</u>	<u>67</u>	<u>740</u>	<u>(38,947)</u>	<u>(2,443)</u>

	Share capital and share premium	Foreign currency translation reserve	Reserve from share-based payment transactions	Accumulated deficit	Total equity
U.S. dollars in thousands					
Balance at January 1, 2020	34,376	76	14	(33,317)	1,149
Loss	-	-	-	(805)	(805)
Other comprehensive income	-	70	-	-	70
Total comprehensive loss	-	70	-	(805)	(735)
Equity investments	656	-	-	-	656
Balance at March 31, 2020	<u>35,032</u>	<u>146</u>	<u>14</u>	<u>(34,122)</u>	<u>1,070</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

	Three months ended	
	March 31,	
	2021	2020
	U.S. dollars in thousands	
<u>Cash flows from operating activities:</u>		
Loss	(1,170)	(805)
Adjustments to reconcile loss to net cash used in operating activities:		
Adjustments to the profit or loss items:		
Depreciation	60	49
Depreciation of right-of-use assets	38	40
Finance expenses	26	42
Cost of share-based payment	192	-
Valuation loss of Convertible Note and Warrant	398	-
	<u>714</u>	<u>131</u>
Changes in asset and liability items:		
Decrease (increase) in trade receivables	(48)	30
Decrease (increase) in other accounts receivable	46	(75)
Decrease in inventories	52	50
Decrease in trade payables	(76)	(82)
Increase (decrease) in other payables	(140)	70
	<u>(166)</u>	<u>(7)</u>
Cash paid and received during the period for:		
Interest paid	(27)	(28)
Net cash used in operating activities	<u>(649)</u>	<u>(709)</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

	Three months ended March 31,	
	2021	2020
	U.S. dollars in thousands	
<u>Cash flows from investing activities:</u>		
Purchase of property, plant and equipment	(4)	(9)
Withdrawal of restricted deposits	-	35
Net cash provided by (used in) investing activities	(4)	26
<u>Cash flows from financing activities:</u>		
Repayment of grants received from the IIA	(25)	(20)
Credit from banks, net	-	(60)
Repayment of lease liabilities	(31)	(33)
Deferred issuance costs	(56)	-
Equity investments	-	656
Net cash provided by (used in) financing activities	(112)	543
Exchange rate differences on balances of cash and cash equivalents	(42)	104
Decrease in cash and cash equivalents	(807)	(36)
Cash and cash equivalents at the beginning of the period	1,617	55
Cash and cash equivalents at the end of the period	810	19
<u>Significant non-cash transaction:</u>		
Right-of-use asset recognized with corresponding lease liabilities	-	17

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. K.B. Recycling Industries Ltd. (the "Company") was incorporated under the laws of Israel as a private company. The Company's registered address is 3 Ha'avoda St., Beit Shean, Israel. The Company began its operations in April 2008 and operates in the plastic recycling market. In April 2021, the Company completed an initial public offering and commenced trading on the TSX Venture Exchange- see Note 8.

The Company recycles post consumed household waste plastic bags and sheets combined with post consumed agricultural plastic sheets and manufactures polyurethane sheets and geomembranes utilized mainly by the building and infrastructure industry. The sheets are used for underground water and gas sealing systems, surfaces and floor protection, and sub terrain barriers against roots. The Company's manufacturing process was developed over the course of a number of years. The Company's process involves the processing of the waste and its direct conversion of the waste into a finished product. The Company recycles nylon plastic bags that are generally not recycled and are usually incinerated or stored.

- b. Company's financial position:

In the three months ended March 31, 2021, the Company incurred a loss totaling \$ 1,170 thousand and had negative cash flows from operating activities totaling \$ 649 thousand. As described in Note 8(1), subsequent to the reporting period, the Company received aggregate gross proceeds of CAD 11.4 (\$ 9) million from its initial public offering and private placement of securities.

Based on the cash available to the Company as of the date of the approval of the financial statements, the Company's management and Board of Directors estimate that the Company has sufficient funds to continue its operations and meet its financial obligations at least for 12 months from the date of approval of the financial statements.

- c. *The implications of COVID-19:*

In December 2019, an outbreak of the Coronavirus (COVID-19) ("COVID-19") occurred in China and it spread around the world, including in Israel. The spread of COVID-19 is a large-scale event, dynamic and emerging which is characterized by uncertainty and frequent and rapid changes in Israel and in many countries around the world. Following this "ongoing event", declared by the World Health Organization as a global pandemic, many countries, including Israel, have taken significant steps in an effort to prevent the spread of COVID-19, such as restrictions on citizen mobility, gatherings, travel and trade, border closures, and restrictions on the transportation of goods.

NOTES TO FINANCIAL STATEMENTS

NOTE 1:- GENERAL (Cont.)

The Company obtained an approval to characterize its plant as an "exempted industry" and the Company has acted in accordance with the related instructions for maintaining employees' good health while preparing for various scenarios and taking various steps to ensure its business continuity.

In the meantime, in March 2020, as a result of the effects of Covid-19 pandemic, and in order to allow the Company to sustain its activity and to extend its runway, the Company implemented a material restructuring plan, according to which management significantly reduced the Company's work force and other operating expenses to the minimum required to allow the continuous of its operations and R&D efforts.

Since the end of May 2020, when most of the COVID-19 restrictions were removed at that time, the Company's production lines have been operating adjusted for changes in sales volume, in accordance with the guidelines of the Israeli regulated "purple badge" for businesses.

During August 2020, Israel experienced a second wave of COVID-19 infections and varying restrictions were imposed on mobility, gatherings and activity in the public sphere, which had an adverse effect on the scope and nature of activities in the public and private business sectors.

The outbreak of COVID-19 and the restrictions imposed in an effort to prevent the spread of COVID-19, mainly the "lockdown restrictions" introduced in Israel from mid-March until the end of May 2020 and since September 2020 until the end of 2020 had a material adverse impact on the Company's operations and have caused a decrease in the Company's revenues during the twelve months ended December 31, 2020.

In addition, due to the restrictions on movement of passengers and border closures around the world the Company delayed its plans to explore new markets mainly in Europe and most of its marketing efforts were put on hold from April 2020. As a result, the Company's managements estimate that this will cause a delay in the Company's export plans.

Since the end of 2020, a substantial number of Israeli residents have received vaccinations through a countrywide vaccination project, which has been credited with a reduction in the spread of COVID and infection rates in Israel. In parallel, the Israeli government has lifted almost all lockdown restrictions and has allowed for the opening of various sectors of the Israeli economy, subject to certain restrictions.

- d. These financial statements have been prepared in a condensed format as of March 31, 2021 and for the three months then ended (the "interim financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2020 and for the year then ended and accompanying notes (the "annual financial statements").

NOTES TO FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of preparation of the interim financial statements:

The interim financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting".

The significant accounting policies applied in the preparation of the interim financial statements are consistent with those followed in the preparation of the annual financial statements, except as described below:

- b. Initial adoption of amendments to existing financial reporting and accounting standards:

In August 2020 the IASB issued amendments to IFRS 9, IFRS 7, IAS 39, IFRS 4, and IFRS 16 (the "Amendments"). The Amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The Amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The amendments are to be applied retrospectively, without a requirement to restate prior periods, for annual reporting periods beginning on or after January 1, 2021.

These Amendments had no impact on the interim condensed financial statements of the Company.

NOTE 3:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

Amendment to IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors":

In February 2021, the IASB issued amendment to IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors" ("the Amendment"). The purpose of the Amendment is to introduce a new definition of the term "accounting estimates".

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies what are changes in accounting estimates and the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

The Amendment is to be applied prospectively for annual periods beginning on January 1, 2023 and it applies to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period. Earlier adoption is permitted.

NOTES TO FINANCIAL STATEMENTS

NOTE 4:- FINANCIAL INSTRUMENTS

a. Fair value:

The table below is a comparison between the carrying amount and fair value of the Company's financial instruments that are presented in the financial statements not at fair value (other than those whose amortized cost is a reasonable approximation of fair values):

Carrying amount		Fair value	
March 31, 2021	December 31 2020	March 31, 2021	December 31 2020
U.S. dollars in thousands			

Financial liabilities:

Liability for grants received
from the IIA

181	214	177	211
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The carrying amount of cash and cash equivalents, trade receivables, other accounts receivable, trade payables and other payables and short-term credit from banks approximate their fair value due to their short-term maturities.

b. Fair value hierarchy:

The table below is an analysis of financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical instruments
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: inputs that are not based on observable market data (unobservable inputs)

March 31, 2021:

Level 1	Level 2	Level 3	Total
U.S. dollars in thousands			

Financial liabilities:

Convertible Note

-	-	4,336	4,336
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Warrant

-	-	457	457
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December 31, 2020:

Level 1	Level 2	Level 3	Total
U.S. dollars in thousands			

Financial liabilities:

Convertible Note

-	-	4,152	4,152
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Warrant

-	-	414	414
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NOTES TO FINANCIAL STATEMENTS

NOTE 4:- FINANCIAL INSTRUMENTS (Cont.)

In connection with an outstanding Convertible Note and Warrant (see Note 13 to the annual financial statements), as of March 31, 2021, the fair value of the Convertible Note and the Warrant is \$ 4,336 thousand and \$ 457 thousand, respectively. The change in fair value in the 3 months period ended March 31, 2021 amounting to \$ 398 thousand is recorded in finance expense.

The fair value of the Convertible Note and Warrant have been measured using a hybrid model combining the Option Pricing Model and an IPO scenario. The key assumptions used in the valuation include the probability of an IPO realization, the IPO price, the cost of capital, and the expected volatility of the Company's equity.

Description of significant unobservable inputs to valuation as of March 31, 2021:

Financial liabilities:	<u>Significant unobservable inputs</u>	<u>Input used</u>	<u>Sensitivity of the input to fair value (U.S. dollars in thousands)</u>
Convertible Note	IPO scenario probability	90%	5% increase or (decrease) in the IPO scenario probability would result in increase or (decrease) in fair value by 88.9
	IPO price	0.23	5% increase or (decrease) in the IPO price would result in increase or (decrease) in fair value by 203.1
	Cost of capital	22%	1% increase or (decrease) in the cost of capital would result in increase or (decrease) in fair value by 2.8
	Equity expected volatility	53%	10% increase or (decrease) in the equity expected volatility would result in increase or (decrease) in fair value by (7.7) or 7.8, respectively

NOTES TO FINANCIAL STATEMENTS

NOTE 4:- FINANCIAL INSTRUMENTS (Cont.)

Financial
liabilities:

Warrant

IPO scenario probability	90%	5% increase or (decrease) in the IPO scenario probability would result in increase or (decrease) in fair value by 25.4
IPO price	0.23	5% increase or (decrease) in the IPO price would result in increase or (decrease) in fair value by 40 or (39.1), respectively
Cost of capital	22%	1% increase or (decrease) in the cost of capital would result in increase or (decrease) in fair value by 0.3
Equity expected volatility	47%	10% increase or (decrease) in the equity expected volatility would result in increase or (decrease) in fair value by 89.7 or (95.3), respectively

Subsequent to the reporting period, in April 2021, due to the closing of the initial public offering of the Company's shares (see Note 8(1)), the Convertible Note was converted into 19,735,200 Ordinary Shares and the terms of the Warrant were finalized to entitle the holder to purchase 5,638,629 Ordinary Shares at an exercise price of \$ 0.266 per share. The Warrant may be exercised, in whole or part, at any time for a period of five years from the closing.

NOTES TO FINANCIAL STATEMENTS

NOTE 5: - EVENTS DURING THE REPORTING PERIOD

1. As described in Note 15 to the annual financial statements, pursuant to an amendment to the A-Labs Finance and Advisory Ltd. ("A-Labs") Agreement signed on January 10, 2021, the Company and A-Labs agreed that the monthly retainer fee the Company shall pay A-Labs will be \$ 10 thousand for the period commencing on July 2020 until the date of the public offering of the Company.

Pursuant to the second amendment to the A-Labs Agreement, entered into effect as of February 11, 2021, the Cash Consideration and Shares Consideration (as described in Note 15 to the annual financial statements) payable to A-Labs was amended and replaced. Following the second amendment, A-Labs is entitled to a total cash consideration of \$ 560 thousand, out of which an amount of \$ 150 thousand was already paid as of the date of the second amendment and an amount of \$ 410 thousand is subject to the closing of the public offering. In addition, at the closing of such offering the Company shall issue and grant A-Labs a warrant exercisable for a period of 24 months following such closing which shall entitle A-Labs to purchase 3,263,886 Ordinary Shares of the Company at an exercise price of \$ 0.152 per share (instead of the Shares Consideration described in Note 15 to the annual financial statements).

2. On January 14, 2021, the board of directors of the Company approved and recommended that the Shareholders of the Company approve the issuance to each of Tedeia and Sullam warrants to purchase an aggregate additional amount of Ordinary Shares that shall constitute 13% of the Company's share capital on a fully diluted basis as of immediately after the closing of the public offering of the Company's shares (the "Founders Warrants"). The issuance of the Founders Warrants was approved by the general meeting of the Shareholders of the Company on March 22, 2021. On April 14, 2021 the Company issued the Founders Warrants to each of Tedeia and Sullam pursuant to which:
 - a) Each of Sullam and Tedeia shall have the right to purchase at a price per share equal to the par value of each Ordinary Share, 4,593,773 Ordinary Shares of the Company, upon the cumulative occurrence of: (A) the public offering of the Company's shares; and (B) establishment of an operational manufacturing site outside of Israel for the production of the Company's products, whether through the purchase of an existing site, construction of a new factory, or following a joint venture, partnership or entering into a sub-contracting agreement with any third party for the production of the Company's products in a pre-existing factory (a "Manufacturing Site") within 2 years as of the closing of the public offering.
 - b) Each of Sullam and Tedeia shall have the right to purchase at a price per share equal to the par value of each Ordinary Share, an additional 4,593,773 Ordinary Shares of the Company upon the cumulative occurrence of : (A) the public offering of the Company's shares, and (B) establishment of an additional Manufacturing Site within 2 years as of the closing of the public offering.

NOTES TO FINANCIAL STATEMENTS

NOTE 5: - EVENTS DURING THE REPORTING PERIOD (Cont.)

- c) Each of Sullam and Tedeia shall have the right to purchase, at a price per share equal to the par value of each Ordinary Share, an additional 2,756,264 Ordinary Shares of the Company upon the cumulative occurrence of: (A) the public offering of the Company's shares, and (B) the Company's annual revenues, based on the Company's annual audited financial statements, together with the Company's proportional share in the annual revenues of a Manufacturing Site the financial results of which are not fully consolidated into the Company's audited financial statements for any of the calendar years 2021, 2022, or 2023 exceeds \$ 8,000 thousand.

The Founders' Warrants shall expire upon the earlier of (a) lapse of 2 years following the date of the completion of the performance obligation of each part of the Warrant, and (b) lapse of 5 years following the completion of the Company's IPO. The Founders' Warrants include an adjustment mechanism in the event that certain warrants issued to the underwriters in accordance with the underwrites' agreement between the underwriters and the Company dated March 31, 2021 will be exercised. In such case each of Tedeia and Sullam shall be entitled to an additional 66,437 warrant shares, based on the formula detailed in the Founders' Warrants.

3. On February 23, 2021 the authorized share capital of the Company was increased by 1,000,000 Ordinary shares, with par value of ILS 1 each, following such increase the authorized share capital of the Company was ILS 3 (\$ 0.9) million divided into 3,000,000 ordinary shares with ILS 1 par value. Following the increase of the authorized share capital the Company approved a share split whereby each 1 Ordinary share, ILS 1 par value, was divided into 100 Ordinary shares of ILS 0.01 par value, resulting in authorized share capital of 300 million Ordinary shares, and 58,475,000 issued and outstanding Ordinary shares as of March 31, 2021.
All share and per share amounts in these interim financial statements have been adjusted to reflect the abovementioned share split.
4. On March 14, 2021, the Company granted a member of its board of directors, options to purchase 100 Ordinary Shares with an exercise price (as determined on April 21, 2021) of CAD 0.2175 (\$ 0.173) per Ordinary Share. Subject to the director's continued engagement with the Company, the options shall vest as follows: (i) 34 options shall vest March 14, 2022; and (ii) the remaining options shall vest on March 14, 2023 and March 14, 2024, in two equal portions.

NOTES TO FINANCIAL STATEMENTS

NOTE 6:- SHARE-BASED PAYMENT

- a. Expense recognized in the financial statements:

The expense recognized in the financial statements for employee services received is shown in the following table:

	Three months ended March 31, 2021	Three months ended March 31, 2020
	U.S. dollars in thousands	
Equity-settled share-based payment plans	<u>192</u>	<u>-</u>

1. In August 2018, the Company entered into a services agreement with the then Chairman of the Board of Directors (which has since left his position and will be referred herein as the "Former Chairman"), pursuant to which the Company granted the Former Chairman 3% of its Ordinary shares that shall vest over a period of three years, in three equal portions of 1% per year.

The fair value of the shares was determined at \$ 19 thousand at the grant date.

At the end of January 2020, the service agreement with the Former Chairman was terminated and 2% of the 3% of the shares were forfeited.

On March 24, 2021, the Company issued to the Former Chairman 585,000 Ordinary shares.

2. In February 2020, the Company signed an employment and services agreements with the Company's CEO (the "CEO"), and the current Chairman of the Board (the "Chairman"), pursuant to which the Company granted each of them options to purchase 1,740,000 Ordinary shares for an exercise price of NIS 0.2 (\$ 0.062) each. The options shall vest over a period of three years, in three equal portions of 580,000 options.

The CEO's options shall expire at the third anniversary of the relevant vesting date and the Chairman's options shall expire at the seventh anniversary from the date of grant.

In November 2020 the Company signed an amendment agreement with the CEO and the Chairman, under these amendment agreements;

- (1) The Company undertook to grant each of them options to purchase 1,973,500 Ordinary shares of the Company (instead of 1,740,000 options), the options shall vest over a period of three years, in three equal portions of 657,833 options.
- (2) The above undertakings to grant options are subject to (i) the approval of the Board of such grants, and (ii) the adoption by the Company of a share incentive plan and the receipt of the approval of the Israel Tax Authority to such plan, pursuant to Section 102 of the Israeli Tax Ordinance [New Version], 5721-1961.
- (3) The Chairman is also entitled to immediate accelerations of all options in the event that the Company will have a net profit.

NOTES TO FINANCIAL STATEMENTS

NOTE 6:- SHARE-BASED PAYMENT (Cont.)

3. In October 2020, the Company signed an employment and service agreement with the Company's former CEO (the agreement was supplemented in January 2021) to serve as a founder in charge of innovation. Pursuant to the agreement the Company undertook to grant the founder in charge of innovation options to purchase 3,289,200 Ordinary shares, of which 1,315,800 options will vest on the grant date with an exercise price equal to the par value of the shares, and 1,973,400 options shall vest over a period of three years commencing March 2021, in three equal portions of 657,800 options with an exercise price per share of NIS 0.2 (\$ 0.062).

The above undertaking to grant options is subject to (i) the approval of the Board of Directors of such grants, and (ii) the adoption by the Company of a share incentive plan and the receipt of the approval of the Israel Tax Authority to such plan, pursuant to Section 102 of the Israeli Tax Ordinance [New Version], 5721-1961.

In addition, to the options described above, the Company undertook to provide the founder in charge of innovation with additional compensation in the form of options to acquire 1.5% of the Company's Ordinary shares (on a fully diluted basis), subject to, among other things, the establishment of two new plants outside of Israel. The grant of such options and the determination of their applicable exercise price shall be subject to the approval of the Board of Directors and the TSXV requirements.

On January 7, 2021 Board the of Directors resolved to adopt a Global Incentive Plan and upon the lapse of 30 days following the filing of the Plan with Israel Tax Authority to grant the options to the CEO, the Chairman and the founder in charge of innovation as described above. The Global Incentive Plan was filed with Israel Tax Authority on January 17, 2021. On March 14, 2021, the Board of Directors resolved to approve the amendment agreement with the CEO, the Chairman and the founder in charge of innovation. The agreements with the CEO and the Chairman were approved by the general meeting of the Shareholders of the Company on March 22, 2021.

- b. Measurement of the fair value of equity-settled share options:

Options to the company's CEO, chairman of the board and the founder in charge of innovation

The following table lists the inputs to the binomial model used for the fair value measurement of equity-settled share options for the above plan:

Dividend yield (%)	-
Expected volatility of the share price (%)	44-61
Risk-free interest rate (%)	0.01-1.94
Share price (NIS)	0.63

Based on the above inputs, the aggregate fair value of the options was determined at NIS 3,619 thousand (\$ 1,086 thousand).

The expected volatility of the share price reflects the assumption that the volatility of the share price of comparable companies is reasonably indicative of expected future trends.

NOTES TO FINANCIAL STATEMENTS

NOTE 7: - OPERATING SEGMENTS

a. General:

As described in the annual financial statements, the Company operates in one principal business segment - recycled plastic industrial products.

Most revenues are generated from customers in Israel and all non-current assets are located in Israel.

b. Additional information about revenues:

Revenues reported in the financial statements for a group of similar products or services:

	Three months ended March 31, 2021	Three months ended March 31, 2020
	Unaudited	
	U.S. dollars in thousands	
Revenues from sales of Polypropylene	<u>2</u>	<u>35</u>
Revenues from sales of Sheets	<u>311</u>	<u>293</u>

NOTE 8: - EVENTS AFTER THE REPORTING PERIOD

- On April 21, 2021 (the "IPO Closing") the Company consummated an initial public offering (the "Offering") of 6,282,984 units of the Company (the "Offering Units") at a price of CAD 0.29 (\$ 0.23) per Unit, for total gross proceeds of approximately CAD 1.8 (\$ 1.4) million, including the exercise in full of the Underwriters' Over-Allotment Option. Each Offering Unit was comprised of one Ordinary Share and one-half of one warrant to purchase an Ordinary Share (each whole warrant, a "Warrant"). Each Warrant will entitle the holder thereof to acquire one Ordinary Share at a price of CAD 0.51 (\$ 0.4) per Ordinary Share for 24 months following the closing date of the Offering.

Concurrently with the Offering, the Company issued 14,358,545 Class A units (the "Class A Units") at a price of CAD 0.58 (\$ 0.46) per Class A Unit for aggregate gross proceeds of approximately CAD 8.3 (\$ 6.6) million to specified investors resident in Israel by way of private placement (the "Private Placement of Class A Units"). Each Class A Unit consists of two Ordinary Shares and one Ordinary Share purchase warrant with the same terms as the Warrant described above.

Furthermore, on February 25, 2021, the Company completed a private placement of 4,334,862 Subscription Receipts (the "Subscription Receipts") pursuant to prospectus and registration exemptions at a price of CAD 0.29 (\$ 0.23) per Subscription Receipt for aggregate gross proceeds of CAD 1.26 (\$ 1) million (the "Private Placement of Subscription Receipts"). Upon the closing of the initial public offering of the Company's shares each Subscription Receipt was converted into one Subscription Receipt Unit comprised of one (1) Ordinary Share and one-half of one (0.5) Warrant, issuable on the deemed exercise of each Subscription Receipt.

NOTES TO FINANCIAL STATEMENTS

NOTE 8: - EVENTS AFTER THE REPORTING PERIOD (Cont.)

In total, the Company raised an aggregate of approximately CAD 11.4 (\$ 9) million from the Offering, the Private Placement of Class A Units and the Private Placement of Subscription Receipts. In connection with the IPO the Company paid expenses in cash amounting to approximately \$ 2.1 million. In addition, the Company issued warrants to advisors as described in Note 5(1), and the Underwriters were granted 1,748,346 non-transferable underwriters' warrants, each exercisable for a Unit. Each Unit is comprised of one Ordinary Share of the Company, and one half of one warrant to purchase one Ordinary Share with the same terms as the Offering Units described above (in total the underwriters' warrants are exercisable into 2,622,520 Ordinary Shares of the Company).

Following the Offering, the Private Placement of Subscription Receipts, the Private Placement of Class A Units and the exercise of the Over-Allotment Option, there are 117,545,136 Ordinary Shares and 19,667,468 Warrants of the Company issued and outstanding.

The TSX Venture Exchange ("TSXV") has approved the listing of the Ordinary Shares and Warrants and the Ordinary Shares and Warrants began trading on the TSXV on April 28, 2021 under the symbols "AKMY" and "AKMY.WT", respectively.

2. On April 12, 2021 and May 7, 2021, the Company's board of directors resolved to appoint two external directors and approved the entering by the Company into a Director Services Agreement with each of the two external directors (the "Director Services Agreements"), all subject to the Company's shareholders approving their appointment as external directors of the Company. Under the Director Services Agreements as amended, the Company undertook to grant the external directors options to purchase 736,516 Ordinary Shares. Following and subject to the approval of the shareholders and the directors' continued engagement with the Company, the options shall vest as follows: (i) 245,506 options will vest at the first anniversary of the date of grant, and (ii) the remainder of the options will vest in two equal portions of 245,505 on the second and third anniversaries of the date of grant.
3. On April 21, 2021 and April 30, 2021, the Company's board of directors resolved to authorize and approve the private placement (the "Post IPO Private Placement") and the issuance by the Company of an additional 2,168,964 Class A Units to certain investors resident in Israel at a price of CAD 0.58 per unit (an aggregate gross proceeds of approximately CAD 1.258 (\$ 1.015) million. As of the date of the approval of the interim financial statements, the aforementioned private placement has not yet been completed.
4. On April 27, 2021, the Company entered into an Issuer Trading Services Agreement with Generation IACP Inc. ("GIACP"), pursuant to which the Company retained GIACP on a non-exclusive basis to provide the Company with trading services with respect to the Company's ordinary shares traded on the TSXV. The term of the agreement is for an initial six month period with automatic six month renewals, unless terminated by one of the parties. Under the agreement, the Company will pay GIACP a monthly fee of CAD 7.5 (\$ 5.9) thousand, which shall increase by 3% on an annual basis, for the services being provided.

NOTES TO FINANCIAL STATEMENTS

NOTE 8: - EVENTS AFTER THE REPORTING PERIOD (Cont.)

5. In May 2021, the Company entered into a services agreement with A-Labs, pursuant to which A-Labs will provide the Company with, among other services, PR drafting and wire services. The terms of the agreement are for one year with automatic twelve month renewals, unless terminated by one of the parties. Under the agreement, the Company will pay A-Labs a monthly fee of \$ 52.5 thousand per month for the first two months and \$ 35 thousand per month for the following months.
6. On May 18, 2021, the Company entered into a marketing agreement with Hybrid Financial Ltd. ("Hybrid"), pursuant to which Hybrid will provide the Company with marketing and capital markets services. The term of the agreement is for an initial six month period with automatic three month renewals, unless otherwise terminated. Under the agreement, the Company will pay Hybrid a one time fee of CAD 50 (\$ 39.7) thousand and a monthly fee of CAD 22.5 (\$ 17.8) thousand per month for the first six months, which shall be reduced to CAD 15 (\$ 11.9) thousand following the initial six month period.
