K.B. RECYCLING INDUSTRIES LTD.

INTERIM FINANCIAL STATEMENTS

AS OF JUNE 30, 2021

UNAUDITED

INDEX

	Page
Statements of Financial Position	**3**
Statements of Comprehensive Loss	**4**
Statements of Changes in Equity	**5**
Statements of Cash Flows	**6 – 7**
Notes to Financial Statements	**8 - 21**

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K.B. RECYCLING INDUSTRIES LTD.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor, Kost Forer Gabbay & Kasierer (a member of Ernst & Young Global), has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim condensed financial statements by an entity's auditor.

August 30, 2021

STATEMENTS OF FINANCIAL POSITION

	June 30, 2021	December 31, 2020
	Unaudited	Audited
	U.S. dollars in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	7,770	1,617
Trade receivables	519	401
Other accounts receivable	613	191
Inventories	49	127
	8,951	2,336
NON-CURRENT ASSETS:		
Right-of-use assets	1,026	1,046
Long-term deposits	70	71
Property, plant and equipment, net	1,732	1,869
Other assets	5	237
	2,833	3,223
	11,784	5,559
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Credit from banks	-	94
Current maturities of lease liabilities	134	117
Trade payables	329	379
Other payables	713	719
	1,176	1,309
NON-CURRENT LIABILITIES:		
Lease liabilities	1,036	1,065
Other liabilities	163	161
Convertible Note	-	4,152
Warrants	2,763	414
	3,962	5,792
EQUITY:		
Share capital and share premium	47,040	35,697
Warrants	453	-
Adjustments arising from translating financial statements from functional currency to presentation currency	(12)	(10)
Reserve from share-based payment transactions	845	548
Accumulated deficit	(41,680)	(37,777)
Total equity	6,646	(1,542)
	11,784	5,559

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

August 30, 2021	*(signed)* *"Yoav Horowitz"*	*(signed)* *"Shmuel Porre"*	*(signed)* *"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

	Six months ended June 30,		Three months ended June 30,	
	2021	2020	2021	2020
	Unaudited			
	U.S. dollars in thousands			
Revenues from sales	595	538	282	210
Cost of sales	1,136	1,016	559	332
Gross loss	(541)	(478)	(277)	(122)
Development expenses (net of Government grants)	156	43	101	9
Selling and marketing expenses	103	89	68	5
General and administrative expenses	1,192	383	773	99
Other expenses (income), net	(14)	14	(14)	13
Operating loss	(1,978)	(1,007)	(1,205)	(248)
Finance expenses	(1,925)	(80)	(1,528)	(34)
Loss	(3,903)	(1,087)	(2,733)	(282)
Other comprehensive income (loss):				
Amounts that will not be reclassified subsequently to profit or loss:				
Adjustments arising from translating financial statements from functional currency to presentation currency	(2)	(10)	(79)	(80)
Total comprehensive loss	(3,905)	(1,097)	(2,812)	(362)
Basic and diluted loss per share (in U.S. dollars)	(0.05)	(* (0.02)	(0.03)	(* (0.01)

*) 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	Warrants	Reserve from share-based payment transactions	Foreign currency translation reserve	Accumulated deficit	Total equity
	U.S. dollars in thousands					
Balance at January 1, 2021	35,697	-	548	(10)	(37,777)	(1,542)
Loss	-	-	-	-	(3,903)	(3,903)
Other comprehensive loss	-	-	-	(2)	-	(2)
Total comprehensive loss	-	-	-	(2)	(3,903)	(3,905)
Cost of share-based payment	-	-	297	-	-	297
Conversion of Convertible Note	4,341	-	-	-	-	4,341
Issuance of Ordinary Shares, net of underwriting commission and offering costs (in the amount of $ 1,653 thousand)	7,002	453	-	-	-	7,455
Balance at June 30, 2021	47,040	453	845	(12)	(41,680)	6,646

	Share capital and share premium	Reserve from share-based payment transactions	Foreign currency translation reserve	Accumulate d deficit	Total equity
	U.S. dollars in thousands				
Balance at January 1, 2020	34,376	14	76	(33,317)	1,149
Loss	-	-	-	(1,087)	(1,087)
Other comprehensive loss	-	-	(10)	-	(10)
Total comprehensive loss	-	-	(10)	(1,087)	(1,097)
Cost of share-based payment	-	22	-	-	22
Equity investments	1,147	-	-	-	1,147
Balance at June 30, 2020	35,523	36	66	(34,404)	1,221

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

STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2021	Six months ended June 30, 2020
	Unaudited	
	U.S. dollars in thousands	
Cash flows from operating activities:		
Loss	(3,903)	(1,087)
Adjustments to reconcile loss to net cash used in operating activities:		
Adjustments to the profit or loss items:		
Depreciation	120	98
Depreciation of right-of-use assets	82	79
Change in liability for grants received from the IIA	10	17
Loss on revaluation of Convertible Note and Warrants	1,844	-
Finance expenses	64	67
Cost of share-based payment	297	22
	2,417	283
Changes in asset and liability items:		
Decrease (increase) in trade receivables	(123)	76
Increase in other accounts receivable	(425)	(101)
Decrease in inventories	76	38
Decrease in trade payables	(45)	(151)
Increase (decrease) in other payables	15	(37)
Decrease in long-term other receivable	(5)	-
	(507)	(175)
Cash paid during the period for:		
Interest paid	(56)	(65)
Net cash used in operating activities	(2,049)	(1,044)

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

STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2021	Six months ended June 30, 2020
	Unaudited	
	U.S. dollars in thousands	
Cash flows from investing activities:		
Purchase of property, plant and equipment	(9)	(13)
Withdrawal of restricted deposits	-	35
Net cash provided by (used in) investing activities	(9)	22
Cash flows from financing activities:		
Repayment of grants received from the IIA	(25)	(20)
Credit from banks, net	(92)	(47)
Repayment of lease liabilities	(72)	(58)
Equity investments	-	1,147
Proceeds from issuance of IPO warrants	747	-
Proceeds from issuance of Ordinary Shares, net	7,688	-
Net cash provided by financing activities	8,246	1,022
Exchange rate differences on balances of cash and cash equivalents	(35)	(8)
Increase (decrease) in cash and cash equivalents	6,153	(8)
Cash and cash equivalents at the beginning of the period	1,617	55
Cash and cash equivalents at the end of the period	7,770	47
Significant non-cash transaction:		
Right-of-use asset recognized with corresponding lease liabilities	61	17
Conversion of Convertible Note into Ordinary Shares (see Note 4(b))	4,341	-

The accompanying notes are an integral part of the 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 5.

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 six months ended June 30, 2021, the Company incurred a loss totaling $ 3,903 thousand and had negative cash flows from operating activities totaling $ 2,049 thousand. As described in Note 5(5), the Company received aggregate net proceeds of CAD 10.5 ($ 8.4) million from its initial public offering and private placement of securities. As of June 30, 2021, the Company has positive working capital of approximately $7.7 million.

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.

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.

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.

d. These financial statements have been prepared in a condensed format as of June 30, 2021 and for the six months and 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").

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:

d. 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.

NOTE 3:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

The Company estimates that the above Amendment is not expected to have a material impact on its financial statements.

Amendment to IAS 12, "Income Taxes":

In May 2021, the IASB issued an amendment to IAS 12, "Income Taxes" ("IAS 12"), which narrows the scope of the initial recognition exception under IAS 12.15 and IAS 12.24 ("the Amendment").

According to the recognition guidelines of deferred tax assets and liabilities, IAS 12 excludes recognition of deferred tax assets and liabilities in respect of certain temporary differences arising from the initial recognition of certain transactions. This exception is referred to as the "initial recognition exception". The Amendment narrows the scope of the initial recognition exception and clarifies that it does not apply to the recognition of deferred tax assets and liabilities arising from transactions that give rise to equal taxable and deductible temporary differences, even if they meet the other criteria of the initial recognition exception.

The Amendment is to be applied for annual periods beginning on or after January 1, 2023, with earlier application permitted. In relation to leases and decommissioning obligations, the Amendment is to be applied commencing from the earliest reporting period presented in the financial statements in which the Amendment is initially applied. The cumulative effect of the initial application of the Amendment should be recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at that date.

The Company estimates that the above Amendment is not expected to have a material impact on its 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	
	June 30, 2021	**December 31, 2020**	**June 30, 2021**	**December 31, 2020**
	Unaudited	**Audited**	**Unaudited**	**Audited**
	U.S. dollars in thousands			
Financial liabilities:				
Liability for grants received from the IIA	196	214	192	211

NOTE 4:- FINANCIAL INSTRUMENTS (Cont.)

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)

June 30, 2021:

	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
Financial liabilities:				
IPO and Post IPO Warrants (b)	2,288	-	-	2,288
Warrant (a)	-	-	475	475

December 31, 2020:

	Level 1	Level 2	Level 3	Total
	U.S. dollars in thousands			
Financial liabilities:				
Convertible Note (a)	-	-	4,152	4,152
Warrant (a)	-	-	414	414

a. Convertible Note and Warrant (see also Note 13 to the annual financial statements):

In April 2021, due to the closing of the initial public offering of the Company's shares (see Note 5(5)), the Convertible Note with a fair value of $4,341 thousand 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. As of June 30, 2021, the fair value of the Warrant is $ 475 thousand. The change in fair value in the three months and six months ended June 30, 2021, amounted to $ (91) thousand and $ 307 thousand, respectively, and was recorded in finance expense.

NOTE 4:- FINANCIAL INSTRUMENTS (Cont.)

b. IPO and Post IPO Warrants (see also Note 5(5) and 5(6):

The IPO and Post IPO Warrants were classified in the Company financial statements as a liability. As of June 30, 2021, the fair value of the IPO and Post IPO Warrants are $ 2,288 thousand. The change in fair value in the three months and six months ended June 30, 2021, amounted to $ 1,537 thousand, and was recorded in finance expense.

The fair value of the Warrant has been measured using the Black & Scholes option pricing model. The key assumption used in the valuation is the expected volatility of the Company's equity.

Description of significant unobservable inputs to valuation as of June 30, 2021:

	Significant unobservable inputs	**Input used**	**Sensitivity of the input to fair value**
Financial liabilities:			
Warrant			
	Equity expected volatility	51%	10% increase or (decrease) in the equity expected volatility would result in increase or (decrease) in fair value by 100 or (105), respectively

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 was 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).
   In April 2021, upon the closing of the Offering (see 5 below), the cash consideration of $410 thousand was paid and the aforementioned warrant was issued. The fair value of the warrant was determined at $ 307 thousand at the grant date. Both the cash paid and the fair value of the warrant issued were recorded in the three months ended June 30, 2021, as an offering cost.

2. On January 14, 2021, the board of directors of the Company approved and recommended that the Shareholders of the Company approve the issuance, for no consideration, to each of Tedea 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 Tedea and Sullam pursuant to which:
   a) Each of Sullam and Tedea 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 Tedea 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.

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

c) Each of Sullam and Tedea 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 as described in (5) below will be exercised. In such case each of Tedea 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.

5. 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.

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

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 Ordinary Share and one-half of one Ordinary share purchase warrant with the same terms as the Warrant described above, issuable on the deemed exercise of each Subscription Receipt.

In total, the Company raised an aggregate of approximately CAD 10.5 ($ 8.4) 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 $ 1.2 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 at a price of CAD 0.29 ($ 0.23) for a Unit for 24 months following the closing date of the Offering. 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). As of June 30, 2021, none of the underwriters’ warrants had been exercised.

The fair value of the underwriters’ warrants was determined at $ 146 thousand at the grant date. The fair value of the underwriters’ warrants issued were recorded in the three months ended June 30, 2021, as an offering cost.

Of the total offering costs of $ 1,749, costs of $ 98 were allocated to the issuance of the IPO warrants (financial liability) and recorded in finance expense.

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

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 IPO Warrants of the Company issued and outstanding. As the exercise price of these IPO Warrants is denominated in CAD which is not the functional currency of the Company, these IPO warrants are accounted for upon initial recognition as a financial liability at fair value through profit or loss. The fair value at June 30, 2021, is $ 2,061 thousand (see Note 4(b)). The change in fair value in the three months ended June 30, 2021, amounted to $ 1,587 thousand and was recorded in finance expense.

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

6. 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 1.2 ($ 1) million). The Post IPO Private Placement was concluded on June 4, 2021. As part of the Post IPO Private Placement the Company issued 4,337,928 Ordinary Shares and 2,168,964 warrants to purchase Ordinary Shares of the Company with an exercise price of CAD 0.51 ($ 0.41) per Ordinary Share, such warrants are exercisable until April 21, 2023. The fair value at June 30, 2021, is $ 227 thousand (see Note 4(b)). The change in fair value in the three months ended June 30, 2021, amounted to $ (50) thousand and was recorded in finance expense.

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:

	Six months ended June 30,		Three months ended June 30,	
	2021	2020	2021	2020
	Unaudited			
	U.S. dollars in thousands			
Equity-settled share-based payment plans	297	22	105	50

1. In August 2018, the Company entered into a services agreement with the the 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 were 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.

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

(3) The Chairman is also entitled to immediate accelerations of all options in the event that the Company will have a net profit.

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 was 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.

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.

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 were subject to the approval of the Board of Directors and the TSXV requirements. Following receipt of the required approvals, on June 28, 2021 the Company granted the founder in charge of innovation 2,756,264 restricted share units (instead of options). Each restricted share unit represents the right to receive one Ordinary Share (the “Restricted Share Units”). The Restricted Share Units will vest into Ordinary Shares, subject to the founder in charge of innovation continuing as an employee of the Company and subject to the following terms: (i) 1,378,132 Restricted Share Units shall vest upon an operational manufacturing site being established by the Company outside of Israel within five years from the date of the grant; and (ii) 1,378,132 Restricted Share Units upon a second operational manufacturing site being established outside of Israel within five years from the date of the grant.
The fair value of the Restricted Share Units was determined at CAD 1.2 million ($ 1 million) based of the market price of the shares on the date of the grant.

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

4. 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 at an exercise price per share of CAD 0.33 ($ 0.26) . 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. During the Company's annual general meeting held on July 20, 2021 the shareholders of the Company approved the appointment of the two external directors and their remuneration.

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

<u>Options to the Company's CEO, chairman of the board and the founder in charge of innovation</u>

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.

<u>Options to the external directors</u>

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 (%)	45-56
Risk-free interest rate (%)	0.2-0.6
Share price (NIS)	1.1

Based on the above inputs, the aggregate fair value of the options was determined at NIS 960 thousand ($ 295 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.

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:

	Six months ended June 30,		Three months ended June 30,	
	2021	**2020**	**2021**	**2020**
	Unaudited			
	U.S. dollars in thousands			
Revenues from sales of Sheets	593	472	282	179
Revenues from sales of Polypropylene	2	66	-	31

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