

# Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2021  
and 2020

Unaudited, expressed in thousands of United States dollars,  
except share and per share amounts

Irwin Naturals, Inc.





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**Irwin Naturals, Inc.**

## Condensed Consolidated Interim Statement of Financial Position

As of September 30, 2021 and December 31, 2020

(Unaudited, expressed in US Dollars, rounded in thousands except share data)

	<u>Notes</u>	<u>30-Sep-21</u>	<u>31-Dec-20</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash		\$ 645	\$ 442
Other Financial Assets		1	-
Trade Receivables	2, 14	13,592	17,214
Inventory	5	16,308	14,577
Prepaid Expenses and Other	4	1,041	1,656
Total Current Assets		<u>31,587</u>	<u>33,889</u>
<b>Non-Current Assets:</b>			
Property and Equipment	6	217	262
Right-of-Use Assets	8	1,077	2,047
Notes Receivable from Shareholders	15, 17	3,240	-
Other Non-Current Assets		165	136
Intangible Assets	10	87	87
Total Non-Current Assets		<u>4,786</u>	<u>2,532</u>
<b>TOTAL ASSETS</b>		<u><b>\$ 36,373</b></u>	<u><b>\$ 36,421</b></u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Trade and Other Payables	9	\$ 14,381	\$ 11,616
Reserve for Returns		380	387
Lease Liability - Current	8	1,155	1,334
Line of Credit	7	2,190	7,500
Dividend Payable		38	-
Total Current Liabilities		<u>18,144</u>	<u>20,837</u>
<b>Non-Current Liabilities:</b>			
Lease Liability - Non Current	8	-	812
<b>TOTAL LIABILITIES</b>		<u>18,144</u>	<u>21,649</u>
<b>SHAREHOLDERS' EQUITY</b>			
Common Stock	11	-	1
Multiple Voting Shares	11	58	-
Subordinate Voting Share	11	2,953	-
Class B Non Voting Shares	11	13,750	-
Accumulated Other Comprehensive Income		33	-
Additional Paid In Capital		-	14,771
Retained Earnings		<u>(3,483)</u>	<u>-</u>
Total Irwin Naturals, Inc. Shareholders' Equity		<u>13,311</u>	<u>14,772</u>
Non-Controlling Interest	19	<u>4,918</u>	<u>-</u>
Total Shareholders' Equity		<u>18,229</u>	<u>14,772</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<u><b>\$ 36,373</b></u>	<u><b>\$ 36,421</b></u>

Approved on behalf of the Board on November 24, 2021

The accompanying notes are an integral part of these unaudited Condensed Consolidated Interim Financial Statements.

**Irwin Naturals, Inc.**

## Condensed Consolidated Interim Statement of Profit

For the Three and Nine Months Ended September 30, 2021 and September 30, 2020

(Unaudited, expressed in US Dollars, rounded in thousands except share data)

	Three Months Ended		Nine Months Ended	
	30-Sep-21	30-Sep-20	30-Sep-21	30-Sep-20
Operating Revenue	\$ 23,673	\$ 24,712	\$ 74,401	\$ 64,890
Cost of Sales	(13,556)	(14,304)	(40,431)	(36,647)
<b>Gross Profit</b>	<b>10,117</b>	<b>10,408</b>	<b>33,970</b>	<b>28,243</b>
Operating Expenses:				
Selling, General and Administrative Expenses	8,885	8,591	25,800	22,816
<b>Income from Operations</b>	<b>1,232</b>	<b>1,817</b>	<b>8,170</b>	<b>5,427</b>
Other Expense:				
Interest Expense	(34)	(72)	(91)	(256)
RTO Listing Expense	(2,502)	-	(2,502)	-
Total Other Expense	(2,536)	(72)	(2,593)	(256)
<b>Profit / (Loss) before Income Taxes</b>	<b>(1,304)</b>	<b>1,745</b>	<b>5,577</b>	<b>5,171</b>
Provision for Income Taxes	(162)	(72)	(351)	(76)
<b>Net Income / (Loss)</b>	<b>\$ (1,466)</b>	<b>\$ 1,673</b>	<b>\$ 5,226</b>	<b>\$ 5,095</b>
Foreign Currency Translation Differences	39	-	39	-
<b>Total Comprehensive Income / (Loss)</b>	<b>\$ (1,427)</b>	<b>\$ 1,673</b>	<b>\$ 5,265</b>	<b>\$ 5,095</b>
<b>Total Comprehensive Income / (Loss)</b> <b>Attributable to Non-Controlling Interest</b>	<b>\$ (600)</b>	<b>\$ -</b>	<b>\$ (600)</b>	<b>\$ -</b>
Earnings per share - basic	\$ (1.22)	\$ 1.67	\$ 4.35	\$ 5.10
Earnings per share - diluted	\$ (0.00)	\$ 1.67	\$ 0.02	\$ 5.10
Weighted average number of shares outstanding- basic	1,200,001	1,000,000	1,200,001	1,000,000
Weighted average number of shares outstanding - diluted	312,218,241	1,000,000	312,218,241	1,000,000

The accompanying notes are an integral part of these unaudited Condensed Consolidated Interim Financial Statements.

**Irwin Naturals, Inc.**

## Condensed Consolidated Interim Statement of Changes in Shareholders' Equity

For the Nine Months Ended September 30, 2021 and September 30, 2020

(Unaudited, expressed in US Dollars, rounded in thousands except share data)

	Common Stock		Share Capital				Additional Paid In Capital	AOCI	Retained Earnings / Deficit	Total Irwin Naturals, Inc. Shareholders' Equity	Non-Controlling Interest	Total Shareholder's Equity
			Number of Shares									
	Shares	Amount	Class B Non-Voting	Multiple Voting	Subordinate Voting	Amount						
<b>Balance at January 1, 2020</b>	<b>1,000,000</b>	<b>\$ 1</b>	-	-	-	<b>\$ -</b>	<b>\$ 15,631</b>	<b>\$-</b>	<b>\$ -</b>	<b>\$ 15,632</b>	<b>\$ -</b>	<b>\$ 15,632</b>
Net Income	-	-	-	-	-	-	-	-	5,095	5,095	-	5,095
Distributions to Shareholders	-	-	-	-	-	-	(1,188)	-	(5,095)	(6,283)	-	(6,283)
<b>Balance at September 30, 2020</b>	<b>1,000,000</b>	<b>\$ 1</b>	-	-	-	<b>\$ -</b>	<b>\$ 14,443</b>	<b>\$-</b>	<b>\$ -</b>	<b>\$ 14,444</b>	<b>\$ -</b>	<b>\$ 14,444</b>
<b>Balance at January 1, 2021</b>	<b>1,000,000</b>	<b>\$ 1</b>	-	-	-	<b>\$ -</b>	<b>\$ 14,771</b>	<b>\$-</b>	<b>\$ -</b>	<b>\$ 14,772</b>	<b>\$ -</b>	<b>\$ 14,772</b>
Shares issued in exchange for notes receivable from shareholders (ref FN 15,17)	52,632	0	-	-	-	-	3,240	-	-	3,240	-	3,240
Conversion of Note to Non-Controlling Interest	-	-	-	-	-	-	(3,240)	-	-	(3,240)	3,240	-
Issuance of PubCo Shares	(1,052,632)	(1)	-	18,240	1,200,001	3,012	-	-	-	3,011	-	3,011
Conversion of APIC to Class B Shares / NCI	-	-	320,000,000	-	-	13,750	(14,171)	-	(1,857)	(2,278)	2,278	-
Net Income	-	-	-	-	-	-	-	-	5,265	5,265	-	5,265
Allocate Retained Earnings to NCI	-	-	-	-	-	-	-	-	606	606	(606)	-
Distributions to Shareholders	-	-	-	-	-	-	(600)	-	(7,459)	(8,059)	-	(8,059)
Accumulated Other Comprehensive Income	-	-	-	-	-	-	-	39	(39)	-	-	-
Allocate AOCI to NCI	-	-	-	-	-	-	-	(6)	-	(6)	6	-
<b>Balance at September 30, 2021</b>	<b>-</b>	<b>\$ -</b>	<b>320,000,000</b>	<b>18,240</b>	<b>1,200,001</b>	<b>\$ 16,762</b>	<b>\$ -</b>	<b>\$ 33</b>	<b>\$ (3,484)</b>	<b>\$ 13,311</b>	<b>\$ 4,918</b>	<b>\$ 18,229</b>

The accompanying notes are an integral part of these unaudited Condensed Consolidated Interim Financial Statements.

**Irwin Naturals, Inc.**

## Condensed Consolidated Interim Statements of Cash Flows

For the Nine Months Ended of September 30, 2021 and September 30, 2020

(Unaudited, expressed US Dollars, rounded in thousands)

	Nine Months Ended	
	30-Sep-21	30-Sep-20
Net Income from Operations	\$ 5,265	\$ 5,095
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & Amortization	1,061	1,050
Change in Allowance for Doubtful Accounts	97	137
Non-cash share capital from reverse takeover transaction	3,012	-
Interest Expense	92	256
Income Taxes	351	77
Changes in Working Capital:		
Trade Receivables	3,526	(644)
Inventories	(1,731)	(645)
Prepaid Expenses & Other	615	477
Trade and Other Payables	2,606	(8)
Reserve for Returns	(7)	-
Changes in Other Non-current Assets	(29)	-
Cash Generated from Operations	14,858	5,795
Interest Paid	(92)	(280)
Income Taxes Paid	(194)	(77)
Net Cash Generated from Operating Activities	14,572	5,438
Cash Flow from Investing Activities:		
Purchases of Investments	(1)	-
Purchases of Property and Equipment	(47)	(12)
Net Cash Used in Investing Activities	(48)	(12)
Cash Flow from Financing Activities:		
Proceeds from Line of Credit	18,614	21,938
Payments of Line of Credit	(23,924)	(21,638)
Proceeds from PPP Loan	-	1,838
Distributions to stockholder	(8,021)	(6,283)
Payments on Lease Liability	(991)	(931)
Net Cash Used in Financing Activities	(14,322)	(5,076)
Net Increase / (Decrease) In Cash	202	350
Cash at Beginning of the Period	442	371
Cash at end of the Period	\$ 644	\$ 721

The accompanying notes are an integral part of these unaudited Condensed Consolidated Interim Financial Statements.

## **Irwin Naturals, Inc.**

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2021 and September 30, 2020

(Unaudited, expressed in US Dollars, rounded in thousands except share amounts)

### **1. NATURE OF OPERATIONS**

References herein to “the Company” or “Irwin” are intended to mean Irwin Naturals, Inc., and its subsidiaries (collectively, the “Company”).

On August 13, 2021, Irwin Naturals Inc. formerly Datinvest International Ltd., completed a reverse takeover transaction (“RTO”) as further described in Note 3. On August 25, 2021, the Company commenced trading of its subordinate voting shares (the “Subordinate Voting Shares”) on the Canadian Securities Exchange (“CSE”) under the ticker “IWIN”.

The Company’s subsidiaries are as follows:

#### **Subsidiaries**

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Irwin Naturals, a Nevada Corporation (“IN Nevada”)

5310 Holdings, LLC (“5310 Holdings”)

DAI US HoldCo, Inc. (“US HoldCo”)

Irwin Naturals Emergence, Inc. (IN Emergence”)

The Company and its United States (“U.S.”) subsidiaries’ functional currency, as determined by management, is the U.S. dollar (“USD”). These condensed consolidated interim financial statements are presented in thousands USD unless otherwise stated. The Company’s international subsidiary’s functional currency, as determined by management, are the Canadian Dollar (“CAD”). The international financial statements are converted from CAD to USD using the current exchange rate at the date of recognition for profit and loss amounts and the period end rate for balance sheet amounts. Conversion adjustments are recognized within accumulated other comprehensive income, which is a component of equity.

IN Nevada was incorporated in Nevada on January 23, 2002, and is based in Los Angeles, California. IN Nevada develops vitamins and other health supplements and distributes these products in the United States and Canada through two main channels: health food stores and mass market retailers.

5310 Holdings was formed as a California limited liability company based in Los Angeles, California to hold intellectual property related to products sold by IN Nevada. On April 1, 2021, Klee Irwin, who was the majority shareholder of IN Nevada at that date, contributed his interest in 5310 Holdings and all assets owned by 5310 Holding to IN Nevada. Klee and IN Nevada intended for the contribution to constitute a tax-free contribution to the capital of IN Nevada under Section 351 of the Internal Revenue Code based on Klee owning more than 80% of IN Nevada at the date of the contribution and was the sole owner and managing member of 5310 Holdings. Prior to the contribution, IN Nevada held a licensing agreement for worldwide licenses to use, market, sell and promote certain trademarks held by 5310 Holdings. 5310 Holdings had been determined to be a “related party” of IN Nevada.

Irwin Naturals Emergence, Inc was formed on September 17, 2021 in preparation for Irwin’s entry into the psychedelic mental health industry. The Company plans to offer ketamine-assisted psychedelic treatments to patients suffering from mental health issues and other ailments in IN

**Irwin Naturals, Inc.**

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2021 and September 30, 2020

(Unaudited, expressed in US Dollars, rounded in thousands except share amounts)

Emergence clinics across the United States, until the more widespread legality of psilocybin and other psychedelic drugs occurs. Irwin expects to begin opening its IN Emergence clinics as early as the end of 2021 or the beginning of 2022.

US HoldCo, was formed as a Nevada corporation and used to facilitate the completion of the reverse-takeover transaction.

The Company's corporate headquarters is located at 5310 Beethoven Street, Los Angeles, CA 90066.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Statement of Compliance**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). The financial statements do not contain all disclosures required by International Financial Reporting Standards ("IFRS") and accordingly should be read in conjunction with the audited combined financial statements of IN Nevada for the year ended December 31, 2020 and the notes thereto. The audited combined financial statements for IN Nevada for the year ended December 31, 2020 were authorized for issuance by the Company's Board of Directors on August 5, 2021.

These financial statements have been prepared under the historical cost method except for certain financial assets that are measured at fair value, as detailed in IN Nevada's accounting policies within the audited combined financial statements for the year ended December 31, 2020.

These unaudited condensed consolidated interim financial statements are based on the IFRS issued and effective as of November 24, 2021, the date these condensed consolidated interim financial statements were authorized for issuance by the Company's Board of Directors, and follow the same accounting policies and methods of computation as the most recent annual combined financial statements for IN Nevada.

**Basis of Consolidation**

The condensed consolidated interim financial statements include the financial results of the Company and its subsidiaries. Subsidiaries include entities which are wholly-owned as well as entities over which Irwin has the authority or ability to exert power and make financial and/or operating decisions (i.e., control). The condensed consolidated interim financial statements include the operating results of acquired entities from the date control was obtained. All intercompany balances and transactions were eliminated upon consolidation.

**Critical accounting estimates and judgments**

The preparation of these condensed consolidated interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.



## Irwin Naturals, Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2021 and September 30, 2020

(Unaudited, expressed in US Dollars, rounded in thousands except share amounts)

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) *Fair value of equity-like instruments:* Fair value of financial assets and financial liabilities recorded in the condensed consolidated interim statements of financial position, which cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. Judgment includes, but is not limited to, consideration of model inputs such as volatility, estimated life, and discount rates.
- ii) *Estimating variable consideration for returns and sales promotion incentives:* The Company uses historical customer return data to determine the expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Company.

The Company provides for estimated payments to its customers based on various trade programs and sales promotional incentives. The Company estimates the most likely amount payable for its largest customers for each trade and incentive program separately using (i) the projected level of sales volume for the relevant period; (ii) customer rates for allowances, discounts, and rebates; (iii) historical spending patterns; and (iv) sales lead time. These arrangements are complex and there are a significant number of customers and products affected. Management has systems and processes in place to estimate and value these obligations.

- iii) *Valuation of non-cash transactions:* Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.
- iv) *Amortization:* Amortization of property, plant and equipment and intangible assets are dependent upon the estimated useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.
- v) *Inventory:* Inventory is carried at the lower of cost or net realizable value. The determination of net realizable value involves significant management judgement and estimates, including the estimation of future selling prices.

## **Irwin Naturals, Inc.**

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2021 and September 30, 2020

(Unaudited, expressed in US Dollars, rounded in thousands except share amounts)

### **COVID-19 Estimation Uncertainty**

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) a global pandemic. This has resulted in governments worldwide, including the American government, to enact emergency measures to combat the spread of the virus. These measures, which include social distancing, the implementation of travel bans, and closures of non-essential businesses, have caused material disruption to businesses globally, resulting in an economic slowdown. The production and sale of hemp and cannabidiol ("CBD") have been recognized as essential services across the United States. As of September 30, 2021, the Company has observed positive sales trends in 2021 after experiencing negative downward pressure on its sales growth in 2020 due to the COVID-19 pandemic.

The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the full financial effect on the Company's business, financial position and operating results remain uncertain at this time. In addition, it is possible that estimates in the Company's condensed consolidated interim financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

### **New IFRS Standards that are effective for the current period**

#### **Interbank Offered Rate ("IBOR") Reform**

In August 2020, the IASB published amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases.

The amendments address issues that arise from implementation of IBOR reform, where IBORs are replaced with alternative benchmark rates and enable entities to reflect the effects of transitioning from benchmark interest rates to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

The amendments are effective for fiscal years beginning on or after January 1, 2021 with early adoption permitted. The Company adopted this amendment on January 1, 2021. As of September 30, 2021, there has been no impact to the Company's condensed consolidated interim financial statements, however the Company is in the process of evaluating potential changes to its secured credit line as it transitions from IBORs to alternative rates prior to the cessation of IBORs. As of September 30, 2021 the amount of debt subject to IBOR reform is \$2,190 (reference note 7, "Credit Facility").

### **New IFRS Standards in issue but not yet effective:**

#### **Amendments to IAS 37: Onerous Contracts and the Cost of Fulfilling a Contract**

The amendment specifies that 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment

## **Irwin Naturals, Inc.**

Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited, expressed in US Dollars, rounded in thousands except share amounts)

is effective for annual periods beginning on or after January 1, 2023 with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's condensed consolidated interim financial statements.

### **Amendments to IAS 1: Classification of Liabilities as Current or Non-current**

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the condensed consolidated interim statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023. The Company is currently evaluating the potential impact of these amendments on the Company's condensed consolidated interim financial statements.

### **3. REVERSE TAKEOVER TRANSACTION**

On August 13, 2021, Irwin Naturals Inc., formerly Datinvest International Ltd., successfully closed its previously announced reverse takeover of Datinvest International Ltd. by Irwin (the "**Business Combination**"). In connection with the Business Combination, the Company effected a consolidation (the "Consolidation") of the common shares of the Company (the "Common Shares") on a one post-Consolidation Common Share for every 8.31617 pre-Consolidation Common Shares basis. In addition, the Company amended its articles to: (i) create the proportionate voting shares and multiple voting shares (the "Multiple Voting Shares"); (ii) to add special rights and restrictions to the Common Shares and change the identifying name of the Common Shares to "Subordinate Voting Shares"; and (iii) to change its name from "Datinvest International Ltd." to "Irwin Naturals Inc." Shareholder approval for certain of these matters where required was obtained at an annual and special meeting of the Company's shareholders held on June 24, 2021.

In connection with the closing of the Business Combination, the Company de-listed its common shares from the NEX Board of the TSX Venture Exchange effective at the close of business on August 13, 2021. The Company commenced trading of its Subordinate Voting Shares on the CSE under the ticker "IWIN" on August 25, 2021.

Following the Business Combination, the leadership team of the Company is as follows:

- Klee Irwin - Chairman, Chief Executive Officer and Director
- Philippe Faraut - Chief Financial Officer, Corporate Secretary and Director
- Marc-David Bismuth - Director
- Rod Kight, Esq. – Director

As a result of the Business Combination, Klee Irwin acquired ownership of 18,240 Multiple Voting Shares, representing 100% of the issued and outstanding Multiple Voting Shares, and one Subordinate Voting Share. The Multiple Voting Shares are convertible on a one-to-one basis into 18,240 Subordinate Voting Shares. Klee Irwin also holds an aggregate of 273,599,891 Class B Non-Voting Shares of Irwin (the "Irwin Class B Shares"), which are exchangeable on a one-to-one basis into 273,599,891 Subordinate Voting Shares of the Company. Upon the exchange of a block of fifteen thousand (15,000) Irwin Class B Shares, Klee Irwin would receive fifteen thousand (15,000) Subordinate Voting Shares and one (1) of Klee Irwin's Multiple Voting Shares would be converted into one (1) Subordinate Voting Share (and therefore, Klee Irwin's aggregate Multiple

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Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited, expressed in US Dollars, rounded in thousands except share amounts)

Voting Share holdings would be reduced from 18,240 to 18,239 but his voting position in the Company would be maintained).

Immediately prior to the completion of the Business Combination, Mr. Irwin did not own or exercise control or direction over any securities of the Company. The Multiple Voting Shares and Irwin Class B Shares represent, on an as-converted or exchanged to Subordinate Voting Share-basis (converting or exchanging only the shares and securities that Mr. Irwin owns or exercises control and direction over), ownership of an aggregate of approximately 99.5% of outstanding Subordinate Voting Shares.

Mr. Irwin holds and controls his shares of the Company for investment purposes only and Mr. Irwin may increase or decrease his beneficial ownership or control over the shares of the Company or the Irwin Class B Shares, which he may do from time to time, depending on market or other conditions and to the extent deemed advisable in light of each of their respective general investment strategies. The Multiple Voting Shares held by Mr. Irwin are designed to ensure that Mr. Irwin has voting control at meetings of the shareholders of the Company and the existing share structure is subject to the provisions of the coattail agreement between the Company, Mr. Irwin and the Company's transfer agent, as described in the Company's listing statement dated August 13, 2021, which is posted and filed under the Company's profile on [www.sedar.com](http://www.sedar.com).

#### 4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following as of September 30, 2021 and December 31, 2020:

	30-Sep-21	31-Dec-20
Prepaid expenses	\$ 458	\$ 620
Prepaid insurance	53	260
Prepaid marketing	108	131
Prepaid inventory	91	453
Other receivables	331	192
<b>Total Prepaid Expenses and Other Current Assets</b>	<b>\$ 1,041</b>	<b>\$ 1,656</b>

#### 5. INVENTORY

Inventory consists of the following as of September 30, 2021 and December 31, 2020:

	30-Sep-21	31-Dec-20
Raw materials	\$ 4,733	\$ 3,337
Finished goods	11,575	11,240
<b>Inventory, net of reserve</b>	<b>\$ 16,308</b>	<b>\$ 14,577</b>

The amounts of additional reserve and reversals that are recognized during the three and nine months ended September 30, 2021 and 2020, are included in cost of sales in the condensed consolidated interim statements of profit as follows:

**Irwin Naturals, Inc.**

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended September 30, 2021 and September 30, 2020

(Unaudited, expressed in US Dollars, rounded in thousands except share amounts)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>30-Sep-21</b>	<b>30-Sep-20</b>	<b>30-Sep-21</b>	<b>30-Sep-20</b>
Beginning balance	\$ 6,473	\$ 3,633	\$ 6,032	\$ 3,194
Provisions made during the period	481	635	1,470	1,696
Disposals and sales during the period	(1,315)	(613)	(1,863)	(1,235)
<b>Ending balance</b>	<b>\$ 5,639</b>	<b>\$ 3,655</b>	<b>\$ 5,639</b>	<b>\$ 3,655</b>

**6. PROPERTY AND EQUIPMENT**

Property and Equipment consists of the following as of September 30, 2021 and 2020:

	<b>Furniture &amp; Fixtures</b>	<b>Computers &amp; Equipment</b>	<b>Machinery &amp; Equipment</b>	<b>Vehicles</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Cost</b>						
Balance, December 31, 2019	\$ 406	\$ 837	\$ 137	\$ 174	\$ 1,192	\$ 2,746
Additions	-	12	-	-	-	12
Disposals	-	-	-	(154)	-	(154)
<b>Balance, September 30, 2020</b>	<b>\$ 406</b>	<b>\$ 849</b>	<b>\$ 137</b>	<b>\$ 20</b>	<b>\$ 1,192</b>	<b>\$ 2,604</b>
<b>Accumulated Depreciation</b>						
Balance, December 31, 2019	\$ (384)	\$ (634)	\$ (126)	\$ (174)	\$ (1,187)	\$ (2,505)
Depreciation	(10)	(66)	(2)	-	(1)	(79)
Disposals	-	-	-	154	-	154
<b>Balance, September 30, 2020</b>	<b>\$ (394)</b>	<b>\$ (700)</b>	<b>\$ (128)</b>	<b>\$ (20)</b>	<b>\$ (1,188)</b>	<b>\$ (2,430)</b>
Balance, December 31, 2020	\$ (397)	\$ (723)	\$ (129)	\$ (26)	\$ (1,189)	\$ (2,464)
Depreciation	(3)	(47)	(7)	(33)	(1)	(91)
Disposals	-	59	-	-	-	59
<b>Balance, September 30, 2021</b>	<b>\$ (400)</b>	<b>\$ (711)</b>	<b>\$ (136)</b>	<b>\$ (59)</b>	<b>\$ (1,190)</b>	<b>\$ (2,496)</b>
<b>Net Book Value</b>						
<b>Balance, September 30, 2020</b>	<b>\$ 12</b>	<b>\$ 149</b>	<b>\$ 9</b>	<b>\$ -</b>	<b>\$ 4</b>	<b>\$ 174</b>
<b>Balance, September 30, 2021</b>	<b>\$ 6</b>	<b>\$ 116</b>	<b>\$ 1</b>	<b>\$ 76</b>	<b>\$ 18</b>	<b>\$ 217</b>

**7. CREDIT FACILITY**

In September 2020, the Company renewed a line of credit with a financial institution in the amount of the lesser of \$17,500 or the Company's borrowing base, as defined in the agreement. The Company has the option of borrowing under a LIBOR loan (LIBOR based on the interest period selected by the Company) or a Prime loan. Under LIBOR loans, borrowings bear interest at the greater of 1.35% or 30 day LIBOR interest rate plus 1.35% (1.5375% at December 31, 2020). Under Prime loans, borrowings bear interest at the greater of 2% or the fluctuating Prime rate minus

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1% (2.25% at December 31, 2020). The Company is in negotiation to replace the benchmark rate with an alternative benchmark rate with the financial institution as part of IBOR reform.

In May 2021, the Company amended its line of credit to extend the maturity date to August 1, 2022 and amended the provision requiring that Klee Irwin, the majority shareholder of the Company, retain at least a 75% interest in the Company to at least a 55% interest in the Company. The line of credit is secured by all of the Company's assets and is guaranteed by the Company's majority shareholder. The agreement contains certain restrictive covenants, for which the Company was in compliance at September 30, 2021 and December 31, 2020.

In July 2021, the Company and its financial institution executed an amendment to their agreement that extends the line of credit to December 1, 2022.

**8. LEASES****Right-of-Use Assets**

The Company's right-of-use ("ROU") assets consist primarily of a building, where the office and warehouse of its principal operations are located. The lease has a term of 36 months from commencement of August 2019 to July 2022. The following is a continuity schedule of the right-of-use asset for the nine months ended September 30, 2021 and the year ended December 31, 2020.

	<b>30-Sep-21</b>	<b>31-Dec-20</b>
Balance - Beginning of Period	\$ 2,047	\$ 3,340
ROU Amortization	(970)	(1,293)
<b>Balance - End of Period</b>	<b>\$ 1,077</b>	<b>\$ 2,047</b>

**Lease Liabilities**

The following is a continuity schedule of lease liabilities for the nine months ended September 30, 2021 and the year ended December 31, 2020.

	<b>30-Sep-21</b>	<b>31-Dec-20</b>
Balance - Beginning of Period	\$ 2,146	\$ 3,400
Lease Payments	(1,031)	(1,342)
Interest Expense on Lease Liabilities	40	88
<b>Balance - End of Period</b>	<b>\$ 1,155</b>	<b>\$ 2,146</b>
Current Portion	1,155	1,334
Non-current Portion	-	812

The following is a maturity schedule of leases as of September 30, 2021.

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One year or less	\$ 1,172
One to five years	-
More than five years	-
<b>Total undiscounted lease liability</b>	<b>1,172</b>
<b>Impact of discount</b>	<b>(16)</b>
Lease liability at September 30, 2021	1,156
<b>Less: current portion of lease liability</b>	<b>(1,155)</b>
<b>Lease liability net of current portion</b>	<b>\$ -</b>

When measuring lease liabilities, the Company discounts lease payments using its incremental borrowing rate. For leases recognized during the nine months ended September 30, 2021 and the year ended December 31, 2020, the weighted average rate applied is 3.11% for both periods. During the three and nine months ended September 30, 2021, the Company recorded rent expense of \$407 and \$1,183, respectively (September 30, 2020 - \$385 and \$1,117, respectively), which included \$84 and \$214 for the three and nine months ended September 30, 2021, respectively (\$62 and \$148 in 2020) for short-term leases.

**9. TRADE AND OTHER PAYABLES**

Trade and other payables consist of the following as of September 30, 2021 and December 31, 2020:

<b>Trade &amp; Other Payables</b>	<b>30-Sep-21</b>	<b>31-Dec-20</b>
Trade Payables	\$ 7,513	\$ 3,518
Accrued Compensation	1,578	1,806
Customer Refunds	262	131
Interest Payable	5	10
Accrued Promotions	3,400	5,483
Other Accrued Expenses	1,623	668
<b>Total Trade &amp; Other Payables</b>	<b>\$ 14,381</b>	<b>\$ 11,616</b>

**10. RELATED PARTY TRANSACTIONS**

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Company has defined key management personnel to include the CEO, CFO, COO, CPO, President, Executive Vice Presidents and directors of the Company. During the three and nine months ended September 30, 2021, and September 30, 2020 the remuneration and other payments to the Company's directors and other key management personnel are as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>30-Sep-21</b>	<b>30-Sep-20</b>	<b>30-Sep-21</b>	<b>30-Sep-20</b>
Wages and salaries	\$ 485	\$ 831	\$ 1,956	\$ 2,146
Post-employment compensation	-	45	-	60
Rent	-	-	-	29
<b>Total</b>	<b>\$ 485</b>	<b>\$ 876</b>	<b>\$ 1,956</b>	<b>\$ 2,235</b>

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In April 2021, the Company issued two executives separate promissory notes receivable in the amount of \$1,620 each (reference note 17, “Notes Receivable from Shareholders”).

### Related Party Contribution

As of April 1, 2021, Klee Irwin contributed his interest in 5310 Holdings and all assets owned by such 5310 Holdings to IN Nevada. Klee and IN Nevada intend for the contribution to constitute a tax-free contribution to the capital of IN Nevada under Section 351 of the Internal Revenue Code based on Klee owning more than 80% of IN Nevada at the date of the contribution and was the sole owner and managing member of 5310 Holdings. Prior to the contribution, IN Nevada held a licensing agreement for worldwide licenses to use, market, sell and promote certain trademarks held by 5310 Holdings. 5310 Holdings had been determined to be a “related party” of IN Nevada. The December 31, 2020 combined interim financial statements includes the accounts of IN Nevada and 5310 Holdings. This presentation reflects a common-controlled combination of previously existing entities. Control existed when IN Nevada was exposed, or had rights to variable returns from its involvement with the investee, and had the ability to affect those returns through its power over the investee. The financial statements of the entities were included in the combined interim financial statements from the date that control commenced until the date that control ceased. IN Nevada was the primary beneficiary of 5310 Holdings through the use of trademarks held by that entity. 5310 Holdings had no operations apart from ownership of the trademarks, and these intangibles were fully integrated into the operations of IN Nevada as of December 31, 2020.

As of December 31, 2020, amounts included from 5310 Holdings in the combined interim financial statements include intangible assets of \$87 and additional paid-in capital of \$87. Apart from these amounts, creditors and beneficial holders of 5310 Holdings had no recourse to the assets or general credit of IN Nevada. All intra-company transactions, balances, income and expenses were eliminated for presentation.

As of September 30, 2021 contributed interests from 5310 Holdings of \$87 were classified as intangible assets in the Company’s condensed consolidated interim statement of financial position.

## **11. SHARE CAPITAL**

### **Issued and Outstanding**

As of September 30, 2021, the Company had 1,200,001 subordinate voting shares and 18,240 multiple voting shares issued and outstanding. In addition, the Company has 320,000,000 Class B non-voting shares exchangeable into 320,000,000 subordinate voting shares on a 1:1 basis. Including the Class B non-voting shares, on a fully-diluted, as-converted basis, there would be an aggregate of 321,218,241 subordinate voting shares issued and outstanding (specifically, on conversion or exchange, as applicable, of 320,000,000 Class B non-voting shares and 18,240 multiple voting shares, each on a 1:1 basis).

The descriptions and benefits of the share capital are discussed in greater detail in the Company’s listing statement dated August 13, 2021 available at [www.sedar.com](http://www.sedar.com).



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For the three months ending September 30, 2021, the Company had basic and diluted earnings / (loss) per share of (\$1.22) and (\$0.00), respectively (basic and diluted at September 30, 2020 were both \$1.67).

For the nine months ending September 30, 2021, the Company had basic and diluted earnings / (loss) per share of \$4.35 and \$0.02, respectively (basic and diluted at September 30, 2020 were both \$5.10).

### **12. CAPITAL STRUCTURE**

The Company defines capital that it manages as shareholders' equity and debt.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to maintain operations. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable to ensure optimal capital structure to reduce the cost of capital.

### **13. PAYCHECK PROTECTION PROGRAM**

On April 20, 2020, IN Nevada received loan proceeds in the amount of \$1,838 under the PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). IN Nevada used all of the proceeds for purposes consistent with the PPP Loan guidelines and in June 2021, IN Nevada received notice from the Small Business Administration that the loans received in the amount of \$1,838 under the PPP have been forgiven.

### **14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants. The Company records certain financial instruments at fair value. The Company's financial instruments include cash, accounts receivable, accounts payable and accrued expenses.

The Company is exposed to varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes, inclusive of counterparty limits, controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

#### **Credit risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and trade receivables. The Company's cash is held in large American financial institutions and no losses have been incurred in relation to these items.

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The aging of the Company's accounts receivables as of September 30, 2021 and December 31, 2020 is as follows:

	Current	1 - 30 days past due	31 - 60 days past due	61 - 90 days past due	91+ days past due	Expected Credit Loss	Total
September 30, 2021	\$ 9,520	3,309	671	198	438	(544)	\$ 13,592
December 31, 2020	\$ 12,785	3,767	257	219	576	(390)	\$ 17,214

The carrying amount of cash and trade receivables represent the maximum exposure to credit risk, and as of September 30, 2021, this amounted to \$14,237 (December 31, 2020 - \$17,656).

For the three months ended September 30, 2021 two customers accounted for 30% of the Company's sales, which represented approximately 27% of the accounts receivable balance. For the three months ended September 30, 2020 two customers accounted for 30% of the Company's sales, which represented approximately 37% of the accounts receivable balance.

As of December 31, 2020, three customers represented approximately 50% of the accounts receivable balance.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. As of September 30, 2021, the Company has \$645 of cash (December 31, 2020 - \$442). The Company is obligated to pay trade and other payables, line of credit, and the lease liability with a carrying amount as of September 30, 2021 of \$18,145 (December 31, 2020 - \$21,649).

	Carrying Amount	Contracted Cash Flows	< 1 year	1 - 2 years	2 - 5 years	>5 years
Trade and other payables	\$ 14,419	\$ 14,419	\$ 14,419	\$ -	\$ -	\$ -
Accrued liabilities	380	380	380	-	-	-
Lease liabilities	1,156	1,172	1,172	-	-	-
Line of credit	2,190	2,190	2,190	-	-	-
<b>Total</b>	<b>\$ 18,145</b>	<b>\$ 18,161</b>	<b>\$ 18,161</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Non-cash investing and financing activities:

	Nine months ended September 30,	
	2021	2020
Stock issued in exchange for promissory notes receivable (reference footnote 17)	\$ 3,240	\$ -

## **Irwin Naturals, Inc.**

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### **16. EMPLOYEE BENEFIT PLAN**

The Company has a 401(k) plan (the "Plan") which allows all employees meeting the minimum service eligibility requirement to defer up to the maximum amount allowed by the Internal Revenue Code limits on a pre-tax or post-tax basis, or a combination thereof. The Company currently contributes a match equal to the lesser of \$1.5 per employee or 50% of an employee's contribution capped at 4% of their compensation. The Plan also allows for discretionary profit-sharing contributions, and no such contributions were made during the nine months ended September 30, 2021 and 2020. Employer matching contributions totaled \$30 and \$60 for the three and nine months ended September 30, 2021, respectively (\$nil in 2020).

### **17. NOTES RECEIVABLE FROM SHAREHOLDERS**

In April 2021, IN Nevada issued two executives separate promissory notes receivable in the amount of \$1,620 each in exchange for previously authorized common shares representing an aggregate 5% interest in IN Nevada as part of an amendment to the executives' profit-sharing employment agreements. At the time of the RTO, these shares were subsequently converted to Class B non-voting shares. The notes receivable are due and payable on April 1, 2030 and bear interest on their respective unpaid principal outstanding beginning April 1, 2021, at a rate per annum equal to one percent simple interest. The total value of the notes, including accrued interest, are due and payable in a balloon payment upon maturity. As the terms of the notes do not provide unconditional rights to avoid delivering cash or other financial assets to settle, the notes receivable are presented as assets on the September 30, 2021 condensed consolidated interim statement of financial position. Both notes receivable remained outstanding as of September 30, 2021.

### **18. NON-CONTROLLING INTEREST**

The non-controlling interest of the Company represents the net assets of the Company that Klee Irwin, the controlling party, does not own directly or indirectly. As of September 20, 2021, the non-controlling parties owned \$4,918 of the total net assets of the company.

### **19. COMMITMENTS AND CONTINGENCIES**

#### **Commitments**

Irwin had no guarantee contracts, derivative instruments, off-balance sheet arrangements or contingent liabilities or obligations as of September 30, 2021.

#### **Contingencies**

##### Claims and Litigation

The Company is party to litigation from time to time in the normal course of business. The Company accrues liabilities related to litigation only when it concludes that it is probable that it will incur costs related to such litigation and can reasonably estimate the amount of such costs. In cases where the Company determines that it is not probable, but reasonably possible that it has a material obligation, it discloses such obligations and the possible loss or range of loss, if such estimate can be made. The Company maintains insurance to cover certain actions and believes that resolution

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of such litigation in the normal course of business will not have a material adverse effect on the Company's condensed consolidated interim financial statements.

### *Batista v Irwin Naturals (IN Nevada), Case No. 2:20-cv-10737 (U.S. District Court, Central District of California)*

Isabella Batista filed a class action lawsuit in the United States District Court for the Central District of California on November 24, 2020. Batista alleges that Irwin Naturals (IN Nevada) makes false and misleading claims on the packaging of its nutritional supplement product Ginkgo Smart. Batista alleges that ginkgo biloba, Ginkgo Smart's main ingredient, does not improve cognitive function, memory or concentration and therefore Ginkgo Smart's label claims are false and misleading. Batista seeks to represent a nationwide class of consumers and a New York subclass who purchased Ginkgo Smart. Batista lives, and purchased the product, in New York. Batista's prayer for relief includes damages, restitution, and/or disgorgement; compensatory and punitive damages; declaratory and injunctive relief; reasonable attorneys' fees and expenses and costs of the suit; and prejudgment interest on all amounts awarded. The company filed a motion to dismiss the first amended complaint. The motion to dismiss was fully briefed as of March 26, 2021. The court ruled on the motion to dismiss on September 27, 2021, granting the motion in part and denying the motion in part. The Company submitted an answer to the First Amended Complaint in accordance with the direction given in the order from the court on October 19, 2021.

Batista did not allege an enumerated amount of damages as is common with consumer class actions, as such amount is dependent on whether a class is certified, the potential size of the class and the sales of the product. In order to obtain subject matter jurisdiction with the Federal Court, Batista alleged her claim was over \$5 million. Notwithstanding the foregoing, Batista is asking the court or a jury to determine the amount of potential damages and/or attorney fees. Certain New York state statutes provide a minimum of fifty (\$50 or \$500) per consumer in a class action lawsuit, but any potential total amount is dependent upon a class being certified and an adverse ruling against Irwin Naturals (IN Nevada).

### *Asaro v Irwin Naturals (IN Nevada), Case No. 2:21-cv-05340-KAM-AKT (U.S. District Court, Eastern District of New York)*

Joseph Asaro filed a class action lawsuit in the United States District Court for the Eastern District of New York on September 27, 2021. Asaro alleges that Irwin Naturals (IN Nevada) makes deceptive and misleading claims on the packaging of the following nutritional supplement products: Power to Sleep PM, Immuno-Shield with Mega-D3, Keto-Karma Burn Fat Red, Immuno-Shield, Only One Liquid-Gel Multi With Iron, Sunny Mood with 5-HTP, Only One Liquid-Gel Multi Without Iron, Stress Defy, Body Fat Diet System Six Red, 3-in-1 Joint Formula, Milk Thistle Liver Detox, System-Six, Ginkgo Smart, Advanced Absorption Mega-B Complex, Longer Stronger Hair and Nails, Vita-C Plus Urgent Rescue, Women's Living Green Liquid-Gel Multi, Immuno-Shield with Elderberry, Whole-Body Turmeric, 3-in-1 Carb Blocker, High Potency Mega D3 & K2, and Stored Fat Belly Burner ("Products"). All of these Products are under the "Irwin Naturals" brand. Asaro is alleging that the fact that the brand name includes the term "Naturals" that the Products are deceptive and misleading because they contain alleged non-natural and synthetic ingredients.

Asaro seeks to represent a class of consumers based in New York who purchased the Products. However, Asaro admits in his complaint that he only purchased one of the Products listed, Power to Sleep PM. Asaro's prayer for relief includes monetary damages including treble and/or punitive damages, pursuant to GBL §349 and GBL §350; costs and expenses incurred in this action; and

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further relief as the court may deem proper. The Company received a 45-day extension to file its responsive pleading. It is due December 6, 2021.

Asaro did not allege an enumerated amount of damages as is common with consumer class actions, as such amount is dependent on whether a class is certified, the potential size of the class and the sales of the product. In order to obtain subject matter jurisdiction with the Federal Court, Asaro alleged his claim was over \$5 million. Notwithstanding the foregoing, Asaro is asking the court or a jury to determine the amount of potential damages and/or attorney fees. Certain New York state statutes provide a minimum of fifty (\$50 or \$500) per consumer in a class action lawsuit, but any potential total amount is dependent upon a class being certified and an adverse ruling against Irwin Naturals (IN Nevada).

**20. EVENTS OCCURRING AFTER THE REPORTING PERIOD**

The Company has evaluated events occurring after the reporting period. The Company is not aware of any significant events that occurred subsequent to the reporting period that would have a material impact on its condensed consolidated interim financial statements, other than what is noted below.

Irwin Naturals Cannabis, Inc. was formed on October 19, 2021 with the intent of entering into the United States and Canadian recreational cannabis markets for adult use. Irwin intends to enter the North American cannabis industry by licensing its household brand name to licensed third parties that manufacture products containing tetrahydrocannabinol ("THC"). Details of the Irwin Naturals Cannabis product lineup and the timing of the launch will be communicated in due course. However, the Company is planning the overall launch of Irwin Naturals Cannabis to the continental cannabis market in late 2021 or early 2022.