

ELSE NUTRITION HOLDINGS INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2021

(in Canadian Dollars in Thousands)

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ELSE NUTRITION HOLDINGS INC.

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.

November 29, 2021

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Canadian dollars in thousands

	September 30, 2021	December 31, 2020
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	12,579	21,538
Restricted cash	1,025	644
Short term bank deposit	217	3,174
Trade receivables	875	369
Other accounts receivables and prepaid expenses	490	289
Inventories	3,897	2,424
	<u>19,083</u>	<u>28,438</u>
NON-CURRENT ASSETS:		
Property, plant and equipment, net	417	253
Intangible assets, net	347	395
Right-of-use assets	1,010	233
	<u>1,774</u>	<u>881</u>
Total assets	<u><u>20,857</u></u>	<u><u>29,319</u></u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	1,554	1,235
Other account payables	805	630
Related parties	8	8
Current portion of lease liability	358	146
	<u>2,725</u>	<u>2,019</u>
NON-CURRENT LIABILITIES:		
Lease liability	643	82
Warrants liability	7,704	16,010
	<u>8,347</u>	<u>16,092</u>
EQUITY:		
Share capital and premium	40,841	39,137
Other reserve	3,130	1,985
Accumulated other comprehensive loss	(510)	(278)
Accumulated deficit	(33,676)	(29,636)
Total equity	<u>9,785</u>	<u>11,208</u>
Total liabilities and equity	<u><u>20,857</u></u>	<u><u>29,319</u></u>

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

<u>November 29, 2021</u>	<u>"Hamutal Yitzhak"</u>	<u>"Sokhie Puar"</u>
Date of approval of the financial statements	Hamutal Yitzhak CEO and Director	Sokhie Puar Director

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE LOSS

Canadian dollars in thousands, except share and per share data

	Nine months ended 30 September,		Three months ended 30 September,	
	2021	2020	2021	2020
	Unaudited			
Revenues	3,422	884	1,173	376
Cost of sales (purchased products)	(2,877)	(668)	(1,002)	(308)
Gross profit	545	216	171	68
Operating expenses:				
Employee benefits expense	2,802	1,526	1,075	561
Research and development subcontractors	1,349	704	481	360
Share-based compensation	1,538	684	419	591
Consulting fees	834	941	384	407
Professional fees	349	581	63	218
Advertising	4,789	693	1,746	514
Depreciation and amortization	245	136	115	47
Investors relations	186	196	102	44
Office and miscellaneous	721	333	337	105
Total operating expenses	12,813	5,794	4,722	2,847
Loss before other income (expenses)	(12,268)	(5,578)	(4,551)	(2,779)
Other income (expenses):				
Income (loss) from revaluation of warrants	8,306	(4,339)	2,579	(1,002)
Income (loss) on foreign currency	(78)	(159)	503	(149)
Net loss	(4,040)	(10,076)	(1,469)	(3,930)
Other comprehensive loss:				
Amounts that will be classified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	(232)	(108)	64	(43)
Total comprehensive loss for the period	(4,272)	(10,184)	(1,405)	(3,973)
Net loss per share attributable to equity holders of the Company (in Canadian dollars):				
Basic and diluted loss per common share	(0.04)	(0.13)	(0.01)	(0.05)
Weighted average number of shares outstanding – basic and diluted	95,784,159	77,619,566	96,116,271	80,655,731

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Canadian dollars in thousands, except share and per share data

	Common Shares		Subscription Receivable	Reserve - warrants	Reserve - options	Accumulated other comprehensive loss *)	Accumulated deficit	Total shareholders' equity
	Number	Amount						
Balance as of January 1, 2020	67,220,810	8,599	(9)	529	100	(29)	(5,532)	3,658
Other comprehensive loss	-	-	-	-	-	(249)	-	(249)
Net loss	-	-	-	-	-	-	(24,104)	(24,104)
Total comprehensive loss	-	-	-	-	-	(249)	(24,104)	(24,353)
Issuance of public and private placement shares, net of issuance expenses	23,808,011	25,608	-	4,373	-	-	-	29,981
Issuance of shares upon warrants exercise	3,554,676	4,895	9	(4,036)	-	-	-	868
Issuance of shares upon options exercise	69,375	35	-	-	(7)	-	-	28
Share-based compensation	-	-	-	7	1,019	-	-	1,026
Balance as of December 31, 2020 (audited)	<u>94,652,872</u>	<u>39,137</u>	<u>-</u>	<u>873</u>	<u>1,112</u>	<u>(278)</u>	<u>(29,636)</u>	<u>11,208</u>
Other comprehensive loss	-	-	-	-	-	(232)	-	(232)
Net loss	-	-	-	-	-	-	(4,040)	(4,040)
Total comprehensive loss	-	-	-	-	-	(232)	(4,040)	(4,272)
Shares issued as a non-cash consideration for services	37,632	68	-	-	-	-	-	68
Issuance of shares upon warrants exercise	1,402,716	1,604	-	(388)	-	-	-	1,216
Issuance of shares upon options exercise	53,000	32	-	-	(5)	-	-	27
Share-based compensation	--	--	--	6	1,532	--	--	1,538
Balance as of September 30, 2021 (unaudited)	<u>96,146,220</u>	<u>40,841</u>	<u>-</u>	<u>491</u>	<u>2,639</u>	<u>(510)</u>	<u>(33,676)</u>	<u>9,785</u>

*) Comprised of exchange differences on translation of foreign operations.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Canadian dollars in thousands, except share and per share data

	Common Shares		Subscription Receivable	Reserve warrants	Reserve options	Accumulated other comprehensive loss *)	Accumulated deficit	Total shareholders' equity
	Number	Amount						
Balance as of January 1, 2020	67,220,810	8,599	(9)	529	100	(29)	(5,532)	3,658
Other comprehensive loss	-	-	-	-	-	(108)	-	(108)
Net loss	-	-	-	-	-	-	(10,076)	(10,076)
Total comprehensive loss	-	-	-	-	-	(108)	(10,076)	(10,184)
Issuance of shares in private placement, net of issuance expenses	12,383,900	7,191	-	327	-	-	-	7,518
Issuance of shares upon warrants exercise	1,066,286	365	9	(40)	-	-	-	334
Issuance of shares upon options exercise	15,000	9	-	-	(2)	-	-	7
Subscription received in advance net of issuance expenses	-	(43)	88	-	-	-	-	45
Share-based compensation	-	-	-	5	679	-	-	684
Balance as of September 30, 2020 (unaudited)	<u>80,685,996</u>	<u>16,121</u>	<u>88</u>	<u>821</u>	<u>777</u>	<u>(137)</u>	<u>(15,608)</u>	<u>2,062</u>

*) Comprised of exchange differences on translation of foreign operations.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Canadian dollars in thousands**

	Nine months ended	
	September 30,	
	2021	2020
	Unaudited	
<u>Cash flows from operating activities:</u>		
Net loss	(4,040)	(10,076)
Adjustments to reconcile net loss to net cash used in operating activities:		
Adjustments to the profit or loss items:		
Share based compensation	1,538	684
Financial expenses, net	19	8
Depreciation and amortization	407	136
Revaluation of share warrants	(8,306)	4,339
	<u>(10,382)</u>	<u>(4,909)</u>
Changes in asset and liability items:		
Decrease (increase) in trade receivables	(496)	13
Decrease (increase) in other account receivables and prepaid expenses	(203)	58
Increase in inventories	(1,451)	(1,053)
Decrease in trade payables	408	2
Increase in related parties	-	4
Increase in other account payables	177	241
	<u>(1,565)</u>	<u>(735)</u>
Net cash used in operating activities	<u>(11,947)</u>	<u>(5,644)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS**Canadian dollars in thousands**

	Nine months ended	
	September 30,	
	2021	2020
	Unaudited	
<u>Cash flows from investing activities:</u>		
Purchase of property and equipment	(361)	(41)
Withdrawal from short term deposit	2,864	-
Change in restricted cash, net	<u>(381)</u>	<u>(144)</u>
Net cash provided by (used in) investing activities	<u>2,122</u>	<u>(185)</u>
<u>Cash flows from financing activities:</u>		
Issue of Common shares and warrants, net of issue expenses	-	7,868
Lease payment	(134)	(85)
Cash received for exercise of warrants	1,216	324
Cash received for exercise of share options	27	7
Subscription received in advance	<u>-</u>	<u>88</u>
Net cash provided by financing activities	<u>1,109</u>	<u>8,202</u>
Exchange rate differences on balances of cash and cash equivalents	<u>(243)</u>	<u>(161)</u>
Increase (decrease) in cash and cash equivalents	(8,716)	2,373
Cash and cash equivalents at the beginning of the period	<u>21,538</u>	<u>2,909</u>
Cash and cash equivalents at the end of the period	<u>12,579</u>	<u>5,121</u>
<u>Non-cash transactions</u>		
Right-of-use asset recognized with corresponding lease <u>liability</u>	<u>880</u>	<u>96</u>
Exercise of warrant liability to Common shares	<u>-</u>	<u>36</u>
Issuance of shares in payment of liability	<u>68</u>	<u>-</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian dollars in thousands, except share and per share data

NOTE 1: GENERAL

- a. Else Nutrition Holdings Inc. (the “Company” or “Else”) was incorporated under the Business Corporations Act of British Columbia on July 18, 2011.
- b. The Company focuses on research, development, manufacturing, marketing and sale of innovative plant-based food and nutrition products and also maintain feeding accessories products to infants and dried food snacks.

The head office is located at 6 Hanechoshet Street, Tel Aviv, Israel 6971070. The registered office of the Company is located at Suite 1200 – 750 West Pender Street, Vancouver, British Columbia, V6C 2T8.

- c. On January 23, 2020, the Company established a wholly owned subsidiary in the U.S., Else Nutrition USA, Inc., which is primarily engaged in sales and marketing. The office is located at Suite 200 – 0501 W. Schrock Road, Westerville, OH 43081, USA.
- d. On February 11, 2021, the Company filed and received a receipt for a preliminary base shelf prospectus with the securities commissions in each of the provinces of Canada excluding Quebec. The Company filed a final base shelf prospectus on April 20, 2021 and received a final receipt, therefore. The final base shelf prospectus qualifies distribution up to \$75,000 in any combination of common shares, warrants and units of the Company-in one or more transactions within a 25-month period from the effective date of the Short Form Prospectus. The specific terms of any offering under the base shelf prospectus will be established in a prospectus supplement, which will be filed with the applicable Canadian securities' regulatory authorities in connection with any such offering.
- e. These interim consolidated financial statements have been prepared on a going concern basis, which contemplates that the Group will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As of September 30, 2021, the Group has an accumulated deficit of \$33,676. For the nine-month period ended September 30, 2021, the Group incurred total comprehensive loss of \$4,272 and had negative cash flow from operations of \$11,947. The Group's ability to continue as a going concern is dependent upon its ability to generate product sales, negotiate collaboration agreements with upfront and/or continuing payments, obtain research grants, raise additional financing, and ultimately attain and maintain profitable operations. While the Group is striving to act on these initiatives, there is no assurance that these and other strategies will be successful or sufficient to permit the Group to continue as a going concern.

The above circumstances indicate that a material uncertainty exists that may cast significant doubt as to the Group's ability to continue as a going concern. These interim consolidated financial statements do not reflect adjustments to the carrying values of the Group's assets and liabilities, revenue and expenses, and the statement of financial position classifications used, that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian dollars in thousands, except share and per share data

NOTE 1: GENERAL (Cont.)

f. These interim consolidated financial statements have been prepared in a condensed format as of September 30, 2021, and for the nine and three months then ended ("interim consolidated financial statements"). These interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements as of December 31, 2020, and for the year then ended and the accompanying notes ("annual consolidated financial statements").

g. Definitions:

In these financial statements:

Related parties - As defined in IAS 24.

Subsidiaries - Companies that are controlled by the Company (as defined in IFRS 10) and whose accounts are consolidated with those of the Company.

Group - The Company and its subsidiaries

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements, unless otherwise stated.

Basis of presentation of the financial statements:

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, "*Interim Financial Reporting*".

DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

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

In February 2021, the IASB issued an amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" ("the Amendment"), in which it introduces a new definition of "accounting estimates".

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies 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 reporting periods beginning on or after January 1, 2023 and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian dollars in thousands, except share and per share data

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. 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 reporting 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 initial application of the Amendment is not expected to have a material impact on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian dollars in thousands, except share and per share data

NOTE 3: EQUITY

a. Stock Options:

On January 20, 2021, the Company issued an aggregate of 375,000 incentive stock options to directors, officers, and employees of the Company. Each option is exercisable into one Common share of the Company at a price of \$3.5 per share for a period of five years from the date of grant. The total stock options will follow two different vesting schedules. Of the total options granted: (A) 200,000 options granted will be subject to 36 months vesting schedule as follows: 1/3 of such options vest on the first year anniversary, the remaining 2/3 of such options vest in equal amounts each month for the next 24 months; and (B) 175,000 options granted are subject to a 24 months vesting schedule as follows: 12.5% vest upon completion of each quarter (up to 100% in 24 months).

On February 24, 2021, the Company issued an aggregate of 144,000 incentive stock options as a consideration towards consulting agreement. Each option is exercisable into one Common share of the Company at a price of \$3.65 per share for a period of three years from the date of grant. These options will vest equally over a period of 36 months from the date of grant.

On May 13, 2021, the Company issued an aggregate of 253,000 incentive stock options to director and employees of the Company. Each option is exercisable into one Common share of the Company at a price of \$2.03 per share for a period of five years from the date of grant. The total stock options will follow two different vesting schedules. Of the total options granted: (A) 178,000 options granted will be subject to 36 months vesting schedule as follows: 1/3 of such options vest on the first year anniversary, the remaining 2/3 of such options vest in equal amounts each month for the next 24 months; and (B) 75,000 options granted are subject to 12 months vesting schedule as follows: 25% vest upon completion of each quarter (up to 100% in 12 months).

On June 27, 2021, the Company issued an aggregate of 205,000 incentive stock options to employees of the Company. Each option is exercisable into one Common share of the Company at a price of \$2.59 per share for a period of five years from the date of grant. The options granted will be subject to 36 months vesting schedule as follows: 1/3 of such options vest on the first year anniversary, the remaining 2/3 of such options vest in equal amounts each month for the next 24 months

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

	2021
Dividend yield (%)	—
Expected volatility of the share prices (%)	52.99 – 54.7
Risk-free interest rate (%)	0.18 - 0.73
Expected life of share options (years)	2.25 – 3.75
Share price (\$) average	2.03-3.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian dollars in thousands, except share and per share data

NOTE 3: EQUITY (Cont.)

b. Share Warrants:

During the nine months ended September 30, 2021, 1,402,716 of the share warrants were exercised, where each share warrant was exercised for one Common share of the Company. An aggregate of 477,434 share warrants were exercised at an exercise price of \$0.25 per share, 3,750 share warrants were exercised at an exercise price of \$0.969 per share, 400,000 share warrants were exercised at an exercise price of \$0.0001 per share, 93,511 share warrants were exercised at an exercise price of \$3.25 per share, 298,021 share warrants were exercised at an exercise price of \$2.25 per share and 130,000 share warrants were exercised at an exercise price of \$0.15 per share.

During the nine months ended September 30, 2021, the Company recorded other income at the amounts of \$4,164 and \$ 4,141 for revaluation of liability warrants from March 2020 and October 2020 private and public placement, respectively.

The public warrants with a fair value of \$2,381 as of September 30, 2021, are classified as level 1 and the private placement warrants with a fair value of \$5,323 as of September 30, 2021, are classified as level 3 of the fair value hierarchy.

The following table lists the inputs to the Black and Scholes model used for the fair value measurement of the above warrants:

	2021
Dividend yield (%)	-
Expected volatility of the share prices (%)	48.44-49.14
Risk-free interest rate (%)	0.53-0.6
Expected life of share warrants (years)	1.18-1.27
Share price (\$)	2.55

NOTE 4: ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS

Additional information on revenues:

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	Unaudited			
Revenue from dried food snacks	384	389	134	168
Revenue from feeding accessories	424	384	123	97
Revenue from formula	2,614	111	916	111
Total revenues	3,422	884	1,173	376

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian dollars in thousands, except share and per share data**NOTE 5: SUBSEQUENT EVENTS**

On October 20, 2021, the Company closed a marketed public offering of 8,050,000 units at a price of \$2.15 per unit for aggregate proceeds of approximately \$17,300. Each unit comprises of one Common share of the Company and one-half of one Common share purchase warrant, with each whole warrant entitling the holder to purchase one share at a price of \$2.70 per share for a period of five years.

The Company also issued 423,940 broker warrants as underwriting fees, each broker warrant entitling the holder to purchase one Common share at a price of \$2.15 per share for a period of two years and 23,255 Common share purchase warrants to a finder at a price of \$2.70 per share for a period of five years.