

ELSE NUTRITION HOLDINGS INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2020

(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.

July 16, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**Canadian dollars in thousands**

| | <u>March 31,</u> <u>2020</u> <u>Unaudited</u> | <u>December 31,</u> <u>2019</u> <u>Audited</u> |
|---|---|--|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 9,814 | 2,909 |
| Restricted cash | 112 | 106 |
| Trade receivables | 468 | 506 |
| Other accounts receivables and prepaid expenses | 201 | 266 |
| Inventories | 461 | 157 |
| | <u>11,056</u> | <u>3,944</u> |
| NON-CURRENT ASSETS: | | |
| Property, plant and equipment, net | 72 | 51 |
| Intangible assets, net | 445 | 434 |
| Right-of-use assets | 184 | 100 |
| | <u>701</u> | <u>585</u> |
| Total assets | <u>11,757</u> | <u>4,529</u> |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES: | | |
| Trade payables | 373 | 301 |
| Other account payables | 485 | 359 |
| Related parties | 113 | 110 |
| Current portion of lease liability | 117 | 69 |
| | <u>1,088</u> | <u>839</u> |
| NON-CURRENT LIABILITIES: | | |
| Lease liability | 68 | 32 |
| Liability in respect of share warrants | 756 | - |
| | <u>824</u> | <u>32</u> |
| EQUITY: | | |
| Share capital and premium | 16,116 | 8,599 |
| Subscription receivable | - | (9) |
| Other reserve | 969 | 629 |
| Accumulated other comprehensive loss | (57) | (29) |
| Accumulated deficit | (7,183) | (5,532) |
| <u>Total equity</u> | <u>9,845</u> | <u>3,658</u> |
| <u>Total liabilities and equity</u> | <u>11,757</u> | <u>4,529</u> |

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

July 16, 2020

Date of approval of the
financial statementsDocuSigned by:
Hamutal YitzhakHamutal Yitzhak
CEO and Director

DocuSigned by:

Sokhie Puar

Sokhie Puar
Director

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE LOSS**Canadian dollars in thousands, except share and per share data**

| | Three months ended | |
|---|---------------------------|-------------------|
| | 31 March, | |
| | 2020 | 2019 |
| | Unaudited | |
| Revenues | 297 | - |
| Cost of sales (purchased products) | 231 | - |
| Gross profit | <u>66</u> | <u>-</u> |
| Operating expenses: | | |
| Employee benefits expense | 472 | - |
| Research & development subcontractors | 266 | 34 |
| Share-based compensation | 53 | - |
| Consulting fees | 232 | 8 |
| Professional fees | 169 | 241 |
| Advertising | 171 | - |
| Depreciation and amortization | 42 | - |
| Investors relations | 73 | - |
| Office and miscellaneous | 120 | - |
| Total operating expenses | <u>1,598</u> | <u>283</u> |
| Loss before other income (expenses) | (1,532) | (283) |
| Other income (expenses): | | |
| Gain (loss) on foreign exchange | 217 | (1) |
| Revaluation of share warrants | (336) | - |
| Net loss | <u>(1,651)</u> | <u>(284)</u> |
| Other comprehensive income (loss): | | |
| Amounts that will be classified subsequently to profit or loss: | | |
| Exchange differences on translation of foreign operations | (28) | - |
| Total comprehensive loss for the period | <u>(1,679)</u> | <u>(284)</u> |
| Net loss per share attributable to equity holders of the Company (in Canadian dollars): | | |
| Basic and diluted loss per common share | <u>(0.02)</u> | <u>(0.01)</u> |
| Weighted average number of shares outstanding – basic and diluted | <u>71,542,886</u> | <u>29,400,019</u> |

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

| | <u>Common Shares</u> | | <u>Subscription Receivable</u> | <u>Reserve - warrants</u> | <u>Reserve - options</u> | <u>Accumulated other comprehensive income (loss) *)</u> | <u>Accumulated deficit</u> | <u>Total shareholders' equity</u> |
|--|----------------------|---------------|------------------------------------|-------------------------------|------------------------------|---|--------------------------------|---|
| | <u>Number</u> | <u>Amount</u> | | | | | | |
| Balance as of January 1, 2019 | 29,400,019 | 1 | (1) | - | - | 1 | (154) | (153) |
| Other comprehensive loss | - | - | - | - | - | (30) | - | (30) |
| Net loss | - | - | - | - | - | - | (5,378) | (5,378) |
| Total comprehensive loss | - | - | - | - | - | (30) | (5,378) | (5,408) |
| Issuance of shares for reverse takeover transaction | 3,538,666 | 885 | 1 | - | - | - | - | 886 |
| Issuance of private placement shares, net of issuance expenses | 30,000,000 | 6,639 | - | - | - | - | - | 6,639 |
| Issuance of shares upon warrants exercise | 82,160 | 24 | (9) | (3) | - | - | - | 12 |
| Share issued for finder's fees | 4,199,965 | 1,050 | - | - | - | - | - | 1,050 |
| Issuance of warrants to brokers and advisers in connection with listing | - | - | - | 379 | - | - | - | 379 |
| Share-based compensation | - | - | - | 153 | 100 | - | - | 253 |
| Balance as of December 31, 2019 | <u>67,220,810</u> | <u>8,599</u> | <u>(9)</u> | <u>529</u> | <u>100</u> | <u>(29)</u> | <u>(5,532)</u> | <u>3,658</u> |
| Other comprehensive loss | - | - | - | - | - | (28) | - | (28) |
| Net loss | - | - | - | - | - | - | (1,651) | (1,651) |
| Total comprehensive loss | - | - | - | - | - | (28) | (1,651) | (1,679) |
| Issuance of private placement shares, net of issuance expenses | 12,383,900 | 7,223 | - | 327 | - | - | - | 7,550 |
| Issuance of shares upon warrants exercise | 1,020,512 | 294 | 9 | (40) | - | - | - | 263 |
| Share-based compensation | - | - | - | 2 | 51 | - | - | 53 |
| Balance as of March 31, 2020 (unaudited) | <u>80,625,222</u> | <u>16,116</u> | <u>-</u> | <u>818</u> | <u>151</u> | <u>(57)</u> | <u>(7,183)</u> | <u>9,845</u> |

*) Comprised of exchange differences on translation of foreign operations

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Canadian dollars in thousands, except share and per share data

| | Common Shares | | | | | Accumulated other comprehensive income (loss) *) | Accumulated deficit | Total shareholders' equity |
|---|---------------|--------|----------------------------|-----------------------|----------------------|--|------------------------|----------------------------------|
| | Number | Amount | Subscription Receivable | Reserve - warrants | Reserve - options | | | |
| Balance as of January 1, 2019 | 29,400,019 | 1 | (1) | - | - | 1 | (154) | (153) |
| Net loss | - | - | - | - | - | - | (284) | (284) |
| Total comprehensive loss | - | - | - | - | - | - | (284) | (284) |
| Balance as of March 31, 2019 (unaudited) | 29,400,019 | 1 | (1) | - | - | 1 | (438) | (437) |

*) 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**

| | Three months ended | |
|---|--------------------|-------|
| | March 31, | |
| | 2020 | 2019 |
| | Unaudited | |
| <u>Cash flows from operating activities:</u> | | |
| Net loss | (1,651) | (284) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Adjustments to the profit or loss items: | | |
| Share based compensation | 53 | - |
| Financial expenses, net | 2 | - |
| Depreciation and amortization | 42 | - |
| Revaluation of share warrants | 336 | - |
| | 433 | - |
| Changes in asset and liability items: | | |
| Decrease in trade receivables | 66 | - |
| Decrease in other account receivables and prepaid expenses | 55 | - |
| Increase in inventories | (295) | - |
| Increase in trade payables | 69 | - |
| Increase (decrease) in related parties | (3) | 21 |
| Increase in other account payables | 106 | 263 |
| | (2) | 284 |
| Net cash used in operating activities | (1,220) | - |

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

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

| | Three months ended | |
|--|---------------------------|------------------|
| | March 31, | |
| | 2020 | 2019 |
| | Unaudited | Unaudited |
| <u>Cash flows from investing activities:</u> | | |
| Purchase of property and equipment | (20) | - |
| Net cash used in investing activities | (20) | - |
| <u>Cash flows from financing activities:</u> | | |
| Issue of Common shares and warrants, net of issue expenses | 7,979 | - |
| Lease payment | (26) | - |
| Cash received for exercise of warrants | 254 | - |
| Net cash provided by financing activities | 8,207 | - |
| Exchange rate differences on balances of cash and cash equivalents | (62) | - |
| Increase in cash and cash equivalents | 6,905 | - |
| Cash and cash equivalents at the beginning of the period | 2,909 | 10 |
| Cash and cash equivalents at the end of the period | 9,814 | 10 |
| <u>Non-cash transactions</u> | | |
| Right-of-use asset recognized with corresponding lease liability | 102 | - |

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’s shares are traded on the TSX Venture Exchange as a Tier 2 ‘Technology’ company under the trading symbol “BABY”. On June 12, 2020, the Company’s shares were accepted for listing on the Frankfurt Stock Exchange (FSE) under the trading symbol ‘OYL’.
- c. The Company focuses on research, development, manufacturing, marketing and sale of innovative plant-based food and nutrition products and feeding accessories products to infant, toddler and children markets.

The head office is located at 4 Raul Wallenberg Street, Tel Aviv, Israel 6971904. The registered office of the Company is located at Suite 1200 – 750 West Pender Street, Vancouver, British Columbia, V6C 2T8.

- d. 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.
- 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. To date, the Group has not achieved a scalable commercialization of its products. As of March 31, 2020, the Group has an accumulated deficit of \$7,183. For the three-month period ended March 31, 2020, the Group incurred total comprehensive loss of \$1,679 and had negative cash flow from operations of \$1,220. 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 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. In late 2019, a novel strain of COVID-19, also known as coronavirus, was reported in Wuhan, China. While initially the outbreak was largely concentrated in China, it has now spread to most other countries, including Canada and Israel. Infections and mortality have been reported globally. Many countries around the world, including in Canada and Israel, have significant governmental measures being implemented to control the spread of the virus, including temporary closure of businesses, severe restrictions on travel and the movement of people, and other material limitations on the conduct of business. These measures have resulted in work stoppages and other disruptions. Through the date of approval of these financial statements the coronavirus has not had a material effect on the Company's business activities. The extent to which the coronavirus impacts our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration and severity of the outbreak, and the actions that may be required to contain the coronavirus or treat its impact. In particular, the continued spread of the coronavirus globally, could adversely impact our operations and workforce, including our product development, marketing and sales activities and ability to raise additional capital, which in turn could have an adverse impact on our business, financial condition and results of operation.
- g. These interim consolidated financial statements have been prepared in a condensed format as of March 31, 2020 and for the 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, 2019 and for the year then ended and the accompanying notes ("annual consolidated financial statements").
- h. 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*".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian dollars in thousands, except share and per share data****NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Issue of a unit of securities:

The issue of a unit of securities involves the allocation of the proceeds received (before issue expenses) to the securities issued in the unit based on the following order: financial derivatives and other financial instruments measured at fair value in each period. Then fair value is determined for financial liabilities that are measured at amortized cost. The proceeds allocated to equity instruments are determined to be the residual amount. Issue costs are allocated to each component pro rata to the amounts determined for each component in the unit.

NOTE 3: EQUITY

- a. During the three months ended March 31, 2020, 1,020,512 of the share warrants were exercised. Each warrant was exercised for one Common share of the Company at an exercise price of \$0.25 per share.
- b. On January 14, 2020, the Company granted 100,000 incentive stock options as consideration for the services of a consultant. Such options are exercisable into one Common share of the Company at an exercise price of \$0.48 per share for a period of 5 years from the date of grant. 2 months following the effective date of the consulting agreement with such employee, these options will vest equally on a monthly basis until November 2020.
- c. On March 4, 2020, the Company closed financing of \$8,000 through a private placement. Pursuant to the private placement, the Company will issue 12,383,900 units at a price of \$0.646 per unit for gross proceeds of \$8,005. Each unit consists of one Common share and 0.25 share warrants, with each whole warrant entitling the holder to acquire one additional Common share of the Company at an exercise price of \$0.969 per share for a period of thirty months from the closing date. At the time of closing the Company recorded an increase in equity in respect of shares, totaling \$7,223 (after deduction of issuance expenses totaling \$362) and a liability in respect of share for warrants at the amount of \$420. The warrants are presented at fair value using the Black & Scholes option pricing model.

During the three months ended March 31, 2020 the Company recorded other expenses at the amount of \$336 for revaluation of these warrants from the date of the private placement. The warrants 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 as of March 31, 2020:

| | |
|---|-------|
| Dividend yield (%) | - |
| Expected volatility of the share prices (%) | 56.62 |
| Risk-free interest rate (%) | 0.46 |
| Expected life of share warrants (years) | 2.43 |
| Share price (\$) | 0.83 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian dollars in thousands, except share and per share data****NOTE 4:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS**

Additional information on revenues:

| | Three month ended March 31, 2020 |
|----------------------------------|---|
| Revenue from dried food | 122 |
| Revenue from feeding accessories | 175 |
| | <u>297</u> |

NOTE 5: SUBSEQUENT EVENTS

Subsequent to the period end, 17,025 of the share warrants outstanding as on March 31, 2020 were exercised. 7,650 warrants were exercised for one Common share of the Company at an exercise price of \$0.25 per share and 9,375 warrants were exercised for one Common share of the Company at an exercise price of \$0.969 per share. Consequently, as of the date of approval of these financial statements, 42,615,527 share warrants are outstanding (including warrants which are classified as a liability).