

ELSE NUTRITION HOLDINGS INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2022

(in Canadian Dollars in Thousands)

INDEX

	<u>Page</u>
Consolidated Statements of Financial Position	3
Consolidated Statements of Profit or Loss and Comprehensive Loss	4
Consolidated Statements of Changes in Equity	5-6
Consolidated Statements of Cash Flows	7-8
Notes to Consolidated Financial Statements	9-13

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 14, 2022

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

	September 30, 2022	December 31, 2021
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	14,211	23,047
Restricted cash	1,152	1,191
Short term bank deposit	2,006	1,229
Trade receivables	1,402	694
Other accounts receivables and prepaid expenses	895	431
Inventories	4,988	4,546
	<u>24,654</u>	<u>31,138</u>
NON-CURRENT ASSETS:		
Property, plant and equipment, net	543	484
Intangible assets, net	279	344
Right-of-use assets	657	956
	<u>1,479</u>	<u>1,784</u>
Total assets	<u>26,133</u>	<u>32,922</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	1,985	1,898
Other account payables	636	1,060
Related parties	9	8
Current portion of lease liability	257	351
	<u>2,887</u>	<u>3,317</u>
NON-CURRENT LIABILITIES:		
Lease liability	373	590
Warrants liability	2,680	2,243
	<u>3,053</u>	<u>2,833</u>
EQUITY:		
Share capital and premium	59,716	54,917
Other reserve	4,491	3,978
Accumulated other comprehensive loss	(534)	(869)
Accumulated deficit	(43,480)	(31,254)
<u>Total equity</u>	<u>20,193</u>	<u>26,772</u>
<u>Total liabilities and equity</u>	<u>26,133</u>	<u>32,922</u>

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

November 14, 2022

Date of approval of the
financial statementsHamutal Yitzhak
CEO and DirectorSokhie Puar
Director

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE LOSS

Canadian dollars in thousands, except share and per share data

	Nine months ended		Three months ended	
	30 September,		30 September,	
	2022	2021	2022	2021
	Unaudited			
Revenues	6,135	3,422	2,226	1,173
Cost of sales (purchased products)	4,731	2,877	1,845	1,002
Gross profit	1,404	545	381	171
Operating expenses:				
Employee benefits expense	4,400	2,802	1,429	1,075
Research and development subcontractors	1,865	1,349	604	481
Share-based compensation	794	1,538	33	419
Consulting fees	890	834	299	384
Professional fees	634	349	91	63
Advertising	4,658	4,789	1,543	1,746
Depreciation and amortization	392	245	108	115
Investors relations	482	186	74	102
Office and miscellaneous	1,978	721	1,046	337
Total operating expenses	16,093	12,813	5,227	4,722
Loss before other income (expenses)	(14,689)	(12,268)	(4,846)	(4,551)
Other income (expenses):				
Income (loss) from revaluation of warrants	1,788	8,306	(85)	2,579
Income (loss) on foreign currency	675	(78)	1,306	503
Net loss	(12,226)	(4,040)	(3,625)	(1,469)
Other comprehensive loss:				
Amounts that will be classified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	332	(232)	(184)	64
Total comprehensive loss for the period	(11,891)	(4,272)	(3,809)	(1,405)
Net loss per share attributable to equity holders of the Company (in Canadian dollars):				
Basic and diluted loss per common share	(0.11)	(0.04)	(0.03)	(0.01)
Weighted average number of shares outstanding – basic and diluted	107,365,348	95,784,159	112,600,220	96,116,271

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		Reserve - warrants	Reserve - options	Accumulated other comprehensive loss *)	Accumulated equity	Total equity
	Number	Amount					
Balance as of January 1, 2021 (audited)	94,652,872	39,137	873	1,112	(278)	(29,636)	11,208
Other comprehensive loss	-	-	-	-	(591)	-	(591)
Net loss	-	-	-	-	-	(1,618)	(1,618)
Total comprehensive loss	-	-	-	-	(591)	(1,618)	(2,209)
Shares issued as a consideration for services	37,632	68	-	-	-	-	68
Issuance of public and private placement shares, net of issuance expenses	8,050,000	14,076	185	-	-	-	14,261
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	2,195	-	-	2,201
Balance as of December 31, 2021 (audited)	<u>104,196,220</u>	<u>54,917</u>	<u>676</u>	<u>3,302</u>	<u>(869)</u>	<u>(31,254)</u>	<u>26,772</u>
Other comprehensive income	-	-	-	-	335	-	335
Net loss	-	-	-	-	-	(12,226)	(12,226)
Total comprehensive income (loss)	-	-	-	-	335	(12,226)	(11,891)
Issuance of public shares, net of issuance expenses	7,004,000	4,449	69	-	-	-	4,518
Issuance of shares upon warrants exercise	1,400,000	350	(350)	-	-	-	-
Share-based compensation	-	-	(112)	906	-	-	794
Balance as of September 30, 2022 (unaudited)	<u>112,600,220</u>	<u>59,716</u>	<u>283</u>	<u>4,208</u>	<u>(537)</u>	<u>(43,480)</u>	<u>20,193</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		Reserve warrants	Reserve options	Accumulated other comprehensive loss *)	Accumulated deficit	Total shareholders' equity	
	Number	Amount						
Balance as of January 1, 2021	94,652,872	39,137	873	1,112	(278)	(29,636)	11,208	
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	1,115	-	-	1,538
Balance as of September 30, 2021 (unaudited)	96,146,220	40,841	491	2,639	(510)	(33,676)	9,785	1,118

*) 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,	
	2022	2021
	Unaudited	
<u>Cash flows from operating activities:</u>		
Net loss	(12,226)	(4,040)
Adjustments to reconcile net loss to net cash used in operating activities:		
Adjustments to the profit or loss items:		
Share based compensation	794	1,538
Financial expenses, net	53	19
Depreciation and amortization	392	407
Revaluation of share warrants	(1,788)	(8,306)
	<u>(549)</u>	<u>(10,382)</u>
Changes in asset and liability items:		
Increase in trade receivables	(747)	(496)
Increase in other account receivables and prepaid expenses	(443)	(203)
Increase in inventories	(142)	(1,451)
Decrease in trade payables	37	408
Increase (decrease) in other account payables	(381)	177
	<u>(1,676)</u>	<u>(1,565)</u>
Net cash used in operating activities	<u>(14,451)</u>	<u>(11,947)</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,	
	2022	2021
	Unaudited	
<u>Cash flows from investing activities:</u>		
Purchase of property and equipment	(123)	(361)
Change in short term deposit, net	(851)	2,864
Change in restricted cash. net	20	(381)
Net cash provided by (used in) investing activities	<u>(954)</u>	<u>2,122</u>
<u>Cash flows from financing activities:</u>		
Issue of Common shares and warrants, net of issue expenses	6,743	-
Lease payment	(315)	(134)
Cash received for exercise of warrants	(*)	1,216
Cash received for exercise of share options	-	27
Net cash provided by financing activities	<u>6,428</u>	<u>1,109</u>
Exchange rate differences on balances of cash and cash equivalents	<u>193</u>	<u>(243)</u>
Decrease in cash and cash equivalents	(8,836)	(8,959)
Cash and cash equivalents at the beginning of the period	<u>23,047</u>	<u>21,538</u>
Cash and cash equivalents at the end of the period	<u>14,211</u>	<u>12,579</u>

*) Represent an amount lower than \$1.

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.

On January 25, 2022, the Company’s common shares and warrants commenced trading on the TSX under the trading symbols of “BABY”. In connection with the TSX listing, the Company’s common shares and warrants were concurrently delisted from the TSX-V.

Effective December 10, 2019, the Company’s common shares were listed for trading on the OTCQB International Market under the trading symbol ‘BABYF’. The OTCQB International Market is a venture market operated by the OTC Markets Group and designed for early-stage and developing U.S. and international companies. The Company upgraded its OTCQB listing to the OTCQX® Best Market as of July 24, 2020.

On June 12, 2020, the Company’s common shares were also accepted for listing on the Frankfurt Stock Exchange (FSE) under the trading symbol ‘OYL’.

- b. 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's 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.

- c. 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. The Company utilized \$17,308 in October 2021, and \$7,354 in June 2022 out of the \$75,000.
- d. On January 25, 2022 the Company established a wholly owned subsidiary in Canada, Else Nutrition Canada, Inc., which is primarily engaged in sales and marketing. The registered office of the Company is located at Suite 1200 – 750 West Pender Street, Vancouver, British Columbia, V6C 2T8.
- e. The Company experienced delays of certain research and development milestones. These delays were primarily caused by business and government closures of testing laboratories and regulatory agencies delays in inputs and responses, as well as the imposition of governmental restrictions as a result of COVID-19. The Company expects ongoing delays in FDA and other regulatory agencies reviewing process and long waiting times for input and responses required to obtain necessary EMA, FDA and other regulatory approvals as a result of ongoing

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

 Canadian dollars in thousands, except share and per share data
NOTE 1: GENERAL (Cont.)

pandemic related restrictions. The Company continues to monitor its spending and will amend its plans based on business opportunities that may arise in the future. Management regularly monitors economic conditions and estimates their impact on the Company's operations and incorporates these estimates in both short-term operating and longer-term strategic decisions.

- f. These 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 scalable commercialization of its products. As of September 30, 2022, the Group has an accumulated deficit of \$43,480, and for the nine months ended September 30, 2022, the Company had a total comprehensive loss of \$11,891 and negative cash flow from operations of \$14,451. 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.

- 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Canadian dollars in thousands, except share and per share data**

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in a condensed format as of September 30, 2022, and for the nine months and three months then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2021, and for the year then ended and accompanying notes ("annual consolidated financial statements").

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*".

NOTE 3: EQUITY**a. Issuance of share capital:**

On June 29, 2022, the Company closed a financing round of \$7,354 through a public offering. The Company issued 7,004,000 units at a price of \$1.05 per unit for gross proceeds of \$7,354. Each unit consists of one common share and one share Warrant, with each whole Warrant entitling the holder to acquire one additional Common Share of the Company at an exercise price of \$1.25 per share for a period of five years from the closing date. At the time of closing the Company recorded an increase in equity in respect of shares, totaling \$ 4,449 (after deduction of issuance expenses totaling \$454) and liability in respect of Warrants at the amount of \$2,225 (in respect of which issuance expenses totaling \$226 were recorded in profit or loss). As the exercise price of the warrants is denominated in Canadian dollars while the functional currency of the Company is the NIS the warrants are presented at fair value through profit or loss using the Black & Scholes option pricing model.

The Company issued 460,280 broker Warrants as underwriting fees, the broker Warrants entitling the holder to purchase one Common share at a price of \$1.05 per share for a period of two years. The fair value of the broker Warrants on the date of grant was \$68, classified as level 3 of the fair value hierarchy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian dollars in thousands, except share and per share data

b. Stock Options:

On August 2, 2022, the Company issued an aggregate of 1,690,000 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 \$0.67 per share for a period of five years from the date of grant. The total stock options will follow three different vesting schedules. Of the total options granted: (A) 1,130,000 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; (B) 200,000 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); (C) 360,000, These options will vest equally over a period of 36 months from the date of grant.

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

	2022
Dividend yield (%)	-
Expected volatility of the share prices (%)	52.95-55.54
Risk-free interest rate (%)	1.03-1.45
Expected life of share options (years)	1.18-1.27
Share price (\$)	0.71

c. Share Warrants:

During the six months ended June 30, 2022, 1,400,000 of the share warrants were exercised, where each share warrant was exercised for one Common share of the Company. An aggregate of 1,400,000 share warrants were exercised at an exercise price of \$0.0001 per share.

For the ninth and three months ended September 30, 2022, the Company recorded other income (loss) in amounts of \$1,788 and, \$(85), respectively, for revaluations of liability of Warrants from March 2020, October 2020, October 2021, and June 2022. The public warrants with fair value of \$527 as of September 30, 2022, are classified as level 1 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 non -public warrants that are classified as level 3 of the fair value hierarchy:

2022

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian dollars in thousands, except share and per share data

NOTE 3: EQUITY (Cont.)

Dividend yield (%)	-
Expected volatility of the share prices (%)	39.19 - 117.2
Risk-free interest rate (%)	3.76
Expected life of share warrants (years)	4.75
Share price (\$)	0.71

NOTE 4:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS

Additional information on revenues:

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
	Unaudited			
Revenue from dried food snacks	348	384	128	134
Revenue from feeding accessories	468	424	108	123
Revenue from formula	5,319	2,614	1,990	916
	<u>6,135</u>	<u>3,422</u>	<u>2,226</u>	<u>1,173</u>

NOTE 5: SUBSEQUENT EVENTS

On October 4, 2022, the Company issued an aggregate of 946,500 incentive stock options to one consultant and employees of the Company. Each option is exercisable into one Common share of the Company at a price of \$0.66 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) 802,500 options granted will be subject to 36 months vesting schedule as follows: These options will vest equally over a period of 36 months from the date, and (B) 144,000 options are full vesting from the date of grant.