

ELSE NUTRITION HOLDINGS INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2022

(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.

August 15, 2022

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

	June 30, 2022	December 31, 2021
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	20,790	23,047
Restricted cash	1,098	1,191
Short term bank deposit	74	1,229
Trade receivables	1,002	694
Other accounts receivables and prepaid expenses	388	431
Inventories	5,083	4,546
	<u>28,435</u>	<u>31,138</u>
NON-CURRENT ASSETS:		
Property, plant and equipment, net	481	484
Intangible assets, net	281	344
Right-of-use assets	709	956
	<u>1,471</u>	<u>1,784</u>
Total assets	<u><u>29,906</u></u>	<u><u>32,922</u></u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	1,842	1,898
Other account payables	807	1,060
Related parties	9	8
Current portion of lease liability	273	351
	<u>2,931</u>	<u>3,317</u>
NON-CURRENT LIABILITIES:		
Lease liability	414	590
Warrants liability	2,595	2,243
	<u>3,009</u>	<u>2,833</u>
EQUITY:		
Share capital and premium	59,716	54,917
Other reserve	4,458	3,978
Accumulated other comprehensive loss	(353)	(869)
Accumulated deficit	(39,855)	(31,254)
Total equity	<u>23,966</u>	<u>26,772</u>
Total liabilities and equity	<u><u>29,906</u></u>	<u><u>32,922</u></u>

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

August 15, 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**

	Six months ended		Three months ended	
	30 June,		30 June,	
	2022	2021	2022	2021
	Unaudited			
Revenues	3,909	2,249	2,308	1,114
Cost of sales (purchased products)	2,886	1,875	1,768	789
Gross profit	1,023	374	540	325
Operating expenses:				
Employee benefits expense	2,971	1,727	1,392	830
Research and development subcontractors	1,261	868	679	422
Share-based compensation	761	1,119	346	524
Consulting fees	591	450	273	296
Professional fees	543	286	298	91
Advertising	3,115	3,043	1,798	1,638
Depreciation and amortization	284	130	112	59
Investors relations	408	84	243	35
Office and miscellaneous	932	384	398	202
Total operating expenses	10,866	8,091	5,539	4,097
Loss before other income (expenses)	(9,843)	(7,717)	(4,999)	(3,772)
Other income (expenses):				
Revaluation of warrants	1,873	5,727	2,928	(838)
Loss on foreign currency	(631)	(581)	704	(142)
Net loss	(8,601)	(2,571)	(1,367)	(4,752)
Other comprehensive income (loss):				
Amounts that will be classified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	516	(296)	(335)	(273)
Total comprehensive loss for the period	(8,085)	(2,867)	(1,702)	(5,025)
Net loss per share attributable to equity holders of the Company (in Canadian dollars):				
Basic and diluted loss per common share	(0.08)	(0.03)	(0.01)	(0.05)
Weighted average number of shares outstanding – basic and diluted	104,704,529	95,615,315	105,207,253	95,938,390

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 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	-	-	-	-	516	-	516
Net loss	-	-	-	-	-	(8,601)	(8,601)
Total comprehensive income (loss)	-	-	-	-	516	(8,601)	(8,085)
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	-	-	9	752	-	-	761
Balance as of June 30, 2022 (unaudited)	<u>112,600,220</u>	<u>59,716</u>	<u>404</u>	<u>4,054</u>	<u>(353)</u>	<u>(39,855)</u>	<u>23,966</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 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	-	-	-	-	(296)	-	(296)
Net loss	-	-	-	-	-	(2,571)	(2,571)
Total comprehensive loss	-	-	-	-	(296)	(2,571)	(2,867)
Issuance of shares upon warrants exercise	1,397,716	1,590	(386)	-	-	-	1,204
Issuance of shares upon options exercise	53,000	27	-	(7)	-	-	20
Share-based compensation	-	-	3	1,116	-	-	1,119
Balance as of June 30, 2021 (unaudited)	<u>96,103,588</u>	<u>40,754</u>	<u>490</u>	<u>2,221</u>	<u>(574)</u>	<u>(32,207)</u>	<u>10,684</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**

	Six months ended	
	June 30,	
	2022	2021
	Unaudited	
<u>Cash flows from operating activities:</u>		
Net loss	<u>(8,601)</u>	<u>(2,571)</u>
Adjustments to reconcile net loss to net cash used in operating activities:		
Adjustments to the profit or loss items:		
Share based compensation	761	1,119
Financial expenses, net	54	4
Depreciation and amortization	284	140
Revaluation of share warrants	<u>(1,873)</u>	<u>(5,727)</u>
	<u>(774)</u>	<u>(4,464)</u>
Changes in asset and liability items:		
Increase in trade receivables	(348)	(307)
Decrease in other account receivables and prepaid expenses	36	70
Increase in inventories	(470)	(1,323)
Increase in trade payables	(36)	(236)
Increase in related parties	(1)	-
Increase in other account payables	<u>(179)</u>	<u>525</u>
	<u>(998)</u>	<u>(1,271)</u>
Net cash used in operating activities	<u>(10,373)</u>	<u>(8,306)</u>

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

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

	Six months ended	
	June 30,	
	2022	2021
	Unaudited	
<u>Cash flows from investing activities:</u>		
Purchase of property and equipment	(97)	(90)
Proceeds from maturity of short term deposit	1,053	2,326
Change in restricted cash. net	23	(588)
Net cash provided by investing activities	<u>979</u>	<u>1,648</u>
<u>Cash flows from financing activities:</u>		
Issue of Common shares and warrants, net of issue expenses	6,743	-
Lease payment	(226)	(90)
Cash received for exercise of warrants	(*)	1,204
Cash received for exercise of share options	-	20
Net cash provided by financing activities	<u>6,517</u>	<u>1,134</u>
Exchange rate differences on balances of cash and cash equivalents	<u>620</u>	<u>(68)</u>
Decrease in cash and cash equivalents	(2,257)	(5,592)
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>20,790</u>	<u>15,946</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 ‘0YL’.

- 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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Canadian dollars in thousands, except share and per share data

NOTE 1: GENERAL (Cont.)

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 a scalable commercialization of its products. As of June 30, 2022, the Group has an accumulated deficit of \$39,855, and for the six months ended June 30, 2022, the Company had total comprehensive loss of \$8,085 and negative cash flow from operations of \$10,373. 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 June 30, 2022, and for the six 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

NOTE 3: EQUITY (Cont.)

b. 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 six months and three months ended June 30, 2022, the Company recorded other income in the amounts of \$ 1,873 and \$2,928 respectively for revaluation of liability warrants from the March 2020, October 2020, and October 2021 and June 2022 public offering. The public warrants with a fair value of \$2,450 as of June 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:

	<u>2022</u>
Dividend yield (%)	-
Expected volatility of the share prices (%)	45.8 - 66.7
Risk-free interest rate (%)	3.12-3.14
Expected life of share warrants (years)	0.52 - 2
Share price (\$)	0.6

NOTE 4:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS

Additional information on revenues:

	Six months ended		Three months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	Unaudited			
Revenue from dried food snacks	220	250	130	133
Revenue from feeding accessories	360	301	154	145
Revenue from formula	3,329	1,699	2,024	837
	<u>3,909</u>	<u>2,250</u>	<u>2,308</u>	<u>1,115</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

On August 2, 2022, the Company issued an aggregate of 1,690,000 incentive stock options to directors, officers, employees, and the Advisory Board 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; and (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); and (C) 360,000 options granted are subject to a 36 month schedule as follows: options will vest equally over a period of 36 months from the date of grant.