

**ELSE NUTRITION HOLDINGS INC.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF MARCH 31, 2023**  
**(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.

May 15, 2023

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

Canadian dollars in thousands

|   | <b>March 31,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|---|---------------------------|------------------------------|
|   | <b>Unaudited</b>          | <b>Audited</b>               |
| <b>ASSETS</b>                                   |                           |                              |
| <b>CURRENT ASSETS:</b>                          |                           |                              |
| Cash and cash equivalents                       | 8,524                     | 14,564                       |
| Restricted cash                                 | 1,202                     | 1,180                        |
| Short term bank deposit                         | 376                       | 817                          |
| Trade receivables                               | 3,001                     | 1,495                        |
| Other accounts receivables and prepaid expenses | 706                       | 823                          |
| Inventories                                     | 7,805                     | 5,910                        |
|   | <u>21,614</u>             | <u>24,789</u>                |
| <b>LONG-TERM ASSETS:</b>                        |                           |                              |
| Property, plant and equipment, net              | 501                       | 533                          |
| Intangible assets, net                          | 242                       | 263                          |
| Right-of-use assets                             | 585                       | 578                          |
|   | <u>1,328</u>              | <u>1,374</u>                 |
| Total long-term assets                          | <u>1,328</u>              | <u>1,374</u>                 |
| Total assets                                    | <u><u>22,942</u></u>      | <u><u>26,163</u></u>         |
| <b>LIABILITIES AND EQUITY</b>                   |                           |                              |
| <b>CURRENT LIABILITIES:</b>                     |                           |                              |
| Trade payables                                  | 3,815                     | 2,199                        |
| Other account payables                          | 781                       | 923                          |
| Related parties                                 | 9                         | 9                            |
| Current portion of lease liability              | 303                       | 238                          |
|   | <u>4,908</u>              | <u>3,369</u>                 |
| Total current liabilities                       | <u>4,908</u>              | <u>3,369</u>                 |
| <b>NON-CURRENT LIABILITIES:</b>                 |                           |                              |
| Lease liability                                 | 260                       | 320                          |
| Warrants liability                              | 6,650                     | 4,072                        |
| Loan  | 3,342                     | 2,807                        |
|   | <u>10,252</u>             | <u>7,199</u>                 |
| Total long-term liabilities                     | <u>10,252</u>             | <u>7,199</u>                 |
| <b>EQUITY:</b>                                  |                           |                              |
| Share capital and premium                       | 59,772                    | 59,716                       |
| Other reserve                                   | 4,695                     | 4,791                        |
| Accumulated other comprehensive loss            | 86                        | (44)                         |
| Accumulated deficit                             | (56,771)                  | (48,868)                     |
|   | <u>7,782</u>              | <u>15,595</u>                |
| Total equity                                    | <u>7,782</u>              | <u>15,595</u>                |
| Total liabilities and equity                    | <u><u>22,942</u></u>      | <u><u>26,163</u></u>         |

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

|   |                                     |                         |
|---|-------------------------------------|-------------------------|
| May 15, 2023                                    | <i>"Hamutal Yitzhak"</i>            | <i>"Sokhie Puar"</i>    |
| Date of approval of the<br>financial statements | Hamutal Yitzhak<br>CEO and Director | Sokhie Puar<br>Director |

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE LOSS**

Canadian dollars in thousands, except share and per share data

|   | <b>Three months ended</b> |             |
|---|---------------------------|-------------|
|   | <b>31, March</b>          |             |
|   | <b>2023</b>               | <b>2022</b> |
|   | <b>Unaudited</b>          |             |
| Revenues  | 2,914                     | 1,601       |
| Cost of sales (purchased products)  | 2,644                     | 1,118       |
| Gross profit  | 270                       | 483         |
| Operating expenses:   |                           |             |
| Employee benefits expense   | 1,583                     | 1,579       |
| Research and development subcontractors   | 1,369                     | 582         |
| Share-based compensation  | (84)                      | 415         |
| Consulting fees   | 337                       | 318         |
| Professional fees   | 235                       | 245         |
| Advertising   | 855                       | 1,317       |
| Depreciation and amortization   | 142                       | 172         |
| Investors relations   | 63                        | 165         |
| Office and miscellaneous  | 427                       | 534         |
| Total operating expenses  | 4,927                     | 5,327       |
| Loss before other expenses  | (4,657)                   | (4,844)     |
| Other expenses:   |                           |             |
| Revaluation of warrants   | (2,578)                   | (1,055)     |
| Unrealized loss on foreign currency   | (133)                     | (1,335)     |
| Finance expenses  | (535)                     | -           |
| Net loss  | (7,903)                   | (7,234)     |
| Other comprehensive loss:   |                           |             |
| Amounts that will be classified subsequently to profit or (loss):                       |                           |             |
| Exchange differences on translation of foreign operations                               | 130                       | 851         |
| Total comprehensive loss for the period   | (7,773)                   | (6,383)     |
| Net loss per share attributable to equity holders of the Company (in Canadian dollars): |                           |             |
| Basic and diluted loss per common share   | (0.07)                    | (0.07)      |
| Weighted average number of shares outstanding – basic and diluted                       | 112,633,276               | 104,196,220 |

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>Reserve -<br/>warrants</u> | <u>Reserve -<br/>options</u> | <u>Accumulated<br/>other<br/>comprehensive<br/>loss *)</u> | <u>Accumulated<br/>deficit</u> | <u>Total<br/>shareholders'<br/>equity</u> |
|---|----------------------|---------------|-------------------------------|------------------------------|--|--------------------------------|---|
|   | <u>Number</u>        | <u>Amount</u> |                               |                              |  |                                |   |
| Balance as of January 1, 2022 (audited)             | 104,196,220          | 54,917        | 676                           | 3,302                        | (869)  | (31,254)                       | 26,772                                    |
| Foreign currency translation                        |                      |               |                               |                              | 825  |                                | 825                                       |
| Net loss  | -                    | -             | -                             | -                            |  | (17,614)                       | (17,614)                                  |
| Total comprehensive loss                            | -                    | -             | -                             | -                            | 825  | (17,614)                       | (16,789)                                  |
| 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                            | -                    | -             | (176)                         | 1,270                        | -  | -                              | 1,094                                     |
| Balance as of December 31, 2022 (audited)           | <u>112,600,220</u>   | <u>59,716</u> | <u>219</u>                    | <u>4,572</u>                 | <u>(44)</u>  | <u>(48,868)</u>                | <u>15,595</u>                             |

|  | <u>Common Shares</u> |               | <u>Reserve<br/>- warrants</u> | <u>Reserve<br/>- options</u> | <u>Accumulated<br/>other<br/>comprehensive<br/>income (loss) *)</u> | <u>Accumulated<br/>deficit</u> | <u>Total<br/>shareholders'<br/>equity</u> |
|--|----------------------|---------------|-------------------------------|------------------------------|---|--------------------------------|---|
|  | <u>Number</u>        | <u>Amount</u> |                               |                              |   |                                |   |
| Balance as of January 1, 2023 (audited)  | 112,600,220          | 59,716        | 219                           | 4,572                        | (44)  | (48,868)                       | 15,595                                    |
| Foreign currency translation             | -                    | -             | -                             | -                            | 130   | -                              | 130                                       |
| Net loss                                 | -                    | -             | -                             | -                            | -   | (7,903)                        | (7,903)                                   |
| Total comprehensive profit (loss)        | -                    | -             | -                             | -                            | 130   | (7,903)                        | (7,773)                                   |
| Issuance of shares upon options exercise | 175,000              | 56            | -                             | (12)                         | -   | -                              | 44  |
| Share-based compensation                 | -                    | -             | 2                             | (86)                         | -   | -                              | (84)                                      |
| Balance as of March 31, 2023 (unaudited) | <u>112,775,220</u>   | <u>59,772</u> | <u>221</u>                    | <u>4,474</u>                 | <u>86</u>   | <u>(56,771)</u>                | <u>7,782</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

|   | <b>Three months ended</b> |                |
|---|---------------------------|----------------|
|   | <b>March 31,</b>          |                |
|   | <b>2023</b>               | <b>2022</b>    |
|   | <b>Unaudited</b>          |                |
| <u>Cash flows from operating activities:</u>                                |                           |                |
| Net loss  | (7,903)                   | (7,234)        |
| Adjustments to reconcile net loss to net cash used in operating activities: |                           |                |
| Adjustments to the profit or loss items:                                    |                           |                |
| Share based compensation  | (84)                      | 415            |
| Financial expenses, net   | 544                       | 11             |
| Revaluation of warrants   | 2,578                     | 1,055          |
| Depreciation and amortization   | 142                       | 172            |
|   | <u>3,180</u>              | <u>1,653</u>   |
| Changes in asset and liability items:                                       |                           |                |
| Increase in trade receivables   | (1,506)                   | (219)          |
| Decrease in other account receivables and prepaid expenses                  | 119                       | 118            |
| Increase in inventories   | (1,891)                   | (139)          |
| Increase (decrease) in trade payables                                       | 1,827                     | (511)          |
| Decrease in other account payables  | (141)                     | (92)           |
|   | <u>(1,592)</u>            | <u>(843)</u>   |
| Net cash used in operating activities                                       | <u>(6,315)</u>            | <u>(6,424)</u> |

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

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

|  | <b>Three months ended</b> |                      |
|--|---------------------------|----------------------|
|  | <b>March 31,</b>          |                      |
|  | <b>2023</b>               | <b>2022</b>          |
|  | <b>Unaudited</b>          |                      |
| <u>Cash flows from investing activities:</u>                       |                           |                      |
| Purchase of property and equipment                                 | -                         | (80)                 |
| Change in short term deposit, net                                  | 450                       | 1,094                |
| Investment in restricted cash deposits                             | (23)                      | -                    |
| Net cash provided by investing activities                          | <u>427</u>                | <u>1,014</u>         |
| <u>Cash flows from financing activities:</u>                       |                           |                      |
| Lease payment  | (104)                     | (99)                 |
| Cash received for exercise of options                              | 44                        | -                    |
| Net cash used in financing activities                              | <u>(60)</u>               | <u>(99)</u>          |
| Exchange rate differences on balances of cash and cash equivalents | <u>(92)</u>               | <u>1,026</u>         |
| Decrease in cash and cash equivalents                              | (6,040)                   | (4,483)              |
| Cash and cash equivalents at the beginning of the period           | <u>14,564</u>             | <u>23,047</u>        |
| Cash and cash equivalents at the end of the period                 | <u><u>8,524</u></u>       | <u><u>18,564</u></u> |
| <u>Non-cash transactions:</u>                                      |                           |                      |
| Right-of-use asset recognized with a corresponding lease liability | <u>122</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. On June 12, 2019, the Company completed a reverse take-over transaction with Else Nutrition GH Ltd. (“Else GH”) by way of a share exchange, (the “Transaction” or “RTO”). Upon the completion of the Transaction, the Company changed its name from ASB Capital Inc. to Else Nutrition Holdings Inc. In connection with the Transaction, Else GH became a wholly owned subsidiary of the Company.

Prior to the Transaction, the Company was classified as a Capital Pool Company (“CPC”) as defined in the TSX Venture Exchange (the “Exchange”) Policy 2.4 with its shares listed on the NEX trading board of the Exchange. Upon completion of the Transaction, the Company’s shares began trading on the Exchange as a Tier 2 ‘Technology’ company on June 18, 2019 under the trading symbol “BABY.V”. The Transaction represented the qualifying transaction of the Company under the policies of the Exchange. 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’.

- 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's markets.

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.

- d. On January 23, 2020 the Company established a wholly owned subsidiary in the U.S., Else Nutrition USA, Inc., which is primarily engaged manufacturing, sales and marketing. The office is located at Suite 200 – 0501 W. Schrock Road, Westerville, OH 43081, USA.
- e. 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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Canadian dollars in thousands, except share and per share data**

prospectus supplement, which will be filed with the applicable Canadian securities' regulatory authorities in connection with any such offering. On October 2021, the Company utilized \$17,308 and on June 2022 the Company utilized an additional \$7,354 out of the \$75,000.

- f. 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.
- g. On December 7, 2022 the Company established a wholly owned subsidiary in the Australia, Else Nutrition Australia PTY Ltd., which is primarily engaged in sales and marketing. The registered office of the Company is located at Level 6, 140 William Street, Melbourne VIC 3000.
- h. On December 19, 2022, the Company signed a convertible loan agreement with Lind Global Found II LP (Lind) in the amount of up to US \$13,750 thousand (approximately \$18,700). The convertible loan bears an annual interest of 10% with a maturity of 36 months.

On December 22, 2022 the Company received the Initial Convertible loan in the amount of US\$4,250 thousand (approximately \$5,780). The Initial Convertible Security will have a 36-month maturity date and will be convertible into Common shares of the Company after completion of a 120 day lock-up period. Lind will be able to convert 1/20th of the face value each month at a conversion price equal to 85% of the five-day volume weighted average price of the Common shares immediately prior to each conversion, subject to a right to increase conversions in certain circumstances.

The outstanding principal amount of the Initial Convertible Security, after 180 days, may be repaid in cash at the discretion of the Company, with a 5% premium (the “Buy-Back Right”). Should the Company exercise its Buy-Back Right, Lind would have the option to convert up to 33% of the face value of the Initial Convertible Security into Common shares.

Following the Initial Convertible Security issuance, the Company would have the right to draw a further US\$1,250 thousand (which may be increased to US\$3,000 thousand upon mutual agreement) (the “Second Draw”), subject to the terms of the formal agreements, and thereafter an optional follow-on investment of up to US\$6,500 thousand, (the “Third Draw”), upon mutual agreement, in exchange for the issuance of additional convertible notes. The Initial Convertible Security, and each of the additional convertible notes, if applicable, will include detached warrants (the “Warrants”) to purchase Common Shares.

In connection with the Initial Convertible Security, the Company issued 8,247,129 Warrants at an exercise price of \$1.15 per share for a period of four years from the date of issuance. As the exercise price of the warrants is denominated in Canadian dollars with 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. On the date of grant the Company recorded a liability with respect to the Warrant grant in the amount of \$ 2,474.

The number of Warrants issued on the Second Draw and Third Draw will be calculated on 75% of the amount of the draw divided by the volume weighted average price per share during the twenty (20) consecutive trading days immediately before the closing date of the Second Draw and the Third Draw. The exercise price of Warrants issued on the Second Draw and the Third Draw will be equal to the greater of: (i) the volume weighted average price per share (in Canadian dollars) for the five (5) consecutive trading days immediately before the date of

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Canadian dollars in thousands, except share and per share data

the Second Draw or Third Draw closing as applicable, and (ii) 130% of the volume weighted average price per share (in Canadian dollars) for the twenty (20) consecutive trading days immediately before the date of the Second Draw or Third Draw closing as applicable.

The signed agreement constitutes an event of Cash Balance default if the aggregate of the Company's net cash falls below US\$3 million at any time.

- i. 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 March 31, 2023, the Group has an accumulated deficit of \$56,771. For the year ended March 31, 2023, the Group incurred total comprehensive loss of \$7,773 and had negative cash flow from operations of \$6,315. 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.

- j. 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

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 Canadian dollars in thousands, except share and per share data
 

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**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*".

**NOTE 3: EQUITY**

## a. Stock Options:

During the three months ended March 31, 2023, 175,000 of the stock options were exercised, where each option was exercised for one Common share of the Company at an exercise price of \$0.25 per option.

## b. Share Warrants:

During the three months ended March 31, 2023, the Company recorded other expenses in the amounts of \$523 for the revaluation of liability warrants from the October 2021 public offering. The public warrants with a fair value of \$761 as of March 31, 2023, are classified as level 1.

During the three months ended March 31, 2023, the Company recorded other expenses in the amounts of \$1,492 for the revaluation of liability warrants from the June 2022 public offering. The public warrants with a fair value of \$2,853 as of March 31, 2023, are classified as level 3.

During the three months ended March 31, 2023, the Company recorded other expenses in the amount of \$563 for the revaluation of liability Warrants from the December 2022 convertible loan. The Warrants with a fair value of \$3,036 as of March 31, 2023, are classified as level 3.

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:

|   |             |
|---|-------------|
|   | 2023        |
| Dividend yield (%)                          | -           |
| Expected volatility of the share prices (%) | 60.9 - 64.9 |
| Risk-free interest rate (%)                 | 0.033-0.036 |
| Expected life of share options (years)      | 3.7 - 4.3   |
| Share price (\$) average                    | 0.9         |

## 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 months ended<br>March 31, |              |
|----------------------------------|---------------------------------|--------------|
|                                  | 2023                            | 2022         |
|                                  | Unaudited                       |              |
| Revenue from dried food snacks   | 93                              | 90           |
| Revenue from feeding accessories | 170                             | 206          |
| Revenue from Formula             | 2,651                           | 1,305        |
|                                  | <u>2,914</u>                    | <u>1,601</u> |

## NOTE 5: SUBSEQUENT EVENT

In accordance with the terms of the convertible loan agreement (see Note 1), the Company received a conversion notice dated April 27, 2023, pursuant to section 5.2 of the convertible loan agreement, pursuant to which Lind has provided written notice to the Company that it has elected to convert US\$225 thousand of the Initial Convertible Loan into common shares of the Company.

On May 1, 2023, following the conversion notice, the Company issued 547,004 common shares.