

ELSE NUTRITION HOLDINGS INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2021
(in Canadian Dollars in Thousands)

INDEX

	<u>Page</u>
Consolidated Statements of Financial Position	3
Consolidated Statements of Profit or Loss and Comprehensive Profit (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.

May 31, 2021

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

	March 31, 2021	December 31, 2020
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	19,569	21,538
Restricted cash	617	644
Short term bank deposit	1,899	3,174
Trade receivables	515	369
Other accounts receivables and prepaid expenses	359	289
Inventories	2,476	2,424
	<u>25,435</u>	<u>28,438</u>
LONG-TERM ASSETS:		
Property, plant and equipment, net	245	253
Intangible assets, net	363	395
Right-of-use assets	180	233
	<u>788</u>	<u>881</u>
Total long-term assets	<u>788</u>	<u>881</u>
Total assets	<u><u>26,223</u></u>	<u><u>29,319</u></u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	788	1,235
Other account payables	787	630
Related parties	9	8
Current portion of lease liability	125	146
	<u>1,709</u>	<u>2,019</u>
Total current liabilities	<u>1,709</u>	<u>2,019</u>
NON-CURRENT LIABILITIES:		
Lease liability	57	82
Warrants liability	9,346	16,010
	<u>9,403</u>	<u>16,092</u>
Total long-term liabilities	<u>9,403</u>	<u>16,092</u>
EQUITY:		
Share capital and premium	40,538	39,137
Subscription receivable	-	-
Other reserve	2,328	1,985
Accumulated other comprehensive loss	(301)	(278)
Accumulated deficit	(27,454)	(29,636)
	<u>15,111</u>	<u>11,208</u>
Total equity	<u>15,111</u>	<u>11,208</u>
Total liabilities and equity	<u><u>26,223</u></u>	<u><u>29,319</u></u>

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

May 31, 2021	<i>"Hamutal Yitzhak"</i>	<i>"Sokhie Puar"</i>
Date of approval of the financial statements	Hamutal Yitzhak CEO and Director	Sokhie Puar Director

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE PROFIT (LOSS)

Canadian dollars in thousands, except share and per share data

	Three months ended	
	31, March	
	2021	2020
	Unaudited	
Revenues	1,135	297
Cost of sales (purchased products)	1,086	231
Gross profit	49	66
Operating expenses:		
Employee benefits expense	897	472
Research and development subcontractors	446	266
Share-based compensation	595	53
Consulting fees	154	232
Professional fees	195	169
Advertising	1,405	171
Depreciation and amortization	71	42
Investors relations	49	73
Office and miscellaneous	182	120
Total operating expenses	3,994	1,598
Loss before other expenses	(3,945)	(1,532)
Other expenses:		
Revaluation of warrants	6,565	(336)
Unrealized gain (loss) on foreign currency	(438)	217
Net profit (loss)	2,182	(1,651)
Other comprehensive loss:		
Amounts that will be classified subsequently to profit or (loss):		
Exchange differences on translation of foreign operations	(23)	(28)
Total comprehensive profit (loss) for the period	2,159	(1,679)
Net profit (loss) per share attributable to equity holders of the Company (in Canadian dollars):		
Basic and diluted profit (loss) per common share	0.02	(0.02)
Weighted average number of shares outstanding – basic	95,288,652	71,542,886
Weighted average number of shares outstanding – diluted	102,343,981	71,542,886

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	Reserve -	Reserve -	Accumulated	Accumulated	Total
	Number	Amount	receivable	warrants	options	other comprehensive loss *)	deficit	shareholders' equity
Balance as of January 1, 2020 (audited)	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>
	Common Shares		Subscription	Reserve	Reserve	Accumulated	Accumulated	Total
	Number	Amount	Receivable	- warrants	- options	other comprehensive loss *)	deficit	shareholders' equity
Balance as of January 1, 2021 (audited)	94,652,872	39,137	-	873	1,112	(278)	(29,636)	11,208
Foreign currency translation	-	-	-	-	-	(23)	-	(23)
Net profit	-	-	-	-	-	-	2,182	2,182
Total comprehensive profit (loss)	-	-	-	-	-	(23)	2,182	2,159
Issuance of shares upon warrants exercise	1,126,406	1,401	-	(252)	-	-	-	1,149
Share-based compensation	-	-	-	1	594	-	-	595
Balance as of March 31, 2021 (unaudited)	<u>95,779,278</u>	<u>40,538</u>	<u>-</u>	<u>622</u>	<u>1,706</u>	<u>(301)</u>	<u>(27,454)</u>	<u>15,111</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		Subscription	Reserve	Reserve	Accumulated other	Accumulated	Total
	Number	Amount	Receivable	- warrants	- options	comprehensive	deficit	shareholders'
						loss *)		equity
Balance as of January 1, 2020 (audited)	67,220,810	8,599	(9)	529	100	(29)	(5,532)	3,658
Other comprehensive loss	-	-	-	-	-	(28)	-	(28)
Net loss	-	-	-	-	-	-	(1,651)	(1,651)
Total comprehensive loss	-	-	-	-	-	(28)	(1,651)	(1,679)
Issuance of private placement shares	12,383,900	7,223	-	327	-	-	-	7,550
Share issued for finder's fees	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.

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,	
	2021	2020
	Unaudited	
<u>Cash flows from operating activities:</u>		
Net profit (loss)	2,182	(1,651)
Adjustments to reconcile net profit (loss) to net cash used in operating activities:		
Adjustments to the profit or loss items:		
Share based compensation	595	53
Financial expenses, net	1	2
Revaluation of warrants	(6,565)	336
Depreciation and amortization	70	42
	(5,899)	433
Changes in asset and liability items:		
Increase (decrease) in trade receivables	(166)	66
Decrease (increase) in other account receivables and prepaid expenses	(84)	55
Increase in inventories	(158)	(295)
Increase (decrease) in trade payables	(403)	69
Increase (decrease) in related parties	1	(3)
Increase in other account payables	189	106
	(621)	(2)
Net cash used in operating activities	(4,338)	(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,	
	2021	2020
	Unaudited	
<u>Cash flows from investing activities:</u>		
Purchase of property and equipment	(11)	(20)
Investment in short term deposit	1,163	-
Net cash provided by (used in) investing activities	1,152	(20)
<u>Cash flows from financing activities:</u>		
Issue of Common shares and warrants, net of issue expenses	-	7,979
Lease payment	(68)	(26)
Cash received for exercise of warrants	1,050	254
Net cash provided by financing activities	982	8,207
Exchange rate differences on balances of cash and cash equivalents	235	(62)
Increase (decrease) in cash and cash equivalents	(1,969)	6,905
Cash and cash equivalents at the beginning of the period	21,538	2,909
Cash and cash equivalents at the end of the period	19,569	9,814
<u>Non-cash transactions</u>		
Right-of-use asset recognized with corresponding lease	-	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 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 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 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.
- 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 thousand 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 March 31, 2021, the Group has an accumulated deficit of \$27,454. For the three-month period ended March 31, 2021, the Group incurred total comprehensive profit of \$2,159 and had negative cash flow from operations of \$4,338. 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 March 31, 2021 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, 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"*.

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, 2011, 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.

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)	2.5-4
Share price (\$) average	3.54

b. Share Warrants:

During the three months ended March 31, 2021, 1,126,406 of the share warrants were exercised, where each share warrant was exercised for one Common share of the Company. An aggregate of 336,124 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 and 293,021 share warrants were exercised at an exercise price of \$2.25 per share.

During the three months ended March 31, 2021, the Company recorded other income at the amounts of \$2,855 and \$ 3,710 for revaluation of liability warrants from March 2020 and October 2020 private and public placement, respectively.

The public warrants with a fair value of \$2,338 as of March 31, 2021 are classified as level 1 and the private placement warrants with a fair value of \$7,107 as of March 31, 2021 are 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.)

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 (%)	55.8-57.01
Risk-free interest rate (%)	0.2-0.22
Expected life of share warrants (years)	1.5
Share price (\$)	2.97

NOTE 4:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS

Additional information on revenues:

	Three months ended March 31,	
	2021	2020
	Unaudited	
Revenue from dried food snacks	117	122
Revenue from feeding accessories	156	175
Revenue from Formula	862	-
	<u>1,135</u>	<u>297</u>

NOTE 5: SUBSEQUENT EVENTS

- a. Since April 1, 2021 and until the date of approval of the interim consolidated financial statements, 239,040 of the share warrants outstanding on March 31, 2021 were exercised. Out of these share warrants, 130,000 share warrants were exercised at an exercise price of \$0.0001 and share warrants were exercised at an exercise price of 109,040 at \$0.25. Subsequent to the exercise of these warrants, 45,265,462 share warrants are outstanding.
- b. On May 13, 2021, the Company issued an aggregate of 253,000 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 \$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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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).