

ELSE NUTRITION HOLDINGS INC.
UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 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.

August 14, 2023

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

	June 30, 2023	December 31, 2022
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	3,054	14,564
Restricted cash	1,168	1,180
Short term bank deposit	365	817
Trade receivables	1,876	1,495
Other accounts receivables and prepaid expenses	589	823
Inventories	8,698	5,910
	<u>15,750</u>	<u>24,789</u>
NON-CURRENT ASSETS:		
Property, plant and equipment, net	472	533
Intangible assets, net	217	263
Right-of-use assets	472	578
	<u>1,161</u>	<u>1,374</u>
Total assets	<u><u>16,911</u></u>	<u><u>26,163</u></u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	2,151	2,199
Other account payables	938	923
Related parties	9	9
Current portion of lease liability	250	238
	<u>3,348</u>	<u>3,369</u>
LONG-TERM LIABILITIES:		
Lease liability	201	320
Warrants liability	4,929	4,072
Convertible loan	2,904	2,807
	<u>8,034</u>	<u>7,199</u>
EQUITY:		
Share capital and premium	60,557	59,716
Other reserve	4,871	4,791
Accumulated other comprehensive loss	517	(44)
Accumulated deficit	(60,416)	(48,868)
Total equity	<u>5,529</u>	<u>15,595</u>
Total liabilities and equity	<u><u>16,911</u></u>	<u><u>26,163</u></u>

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

August 14, 2022	<i>"Hamutal Yitzhak"</i>	<i>"Sokhie Puar"</i>
Date of approval of the financial statements	Hamutal Yitzhak CEO and Director	Sokhie Puar Director

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

Canadian dollars in thousands, except share and per share data

	Six months ended 30 June,		Three months ended 30 June,	
	2023	2022	2023	2022
	Unaudited			
Revenues	5,286	3,909	2,372	2,308
Cost of sales (purchased products)	5,066	2,886	2,422	1,768
Gross profit	220	1,023	(50)	540
Operating expenses:				
Employee benefits expense	2,700	2,971	1,117	1,392
Research and development subcontractors	1,798	1,261	429	679
Share-based compensation	92	761	176	346
Consulting fees	556	591	219	273
Professional fees	391	543	156	298
Advertising	2,324	3,115	1,469	1,798
Depreciation and amortization	269	284	127	112
Investors relations	122	408	59	243
Office and miscellaneous	836	932	409	398
Total operating expenses	9,088	10,866	4,161	5,539
Loss before other expenses	(8,868)	(9,843)	(4,211)	(4,999)
Other income (expenses):				
Revaluation of warrants	(857)	1,873	1,721	2,928
Gain (loss) on foreign currency	(941)	(631)	(808)	704
Revaluation of convertible loan	(882)	-	(347)	-
Net loss	<u>(11,548)</u>	<u>(8,601)</u>	<u>(3,645)</u>	<u>(1,367)</u>
Other comprehensive loss:				
Amounts that will be classified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	561	516	431	(335)
Total comprehensive loss for the period	<u>(10,987)</u>	<u>(8,085)</u>	<u>(3,214)</u>	<u>(1,702)</u>
Net loss per share attributable to equity holders of the Company (in Canadian dollars):				
Basic and diluted loss per common share	<u>(0.10)</u>	<u>(0.08)</u>	<u>(0.03)</u>	<u>(0.01)</u>
Weighted average number of shares outstanding – basic and diluted	<u>112,900,140</u>	<u>104,704,529</u>	<u>113,165,061</u>	<u>105,207,253</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**Canadian dollars in thousands, except share and per share data**

	Common Shares		Reserve	Reserve	Accumulated	Accumulated	Total
	Number	Amount	- warrants	- options	other comprehensive income (loss) *)	deficit	shareholders' equity
Balance as of January 1, 2022	104,196,220	54,917	676	3,302	(869)	(31,254)	26,772
Other comprehensive income	-	-	-	-	825	-	825
Net loss	-	-	-	-	-	(17,614)	(17,614)
Total comprehensive income (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	<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>
Other comprehensive income	-	-	-	-	561	-	561
Net loss	-	-	-	-	-	(11,548)	(11,548)
Total comprehensive income (loss)	-	-	-	-	561	(11,548)	(10,987)
Issuance of public shares	1,113,365	784	-	-	-	-	784
Issuance of shares upon option exercise	175,000	57	-	(12)	-	-	45
Share based compensation	-	-	4	88	-	-	92
Balance as of June 30, 2023 (unaudited)	<u>113,888,585</u>	<u>60,557</u>	<u>223</u>	<u>4,648</u>	<u>517</u>	<u>(60,416)</u>	<u>5,529</u>

*) Comprised of exchange differences on translation of foreign operations.

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

INTERIM CONDENSED 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 income (loss) *)	Accumulated deficit	Total shareholders' equity
	Number	Amount					
Balance as of January 1, 2022	104,196,220	54,917	676	3,302	(869)	(31,254)	26,772
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)	112,600,220	59,716	404	4,054	(353)	(39,855)	23,966

*) Comprised of exchange differences on translation of foreign operations.

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

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

	Six months ended	
	June 30,	
	2023	2022
	Unaudited	
<u>Cash flows from operating activities:</u>		
Net loss	<u>(11,548)</u>	<u>(8,601)</u>
Adjustments to reconcile net loss to net cash used in operating activities:		
Adjustments to the profit or loss items:		
Share based compensation	92	761
Financial expenses, net	15	54
Revaluation of convertible loan	882	-
Depreciation and amortization	269	284
Revaluation of share warrants	<u>857</u>	<u>(1,873)</u>
	<u>2,115</u>	<u>(774)</u>
Changes in asset and liability items:		
Increase in trade receivables	(447)	(348)
Decrease in other account receivables and prepaid expenses	195	36
Increase in inventories	(2,803)	(470)
Increase in trade payables	(42)	(36)
Increase in related parties	-	(1)
Increase (decrease) in other account payables	<u>32</u>	<u>(179)</u>
	<u>(3,065)</u>	<u>(998)</u>
Net cash used in operating activities	<u>(12,498)</u>	<u>(10,373)</u>

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

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

	Six months ended	
	June 30,	
	2023	2022
	Unaudited	
<u>Cash flows from investing activities:</u>		
Purchase of property and equipment	-	(97)
Collection of short term deposit, net	415	1,053
Change in restricted cash. net	11	23
Net cash provided by investing activities	426	979
<u>Cash flows from financing activities:</u>		
Issue of Common shares and warrants, net of issue expenses	-	6,743
Lease payment	(209)	(226)
Cash received for exercise of warrants	-	(*)
Cash received for exercise of share options	45	-
Net cash provided by (used in) financing activities	(164)	6,517
Exchange rate differences on balances of cash and cash equivalents	726	620
Decrease in cash and cash equivalents	(11,510)	(2,257)
Cash and cash equivalents at the beginning of the period	14,564	23,047
Cash and cash equivalents at the end of the period	3,054	20,790
<u>Non-cash financing transaction</u>		
Issuance of share capital upon conversion of convertible loan	784	-

*) Represent an amount lower then \$1

The accompanying notes are an integral part of the interim condensed 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 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 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

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 out of the \$75,000. On May 20, 2023, the base shelf prospectus expired.

- 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 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 (principal and accrued interest) 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, all in accordance with the loan schedule.

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.

The convertible loan is accounted at fair value through profit and loss. During the six and three months ended June 30, 2023, the Company recorded financial expenses in the amounts of \$882 and \$347, respectively, for the revaluation of the convertible loan. The convertible loan with a fair value of \$2,904 as of June 30, 2023 and \$2,807 as of December 31, 2022, are classified as level 3.

Canadian dollars in thousands, except share and per share data

The following table lists the inputs to the Monte Carlo Simulation model used for the fair value measurement of the above convertible loan (unaudited):

	June 30, 2023
Dividend yield (%)	-
Expected volatility of the share price (%)	78.28
Risk-free interest rate (%)	4.69
Expected life (years)	2.47
Share price (\$)	0.68

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 the 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

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 includes an event of Cash Balance default if the aggregate of the Company's net cash falls below \$3,000 at any time.

For issuance of share capital upon conversion refer to Note 3b.

- i. These interim condensed 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 June 30, 2023, the Group has an accumulated deficit of \$960,416. For the six months ended June 30, 2023, the Group incurred a total comprehensive loss of \$10,987 and had negative cash flow from operations of \$12,498. 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.

Canadian dollars in thousands, except share and per share data

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements.

Basis of presentation of the financial statements:

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB have been condensed or omitted.

NOTE 3: EQUITY

a. Stock Options:

During the six months ended June 30, 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. Issuance of share capital:

On May 1, 2023, the Company issued 547,004 common shares to Lind Global Fund II LP, as the first payment of the convertible loan according to the loan schedule including accrued interest. The number of common shares represents an amount of \$399 (US\$255 thousand).

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Canadian dollars in thousands, except share and per share data

On June 26, 2023, the Company issued 566,361 common shares to Lind Global Fund II LP, as the second payment of the convertible loan according to the loan schedule including accrued interest. The number of common shares represents an amount of \$385 (US\$255 thousand).

c. Share Warrants:

During the six months ended June 30, 2023 and 2022, the Company recorded other income (expenses) in the amounts of (\$169) and \$1,873, respectively, for the revaluation of liability warrants from the October 2021 public offering. The public warrants with a fair value of \$407 as of June 30, 2023 and \$237 as of December 31, 2022, are classified as level 1.

During the six months ended June 30, 2023 and 2022, the Company recorded other income (expenses) in the amounts of (\$275) and \$0, respectively, for the revaluation of liability warrants from the June 2022 public offering. The public warrants with a fair value of \$1,636 as of June 30, 2023 and \$1,360 as of December 31, 2022, are classified as level 1.

During the six months ended June 30, 2023 and 2022, the Company recorded other expenses in the amount of \$412 for the revaluation of liability Warrants from the December 2022 convertible loan. The Warrants with a fair value of \$2,866 as of June 30, 2023 and \$2,474 as of December 31, 2022, 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 the above warrants that are not publicly traded (unaudited):

	June 30, 2023
Dividend yield (%)	-
Expected volatility of the share price (%)	61.1 - 65.2
Risk-free interest rate (%)	0.043-0.044
Expected life of warrants (years)	3.4 - 4.1
Share price (\$)	0.68

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 4:- ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS

Additional information on revenues:

	Six months ended		Three months ended	
	June 30,		June 30,	
	2023	2022	2023	2022
	Unaudited			
Revenue from dried food snacks	186	220	93	130
Revenue from feeding accessories	303	360	133	154
Revenue from formula	4,797	3,329	2,146	2,024
	<u>5,286</u>	<u>3,909</u>	<u>2,372</u>	<u>2,308</u>

NOTE 5: SUBSEQUENT EVENT

On July 10, 2023 the Company elected to exercise its right to increase the face value of its convertible security by US\$3,000 thousand under its previously announced convertible security funding agreement with Lind (see Note 1h), for additional proceeds of US\$2,500 thousand (approximately \$3,231). As a result of the exercise of the increase right, the total face value (principal and accrued interest) of the convertible security was increased from US\$4,590 thousand to US\$7,590 thousand.

In connection with the increase, the Company issued 3,591,776 Warrants at an exercise price of \$0.9058 per share for a period of 4 years from the date of issuance.

On July 28, 2023, the Company issued 896,894 common shares to Lind Global Fund II LP, as the third payment of the convertible loan according to the loan schedule. The number of common shares represents an amount of \$536 (US\$405 thousand).