

Management's Discussion and Analysis of Financial Condition  
And Results of Operations of



**ELSE NUTRITION HOLDINGS INC.**

For the nine months ended September 30, 2023

*(Expressed in Canadian Dollars in Thousands)*

November 14, 2023

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") is a review of the results of operations, current financial position and outlook of Else Nutrition Holdings Inc. (referred to herein as the "Company", "Else", "we", "us" or "our"). Unless otherwise noted, reference to the Company includes its subsidiaries. This MD&A should be read in conjunction with the Company's unaudited consolidated interim financial statements and accompanying notes for the nine months ended September 30, 2023 (the "**Interim Financial Statements**"), as well as our audited annual consolidated financial statements and accompanying notes for the year ended December 31, 2022 and the related annual MD&A.

The financial information contained in this MD&A and in our Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board. Unless otherwise noted, all dollar amounts are expressed in thousands of Canadian dollars except with respect to share amounts. All references in this MD&A to "Q3 2023" are to our fiscal quarter ended September 30, 2023 and to "Q3 2022" are to our fiscal quarter ended September 30, 2022.

See "*Forward-Looking Information*" and "*Risk Factors*" for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those indicated or underlying forward-looking information as a result of various factors, including those referred to under the heading "*Risk Factors*" and elsewhere in this MD&A.

Additional information relating to our Company, including our most recent annual information form is available on SEDAR+ at [www.sedarplus.com](http://www.sedarplus.com) or the Company's website at [www.elsenutrition.com](http://www.elsenutrition.com).

## DESCRIPTION OF BUSINESS

The Company was incorporated on July 18, 2011 under the *Business Corporations Act* (British Columbia) under the name ASB Capital Inc. and was classified as a Capital Pool Company, as such term is defined in Policy 2.4 - *Capital Pool Companies* ("**Policy 2.4**") of the TSX Venture Exchange ("**TSX-V**"). The Company's head office is located at 6 Hanechoshet St., Tel Aviv, Israel, 6971070 and its registered and records office is located at Suite 1200 – 750 West Pender Street, Vancouver, British Columbia, V6C 2T8. The Company also maintains an office in British Columbia at 1048 165<sup>th</sup> Street, Surrey, British Columbia, V4A 9A2. The Company's website is [www.elsenutrition.com](http://www.elsenutrition.com). Information contained on the Company's website is not incorporated into this MD&A.

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 as defined in the TSX-V Policy 2.4 with its shares listed on the NEX trading board of the TSX-V. Upon completion of the Transaction, the Company's shares began trading on the TSX-V as a Tier 2 'Technology' company on June 18, 2019 under the trading symbol 'BABY'. The Transaction represented the qualifying transaction of the Company under the policies of the TSX-V.

Effective December 10, 2019, the Company's common shares were listed on the OTCQB International Market under the trading symbol 'BABYF'. The OTCQB International Market is a U.S. market operated by the OTC Markets Group. 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 listed on the Frankfurt Stock Exchange (FSE) under the trading symbol 'OYL'.

On January 25, 2022, the Company's common shares and warrants commenced trading on the Toronto Stock Exchange ("TSX") under the trading symbols of 'BABY', 'BABY.WT' and 'BABY.WT.A'. The warrants listed for trading under the symbol 'BABY.WT' expired on October 6, 2022.

The Company is a developer of innovative food products and formula nutrition for infants, toddlers, kids, and adults. It currently has seven product lines that are either commercialized or in development. Five of these product lines are the proprietary 100% plant-based non-dairy and non-soy nutrition products (collectively, "**Else Formula**"): (i) plant-based baby formula products for the 'infant formula' market (between 0 to 1 year old); (ii) plant-based formula products for the 'toddler nutrition' market (between 1 to 3 years old); (iii) the 'kids nutrition' market (3-12 years old); (iv) the 'adult nutrition' market; and (v) complementary food products for babies (6 months and older). These five products lines are intended to be 100% plant-based, clean-label, non-GMO, natural, and gluten, dairy, and soy free alternatives to baby, toddler, kids, and adult nutrition and foods. Most of the products are organic.

The Company also operates and generates revenue from two product lines which were acquired by the Company from Golden Heart F.M.C.G. Ltd. and are comprised of the following:

- 1) 'baby snacks' – vegan-friendly snack products for the baby and toddler food market; and
- 2) 'baby feeding accessories' – baby feeding bottles and teats (sterile and non-sterile).

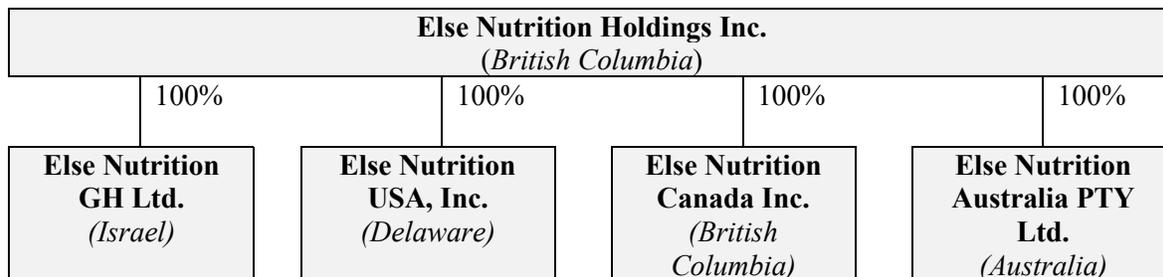
See the heading "*Overall Performance*" below for additional information with respect to each product line.

On January 23, 2020, Else Nutrition USA, Inc. ("**Else Nutrition USA**"), a private company, was incorporated in the State of Delaware as a wholly-owned subsidiary of the Company.

On January 25, 2022, Else Nutrition Canada Inc., a private company, was incorporated in the Province of British Columbia as a wholly-owned subsidiary of the Company.

On December 7, 2022, Else Nutrition Australia PTY Ltd., a private company, was incorporated in Australia as a wholly-owned subsidiary of the Company.

The chart below sets out the intercorporate relationship between the Company, Else GH, Else Nutrition USA, Else Nutrition Canada Inc., and Else Nutrition Australia PTY Ltd.:



## Commercial Highlights

### *International Patents Portfolio and Regulatory Assessments*

As of the date of this MD&A, through its subsidiary, Else GH, the Company holds international patent applications under the Patent Cooperation Treaty WO/2014/125485 non-dairy formulae and WO/2021/234715 - nut and non-dairy components having reduced trace element content, compositions comprising them and processes for their production, and WO/2023/152741 NON-DAIRY FORMULAE FOR USE IN IMPROVING GROWTH AND TOLERANCE IN A SUBJECT IN NEED THEREOF.

Under WO/2014/125485, the Company obtained intellectual property protection for its product composition through 35 granted patents in 20 countries (including Australia, Eurasia [eight jurisdictions], Israel, Korea, Japan, Mexico, Ukraine, the United States, South Africa, India, Chile, New Zealand and Canada) with additional 45 patent applications pending in 44 countries (including, Australia, Brazil, Canada, China, Hong Kong, Europe [will be designated in all 37 European countries], Korea, Israel, Mexico, and the United States). The patents are valid through 2034, and cover non-dairy almond-based formulas used for the preparation of infant or toddler formula and other types of supplemental or functional food for other age groups, involving a composition comprising almond and at least one non-dairy component comprising all essential amino acids for use in the nutrition of an infant and/or a toddler and for use in whole balance nutrition of a subject, whether an infant, toddler, child, adolescent, adult, elderly person at any health or physical condition. The WO/2021/234715 patent application is directed to plant-based components, having reduced trace element contents, food products and nutritional compositions comprising them and methods for their preparation. This patent application recently entered the national phase examination in 24 countries. The WO/2023/152741 patent application covers different uses and benefits supported in our studies. This application is still at the international phase examination.

For additional information on the scope of the patents, refer to the heading “Intellectual Property and Proprietary Protection” in the Company’s annual information form for the year ended December 31, 2022, dated as of March 31, 2023 (the “AIF”), which is accessible on the Company’s SEDAR+ profile.

### *Trademarks*

The Company holds a registered “ELSE” trademark in 62 countries (including Albania, Armenia, Australia, Azerbaijan, Bosnia and Herzegovina, Brazil, Bhutan, Belarus, Canada, Switzerland, Colombia, Cuba, European Union [27 countries], UK, Iceland, India, Japan, Korea, Liechtenstein, Mexico, Monaco, Moldova, Montenegro, Republic of North Macedonia, Mongolia, Malaysia, Norway, New Zealand, Philippines, Serbia, Russian Federation, Singapore, San Marino, Turkey, Turkmenistan, Ukraine).

The Company holds a registered trademark for “ELSE NUTRITION” in the U.S. and Turkey.

### *Strategic Marketing and Distribution Partnerships*

On September 11, 2023, the Company announced the introduction of its first ever Ready-To-Drink (RTD) Kids Nutritional Shakes in vanilla and chocolate flavors for the Canadian market.

On October 11, 2023, the Company announced that the first commercial production run of its innovative Ready-To-Drink (RTD) Kids’ Nutritional Shakes will commence in late October 2023, producing for both the U.S. and Canadian markets. The first-of-its-kind, whole plant-based RTD products are set to be shipped to over 400 leading stores in the U.S., over 200 leading grocery locations in Canada, and a major international online natural marketplace by the end of December 2023, for sale in Q1 2024. The broad retail

distribution in respective regional markets will mark first-to-market listing programs and represents a significant step forward in Company’s market penetration.

On November 6, 2023, the Company announced the launch of its highly acclaimed, Plant-Based Complete Nutrition Toddler Drink in the United Kingdom (“UK”), cementing its presence through partnerships with leading UK distributors, and on Amazon.uk

#### *Production Facility*

On September 5, 2023, the Company announced that it started commercial production at a new U.S. facility in the Midwest, which will be able to support the Company’s manufacturing demand in the coming years for the North American market. It is expected that the new U.S. production facility will lower costs while improving product quality. The Company completed production tests and scaleup in July 2023 and ran the first commercial production of its lead product, Toddler Organic, in August 2023. In the coming months, the Company intends to complete trials for the rest of its products in North America and enter a long-term supply agreement. It is expected that the cost reduction will impact the Company’s cash flow, and the Company’s cost of goods towards the end of 2023, as inventory from the previous plant is depleted. The quality of the product is also expected to improve at the new facility, as the product will be easier to package and dissolve better when mixed with water.

#### *Distribution*

On November 13, 2023, the Company entered into a binding letter of intent with Danone S.A. for a multi-stage collaboration. Danone is a worldwide leading company specializing in fresh dairy products, plant-based, water, and specialized nutrition. At the first stage of the collaboration, Else and Danone propose to enter into a License Agreement in Europe whereby Else’s products, which are plant-based, soy-free, and supported by clinical evidence, shall be included in Danone’s specialized nutrition portfolio and manufactured, marketed, and commercialized by Danone. In addition to the first stage, the parties shall negotiate other opportunities beyond product commercialization.

### **Corporate Highlights**

#### **OVERALL PERFORMANCE**

The Company continues to generate revenue from its baby snacks and baby accessories product lines. Since the third fiscal quarter in 2020, the Company has been generating revenue from its Else Nutrition Toddler Formula line. See “*Else Formula – Toddlers*”. During Q2 2021, the Company launched its protein shake under the Else Formula Kids nutrition product line. See “*Else Formula – Kids*”. Since its third fiscal quarter in 2020, the Company has entered into distribution agreements with various brick and mortar and online retailers to increase its sales flow and customer base. See the heading “*Distribution Partnerships*” for more information.

Currently, consumers may purchase the Else Nutrition formula products online or in-person at various brick-and-mortar retail chains located across the U.S and Canada. See the headings “*Commercial Highlights - Distribution Partnerships*” and “*Overall Performance – Toddlers*” for a description of these channels. On October 8, 2021, the Company announced that it received a U.S. notice of allowance on the composition of its proprietary formulation, for use in functional food.

The Company plans to continue expanding its marketing and sales endeavors in the Canadian, United States, European, Australian, and Israeli markets. The Company launched sales in Canada on Amazon.ca and in natural food, grocery, and drug retail stores during Q3 2022. The Company launched its own

Canadian online e-store in Q2 2023. In the near future, the Company also intends to expand its customer base beyond the North American market by partnering with local distributors in other jurisdictions as well as international online e-commerce platforms. With respect to the European marketplace, the Company launched the sale of its toddler product in Q4 2023 in the UK, and plans to expand to additional markets such as Germany, France, Italy, Spain, the Netherlands, and Sweden. In the UK the Company plans to start selling on Amazon and via natural food distributors, and later at Grocery and Drug retailers. The Company also plans to enter to the Australian market during Q4 2023. The initial launch will be via Amazon to be followed by drug and grocery chains. The Australian market may also be a gateway to the Chinese market following a successful launch and branding. The Company decided currently to pause its efforts to penetrate the Chinese market via e-commerce due to the current financial market situation, and the high-cost estimation for market penetration via e-commerce in the upcoming years.

The Company intends to maintain responsibility for the designs of the product packaging for its branded line of products. Product packaging design will be localized by the geographic market and the local language. The design, size and availability of the respective products may differ between various markets.

The Company has funded its operations with proceeds from revenue as well as equity financings, and it expects to seek additional funding through equity or debt financings and partnership collaborations to finance its product development, the Else Formula product portfolio, and corporate growth. However, if the Company's product development and commercial activities do not show positive progress, or if the capital markets generally or with respect to the food tech and "better for you" sectors or development stage companies are unfavorable, the Company's ability to obtain additional funding may be adversely affected.

The Company has experienced delays in certain research and development milestones throughout 2023. During 2022-2023 the continuous infant formula US shortage crisis (in which multiple recall events of leading infant nutrition brands occurred) posed another delay in the Company's ability to start the clinical growth study. This was a result of the company's inability to source a control formula for the study's comparator arm and the overload of work the FDA faces with the enforcement discretion to allow infant formula brands from outside the US to be marketed in the US as part of the crisis management. Therefore, the Company expects ongoing delays in FDA reviewing process and long waiting times for input and responses required to execute next steps bringing the infant formula to market.

The Company experienced transportation delays and cost increases due to the global supply chain crisis. Both delays and cost increases impacted the Company's sales and gross profit margin.

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

### **Else Formula**

The Company successfully launched its toddler (12-36 months old) product in August 2020 and continues to undertake efforts towards successfully commercializing the Else product lines geared towards the infant (0-12 months old) market segment. Under its kids nutrition product line (2 years+) the Company successfully launched two products in June 2021. In March 2022 the Company launched its new Toddler Omega product line and in April 2022 the Company launched its Super Cereal line of products for babies over the age of 6 months.

As of the date of this MD&A, management intends to expand the intended market segment also to include adult nutrition. In addition, the Company plans to develop, on the base of the Else IP, a series of plant-

based, clean-label, whole-balanced meal products in different food categories. Finally, the Company is planning to commercialize in the U.S. and Canada a line of Ready To Drink (RTD) products for kids (2H2023) and for adults (2024).

### ***Toddlers***

The Company has executed its strategy to implement a number of e-commerce and brick-and-mortar distribution channels in the U.S. and Canada. The Else Formula toddler nutrition product line began generating revenue during the second quarter of 2020 and was first launched in the United States and Canadian markets on August 2020. See also the heading “*Commercial Highlights - Distribution Partnerships*” above.

### ***Toddler Omega***

Following the success of the strong market response to its Organic Plant-Based Complete Nutrition for Toddlers, the Company formulated Else™ Toddler Omega, its first Else toddler product to have added Omega 3 and Omega 6 fatty acids that support brain and eye development, designed to optimize essential fatty acids, making it complete and balanced. The product was launched on Amazon.com on March 2022, and on the Company’s e-store on May 2022, followed by retail distribution in select retail outlets. In 2023 this product is already offered by several online and brick-and-mortar U.S. retailers.

With essential Omega 3 and Omega 6 fatty acids for brain development, high-quality plant-based protein from almonds, buckwheat and supplemented with additional free amino acids and over 20+ vitamins and minerals, Else™ Toddler Omega is a complete and balanced plant-based, clean-label, non-GMO, soy-free, gluten-free, non-organic nutritional drink for toddlers aged 12-36 months. It is designed to support a toddler’s growth and development, as well as promote natural digestion, through its combination of whole food ingredients: almond, buckwheat, and tapioca.

As some of its ingredients are non-organic, the product is also priced to attract a wider audience and is already selling very strongly.

### ***Infants***

The Else Formula offered in the ‘infant formula’ product category, refers to a manufactured substitute for breast milk for feeding babies under 12 months. Currently, the infant formula has been commercially produced, however it is still in the research and development stage in terms of regulatory approval. The “pilot stage”, where among other things, a pilot batch manufactured for testing the product’s sensory and physical characteristics and for production efficiency, has been completed and further improvements were evaluated. Developments and improvements of the infant formula ingredients were made in lab and pilot scale. On October 13, 2021, the Company announced that it completed the first commercial trial run of its infant formula for infants between the ages of 0-12 months.

One year after commencing this initiative, the Company finished developing a proprietary production process for its Else Formula infant product line in February 2021, pending certain patent applications.

As of the date of this MD&A, the Company is working to obtain GRAS (Generally Recognized as Safe) status for its ingredients, and has conducted two preclinical safety studies which demonstrated proper growth, similar to dairy-based infant formula, in a neonatal preclinical model, as well as the quality of the infant formula protein. The first preclinical study examined proper growth, similar to dairy-based infant formula, in a neonatal preclinical model, which is a key first step on the approval path with the FDA, as well as with other regulatory authorities, to demonstrate safety and nutrient bioavailability of the infant

formula and its ingredients. The results of the study have been presented in two key scientific meetings focused on pediatric nutrition and were also recently published in scientific peer-reviewed journals. The second study demonstrated the quality of the infant formula protein in a preclinical model as part of the FDA requirements from new infant formula to be marketed in the U.S.

In February 2023, the Company announced that the Institutional Review Board (the ethical committee) approved the infant growth study protocol for the testing of the Else Infant Formula.

As a final step before initiating the study, the Company has now submitted the preclinical studies results as well as the infant growth study protocol to the FDA for review and is in discussion with the FDA for the infant formula optimization prior to the clinical study initiation, in parallel to continuously seeking for a comparator formula which is currently unavailable due to the continuous infant formula shortage followed by several recent product recalls in the U.S.

In addition, the Company is also seeking to approve the suitability of its ingredients as protein sources for infant and follow-on formula in different countries such as Europe. The Company plans to use the data generated in current processes for regulatory approval in additional territories in the future.

### ***Complementary Nutrition for Babies – Super Cereal***

The Company has launched a line of Super Cereal products in four (4) flavors for use by babies from 6 months and older as complementary nutrition under the baby food regulation. This Super Cereal product line is the first U.S. baby cereal line to receive the clean label purity award certification, which ascertains it is safe of heavy metals, contaminants, and pesticides. As expected, this new line of products was launched in the U.S. during Q2 2022 on amazon.com and on Else's own website, and already in many stores around the U.S. This product is also available for purchase in Canada, online and in-stores.

### ***Kids***

The research and development and commercial scale-up of the Else Formula powdered product line for kids ages 2-12 years old was completed in Q1 2021. This product features nutrition shakes for kids based on a composition which is used for the Else Formula.

On June 17, 2021, the Company launched the first two plant protein-based shakes for kids which can be used as a milk alternative, meal replacement, or served alongside meals, mixed into recipes such as smoothies, pancakes and muffins, among others. The shakes based on plant proteins come in two flavors, vanilla and chocolate and are packaged in 16 oz powder cans.

Else e-store and Amazon.com are selling Else Kids products in the U.S. since June 2021, iHerb started to sell Else's Kids products in the U.S. and internationally in October 2021. All other online platforms also started selling Else's Kids products during Q4 2021 or early 2022.

On September 21, 2021, the Company announced that it launched two additional new flavors of its complete nutrition shakes for kids, banana chia and mango chia, giving parents even more sustainable, clean-label, whole-food-based options.

On August 2021, the Company announced it has completed its first full-scale commercial trial manufacturing run of its ready-to-drink (RTD) liquid version of the Else Formula kids product line.

The Company plans to launch a ready-to-drink liquid version of the Else Formula kids product in Q4 2023.

### Baby Snacks Products

The baby snacks products are currently marketed and sold exclusively in Israel under the HEART brand in many retailers' grocery and drugs stores and/or on their respective online websites. This product line represented about 7% of the Company's revenue in Q3 2023.

The Company's management maintains customer relationships with major grocery and drug retailers through its distributor in Israel. The Company expects to continue to manufacture the baby snacks product line in Israel for the foreseeable future.

The Company will continue its present sales and distribution practices in Israel. In the long-term, the Company may offer the baby snacks products in other markets using major offline and online retail channels, both directly and/or via distributors.

### Baby Feeding Accessories Products

The baby feeding accessories product line includes sterile and non-sterile baby feeding bottles and disposable sterile nipples (teats). This product line represented about 8% of the Company's revenue in Q3 2023. Else's baby feeding accessories are tailored to the needs of Israeli institutional customers, particularly maternities. Accordingly, the baby feeding accessories are sold to hospitals, maternities and other institutions clients located in Israel. Distribution of the baby feeding accessories is conducted using third-party warehouse facilities and independent freight service providers. Ordinarily, this product line is manufactured through third-party facilities located in India, United Kingdom and Bulgaria.

### SELECTED FINANCIAL INFORMATION

The following tables show selected financial information for Q3 2023, Q3 2022, and the most recently completed financial year ended December 31, 2022. The selected financial information set out below may not be indicative of the Company's future performance. The information contained in each table should be read in conjunction with the Interim Financial Statements.

| <i>(expressed in thousands of Canadian dollars)</i>             | <b>Three months<br/>ended<br/>September 30,<br/>2023<br/>\$</b> | <b>Three months<br/>ended<br/>September 30,<br/>2022<br/>\$</b> | <b>Year ended<br/>December 31<br/>2022<br/>\$</b> |
|---|---|---|---|
| Total revenue   | 1,713   | 2,226   | 8,527   |
| Net income (loss) for the period                                | 1,039   | (3,625)   | (17,614)  |
| Profit (loss) per share, basic and fully diluted <sup>(1)</sup> | 0.01  | (0.03)  | (0.16)  |
| Total current assets  | 14,982  | 24,654  | 24,789  |
| Total non-current assets  | 1,023   | 1,479   | 1,374   |
| Total current liabilities                                       | 2,898   | 2,887   | 3,369   |
| Total non-current liabilities                                   | 4,401   | 3,053   | 7,199   |
| Total equity  | 8,706   | 20,193  | 15,595  |
| Distributions or cash dividends declared per share              | -   | -   | -   |

**Notes:**

- (1) Diluted income (loss) per common share is equivalent to the basic income (loss) per common share as the effects of outstanding warrants and options disclosed are anti-dilutive for all periods presented.

## RESULTS OF OPERATIONS

The Company recorded a net loss of \$10,509 for the nine months ended September 30, 2023 and a net loss of \$12,226 for the nine months ended September 30, 2022. The decrease in the net loss of \$1,717 was principally due to the increase in other income due to revaluation of warrants in the amount of \$1,859.

The Company also recorded an increase in expense of \$425 for the revaluation of the convertible loan and a decrease in the gross profit of \$1,397 which was offset by the decrease in the operating expenses of \$3,502.

The table below provides a more detailed break-down of the Company's financial results for Q3 2023 compared to Q3 2022:

|   | <b>Nine months ended<br/>September 30</b> |                 |
|---|---|-----------------|
| <i>(expressed in thousands of Canadian)</i> | <b>2023</b>                               | <b>2022</b>     |
|   | <b>\$</b>                                 | <b>\$</b>       |
| Revenue                                     | 6,999                                     | 6,135           |
| Cost of sales (purchased products)          | 6,992                                     | 4,731           |
| <b>Gross profit</b>                         | <b>7</b>                                  | <b>1,404</b>    |
| Gross profit percentage                     | 1%  | 23%             |
| <b>Operating Expenses</b>                   |   |                 |
| Employee benefits expense                   | 3,784                                     | 4,400           |
| Research & development subcontractors       | 2,093                                     | 1,865           |
| Share-based compensation                    | 192                                       | 794             |
| Consulting fees                             | 663                                       | 890             |
| Professional fees                           | 576                                       | 634             |
| Advertising                                 | 3,339                                     | 4,658           |
| Depreciation and amortization               | 392                                       | 392             |
| Investors relations                         | 246                                       | 482             |
| Office and miscellaneous                    | 1,306                                     | 1,978           |
| <b>Total operating expenses</b>             | <b>12,591</b>                             | <b>16,093</b>   |
| <b>Loss before other expenses</b>           | <b>(12,584)</b>                           | <b>(14,689)</b> |
| Gain (loss) on foreign exchange             | (1,151)                                   | (675)           |
| Revaluation of share warrants               | 3,647                                     | 1,788           |
| Revaluation of convertible loan             | (425)                                     | -               |
| Financial income                            | 4   |                 |
| <b>Net loss</b>                             | <b>(10,509)</b>                           | <b>(12,226)</b> |
| Foreign currency translation income         | 745                                       | 335             |
| <b>Comprehensive loss for the year</b>      | <b>(9,764)</b>                            | <b>(11,891)</b> |
| <b>EBITDA</b>                               | <b>(12,192)</b>                           | <b>(14,297)</b> |

**Nine month period ended September 30, 2023, compared to September 30, 2022****Revenues**

During Q3 2023, the Company generated total revenue of \$6,999 (Q3 2022 - \$6,135), an increase of \$864.

While the revenues in the e-commerce channels decreased by 38%, the brick and mortar channels increased by 180%. Due to the product shortages we faced in the last three quarters, we made the strategic decision to divert inventory away from e-commerce channels in favor of brick-and-mortar retailers. As a result, our e-commerce customers experienced out of stock on occasions. The Company has been able to maintain inventory of mainly raw ingredients (and work in process) however did not have finished goods (products ready to be sold) due to manufacturing shortages.

Cost of sales of \$6,992 during Q3 2023 (Q3 2022 - \$4,731) consists of expenses relating to the manufacturing and distribution of goods sold by the Company, namely the baby snacks and baby feeding accessories, the formula, and costs incurred to prepare for the U.S. toddler nutrition product campaign launch. The increase in the cost of sale is primarily due to an increase in sales of the formula which entails high production costs at this point in time.

**Gross Profit**

During nine months period end at September 2023, the Company generated a gross profit percentage of 1% (Q3 2022 – 23%) refers mainly to high manufacturing costs relating to growing efficiency with our new manufacturers.

At this time, the Company's gross profit percentage for the year continues to be significantly lower than the prior year as products sold today by the Company were produced during the second half of 2022 or in the first quarter of 2023. Between the third quarter of 2020 and the first quarter of 2023, the powder manufacturing cost was tripled by the Company's third-party manufacturing facility. This jump in production cost forced the Company to seek new production partners. The price for manufacturing has since returned to normal levels and the Company expects it to impact its cost of goods sold, and as a result, the Company's gross profit margins, in 2024

**Operating Expenses**

Operating expenses of \$12,591 (Q3 2022 - \$16,093) decreased mainly as a result of advertising expenses and office and miscellaneous expenses.

Employee benefits expense of \$3,784 (Q3 2022 - \$4,400) decreased as a result of reducing the number of employees.

Share-based compensation of \$192 (Q3 2022 - \$794) consists of the stock options and warrants vested during the Q3 2023 period. The decrease is due to employees who left the company, therefore their Options became forfeited. See the heading "*Outstanding Share Capital*" for further details.

Consulting fees of \$663 (Q3 2022 - \$890) consist of expenses relating to the consulting fees paid to financial, branding, and other strategic advisors of the Company.

Professional fees of \$576 (Q3 2022 - \$634) consist of expenses relating to the fees paid to the accountants and lawyers in Canada, Israel, and the United States for ongoing regulatory advice. Remain at the same level of expenses with a low decrease to reduce expenses.

Advertising expenses of \$3,339 (Q3 2022 - \$4,658) consist of expenses relating to the marketing, branding, and promotion activities of the Company and its products.

A material decrease of \$1,319 (28%) as a result of significant progress in making our marketing efforts more efficient was made by implementing a robust measurement system to accurately determine the ROI (return on investment) and ROAS (return on ad spend) of our marketing activities, ceasing any efforts that were not resulting in positive returns.

Depreciation and amortization of \$392 (Q3 2022 - \$392) refer to the amortization of intangibles and depreciation of the Company's property, plant, and equipment. Remain at the same level of expenses.

Investor relations costs of \$246 (Q3 2022 - \$482) consist of expenses related to the engagement of investor relations agencies. The decrease in expenses is related to general management's decision to reduce expenses.

Office and miscellaneous costs of \$1,306 (Q3 2022 - \$1,978) consist of expenses paid with respect to the office maintenance, transfer agent, filing fees, travel, and IT expenses. Remain at the same level of expenses with a low decrease to reduce expenses.

### Research and Development

The Company's research and development, and related subcontractors' expenses of \$2,093 in Q3 2023 (Q3 2022 - \$1,865) consist of expenses relating to the research and development of the Else Formula powdered nutritional drink for infants and toddlers. The majority of the costs were used for product development and scaling up production capacity to onboard our new powder and ready-to-drink manufacturers mainly during the first quarter of 2023.

The following table summarizes the Company's research and development expenses for the Else Formula in the nine month period ended September 30, 2023, compared to nine month period ended September 30, 2022:

| <i>(expressed in thousands of Canadian dollars)</i> | <b>For the nine months period ended September 30</b> |              |
|---|--|--------------|
|   | <b>2023</b>  | <b>2022</b>  |
|   | <b>\$</b>  | <b>\$</b>    |
| Patents and Intellectual Property Protection        | 92   | 161          |
| Raw Materials                                       | 255  | 318          |
| Consulting Fees                                     | 364  | 387          |
| Product development and scale up                    | 1,382  | 999          |
| <b>Total</b>  | <b>2,093</b>   | <b>1,865</b> |

### SUMMARY OF QUARTERLY RESULTS

The following table sets out selected financial data in respect of the eight most recently completed quarters of the Company. The data is derived from the Interim Financial Statements and the interim financial statements of the Company filed on SEDAR+ for the respective fiscal periods.

| <b>For the period ended</b>                         | <b>Revenue</b> | <b>Comprehensive Profit (Loss) for the quarter</b> | <b>Basic and diluted Profit (Loss) per share</b> |
|---|----------------|--|--|
| <i>(expressed in thousands of Canadian dollars)</i> | \$             | \$   | \$   |
| December 31, 2021                                   | 1,265          | 2,063  | 0.02   |
| March 31, 2022                                      | 1,601          | (6,383)  | (0.07)   |
| June 30, 2022                                       | 2,308          | (1,702)  | (0.01)   |
| September 30, 2022                                  | 2,226          | (3,809)  | (0.03)   |
| December 31, 2022                                   | 2,392          | (4,895)  | (0.05)   |
| March 31, 2023                                      | 2,914          | (7,773)  | (0.07)   |
| June 30, 2023                                       | 2,372          | (3,214)  | (0.03)   |
| September 30, 2023                                  | 1,713          | 1,223  | 0.01   |

Q3 2023 revenues decreased by \$513 (23%) compared to Q3 2022.

In June 2022 mechanical and quality assurance issues at the Company's third party US powder manufacturing site caused out of stock issues. These issues started to recover only towards the end of Q1 2023. When these issues occurred, the Company decided to short the supply to the e-Commerce customers and maintain supply to the brick and mortar customers. The reason for that decision was to address the risk that failing to supply to brick & mortar customers would result in attrition of long term customers that would be difficult to reverse when compared to e-Commerce customers that are considered less sensitive to out of stock issues. The decline in e-Commerce revenues started to take effect in Q4 2022 and continued until Q1 2023. On the other hand the brick & mortar revenues grew in Q3 2022 and continued to grow until the peak when the company entered the additional 10,000 stores in Q1 2023, (including 6000 additional CVS stores and hundreds of Walmart stores). Out of stock item inventory was nearly fully replenished by the end of Q1 2023.

After the 10,000 stores initial product orders, which were large orders due to discounting, re-orders were slower pending initial stock being depleted during Q2-Q3 2023. The decrease in US revenues was softened by the existing brick and mortar customers, compared to Canada which represented a launch into a new market launch with new customers.

On the other hand, during the shorting period on the e-Commerce, the Company stopped advertising on Amazon and reduced marketing substantially resulting in the loss of many individual e-Commerce customers. As a result the recovery in e-Commerce revenues is gradual and slower but on track towards gradually returning to former levels.

The comprehensive income for the quarter ended September 30, 2023, increased by \$4,437 due to three main reasons, a decrease of \$454 in advertising expenses, a decreased in the finance cost of \$800 due to the revolution of the convertible loan, and other income of revaluation of warrants \$2,783 due to the decreasing in the Company stock price.

The comprehensive loss for the quarter ended June 30, 2023 decreased by \$4,559 primarily as a result of the revaluation of warrants \$4,299. During three months period ended in June 30, 2023 the Company stock price decreased and as a result, the Company recorded \$1,721 profit comparing to \$2,578 loss for revaluating the warrants liability.

The decrease in the comprehensive loss for the quarter ended March 31, 2023 is primarily due to revaluation of warrants. During three months period ended in March 31, 2023 the Company stock price has growth therefore the Company recorded \$2,578 expenses at the revaluate of the warrants.

The research & development expense increase mainly due to increase at scale up trails to onboard new manufacturer.

The increase in the comprehensive loss for the quarter ended December 31, 2022 is primarily due to an increase in foreign currency exchange expenses.

The decrease in the quarter ended June 30, 2022 is primarily due to a decrease in the Company's share price resulted in the recording of financing income which reduced the total loss compare to the previous quarter.

The decrease in the quarter ended March 31, 2022 is primarily due to the revaluation of warrants and to exchange rate.

The increase in profit the quarter ended December 31, 2021 is primarily due to the revaluation of warrants. The company share price was higher compare to the third quarter, therefore the company recorded financial income.

For further explanation and analysis of quarterly results, please refer to the Company's Management Discussion and Analysis for each of the respective quarterly periods which are filed on SEDAR+ and available at [www.sedarplus.com](http://www.sedarplus.com).

## Use of Proceeds

The following table outlines the Proposed use of net proceeds from the October 2020 Unit Offering, the October 2021 Unit Offering and the June 2022 Unit Offering, December 2022 and July 2023, convertible loan.

|  | Proposed Use of Net Proceeds (\$) |              |              |              |               |               |              |              |
|--|-----------------------------------|--------------|--------------|--------------|---------------|---------------|--------------|--------------|
|  | Total                             | Jul-23       | Dec-22       | Jun-22       | Oct-21        | Oct-20        | Mar-20       | Jun-19       |
| Marketing/Advertising (1)                                | 9,900                             | -            | -            | 2,400        | 1,500         | 6,000         | -            | -            |
| Research and development (2)                             | 9,000                             | -            | -            | 2,000        | 3,000         | 4,000         | -            | -            |
| Distribution   | 1,500                             | -            | -            | -            | -             | 1,500         | -            | -            |
| Inventory (3)  | 2,300                             | -            | -            | 1,300        | -             | 1,000         | -            | -            |
| Production capacity                                      | 10,500                            | -            | -            | -            | 7,500         | 3,000         | -            | -            |
| Other working capital and general corporate purposes (4) | 13,435                            | -            | -            | 1,043        | 4,013         | 8,379         | -            | -            |
| Additional funds raised (5)                              | 23,011                            | 3,112        | 5,281        | -            | -             | -             | 7,979        | 6,639        |
| <b>Total (6)</b>   | <b>69,646</b>                     | <b>3,112</b> | <b>5,281</b> | <b>6,743</b> | <b>16,013</b> | <b>23,879</b> | <b>7,979</b> | <b>6,639</b> |

### Notes:

- (1) Presented according to Advertising expenses included in the FS.
- (2) Research and development including Research & development subcontractors and employee benefits expense related to R&D.
- (3) Presented according to inventory increase.
- (4) Presented as a plug number to the total use of proceeds.
- (5) Additional funds raised are related to the following fundings:
  - (i) June 2019 \$7,500 (RTO) - the net proceeds of \$6,639 were proposed mainly to cover outstanding payables, R&D, and commercialization of products, marketing, salaries, and other general and administrative expenses such as auditors, legal, office maintenance and investor relations expenses). See also the filing statement dated May 14, 2019 (section C-6).
  - (ii) March 2020 \$7,979 (Private Placement) – According to the share purchase agreement the use of proceeds was proposed mainly to cover sales and marketing, manufacturing and clinical tests, and general working capital (amounts were not stated).
  - (iii) December 2022 and July 2023 net proceeds from convertible loan.
- (6) Total use of proceeds is presented according to the net cash used in operating activities.

The following table outlines the use of proceeds from the following offerings as of September 30, 2023: (i) June 2019 private placement completed in connection with the RTO; (ii) March 2020 private placement; (iii) October 2020 Unit Offering; (iv) October 2021 Unit Offering; (v) June 2022 Unit Offering; and (vi) December 2022 convertible loan, July 2023 convertible loan.

| <b>Use of Net Proceeds from</b>                                     |               |                |                |                |               |               |                              |
|---|---------------|----------------|----------------|----------------|---------------|---------------|------------------------------|
|   | <b>Total</b>  | <b>Q3 2023</b> | <b>Q2 2023</b> | <b>Q1 2023</b> | <b>2022</b>   | <b>2021</b>   | <b>Q4 2020<sup>(6)</sup></b> |
| Marketing/Advertising <sup>(1)</sup>                                | 16,993        | 1,015          | 1,470          | 856            | 5,955         | 6,462         | 1,237                        |
| Research and development <sup>(2)</sup>                             | 9,755         | 519            | 645            | 1,626          | 3,579         | 2,769         | 617                          |
| Distribution  | -             | -              | -              | -              | -             | -             | -                            |
| Inventory <sup>(3)</sup>  | 7,451         | 739            | 55             | 1,970          | 1,364         | 2,122         | 1,201                        |
| Production capacity (see below)                                     | -             | -              | -              | -              | -             | -             | -                            |
| Other working capital and general corporate purposes <sup>(4)</sup> | 22,565        | 1,485          | 3,863          | 1,863          | 10,024        | 4,410         | 920                          |
| <b>Total<sup>(5)</sup></b>  | <b>56,764</b> | <b>3,756</b>   | <b>6,033</b>   | <b>6,315</b>   | <b>20,922</b> | <b>15,763</b> | <b>3,975</b>                 |

\* The above table is not presented according to accounting standards.

**Notes:**

- (1) Presented according to advertising expenses included in the Financial Statements.
- (2) Research and development including Research and development subcontractors expenses and employees benefits expenses related to R&D.
- (3) Presented according to inventory increase.
- (4) Since RTO date on June 12, 2019(\*) The Company investigated the option to partner with an existing manufacturer to build its own manufacturing line within their operations. The Company received detailed pricing offers and identified a partner, but the scope of the project was unexpectedly increased to be over US\$20,000 (due to many price increases that occurred in 2022) which, given the fast-declining financial environment, was judged to be too risky at that point. In parallel, the Company identified a manufacturer that with a smaller investment can satisfy much of its manufacturing needs in the next 2-3 years for a very competitive manufacturing cost, and already successfully completed a pilot project with them. If this project is successful the Company can delay the manufacturing capacity-building project by a couple of years, until the capital markets improve.
- (5) Calculated as a plug number to the total use of proceeds and representing expenses related to salaries, consulting fees, accounting and legal fees, investor relation fees, IT, insurance, traveling and office maintenance.
- (6) Total use of proceeds is presented according to the net cash used in operating activities included in the Financial Statements.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's approach to managing its liquidity is to ensure that it has sufficient resources to meet its liabilities as they come due and have sufficient working capital to fund operations for the ensuing fiscal year. As of the date of this MD&A, the Company's financing of operations has been achieved from its sales of baby snacks, baby accessories, the Else Toddler Nutrition product line, and by equity financing, including the issuance and subsequent exercise of share purchase warrants as described in further detail under the heading "*Outstanding Share Capital*" below. The Company anticipates that it will require significant funds to support its operations. Management intends on supporting such operations through the continued sales of its product lines and financings in the form of equity and/or debt.

## Cash Flows

The fluctuations in the Company's use of cash for the nine months period ended September 30, 2023 and Q3 2022 categorized by operating, investing, and financing activities is reflected in the following table:

| <i>(expressed in thousands of Canadian dollars)</i>             | <b>Nine months period ended September 30</b> |                   |
|---|--|-------------------|
|   | <b>2023</b><br>\$                            | <b>2022</b><br>\$ |
| Cash used in operating activities                               | (16,104)                                     | (14,451)          |
| Cash provided by (used in) investing activities                 | 703  | (954)             |
| Cash used in financing activities                               | 2,961  | 6,428             |
| Exchange rate difference on balance of cash and cash equivalent | 917  | 141               |
| Net decrease in cash and cash equivalents                       | (11,523)                                     | (8,836)           |

In Q3 2023, cash used in operating activities was (\$16,104) compared to cash used for operating activities in the amount of (\$14,451) in Q3 2022.

In Q3 2023, provided in investing activities was \$703 compared to cash provided in investing activities in the amount of \$(954) during Q3 2022.

In Q3 2023, cash used in financing activities was \$2,961 compared to \$6,428 in Q3 2022.

Working capital represents the Company's current assets less its current liabilities. By the end of Q3 2023, the Company had net working capital of \$12,084, a decrease of \$9,683 from working capital in Q3 2022 which was \$21,767. This decrease is mainly related to cash and cash equivalents.

By the end of Q3 2023, the Company has not yet achieved profitable operations and has an accumulated deficit of \$59,377. Whether, and when, the Company can attain profitability and positive cash flows from its operations remains uncertain. While the Company has been successful in obtaining financing to date, there can be no assurance that it will be able to do so in the future on terms favorable to the Company.

The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions. Any quoted market for the Company's shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating new revenues, cash flows, or earnings.

## Payments Due by Period

| <b>Contractual Obligations</b>       | <b>Payments Due by Period</b> |                         |                  |                  |                      |
|--------------------------------------|-------------------------------|-------------------------|------------------|------------------|----------------------|
|                                      | <b>Total</b>                  | <b>Less than 1 year</b> | <b>1-3 years</b> | <b>4-5 years</b> | <b>After 5 years</b> |
| Bank Debt                            | -                             | -                       | -                | -                | -                    |
| Operating Leases <sup>(1)</sup>      | 360                           | 209                     | 151              | -                | -                    |
| Other Obligations                    | -                             | -                       | -                | -                | -                    |
| <b>Total Contractual Obligations</b> | <b>360</b>                    | <b>209</b>              | <b>151</b>       | <b>-</b>         | <b>-</b>             |

### Notes:

- (1) The Company has entered into a non-cancelable operating lease agreement for its offices until July 2025, car leasing, and lab that terminates between November 2022 to August 2023.

## **OUTSTANDING SHARE DATA**

As of the date of this MD&A, the Company has 120,749,173 issued and fully paid common shares, 10,140,343 outstanding incentive stock options, and 55,576,870 warrants issued and outstanding.

| <b>Number Outstanding as of:</b>  | <b>November 14, 2023</b> | <b>September 30, 2023</b> |
|---|--------------------------|---------------------------|
| Common shares issued and outstanding  | 120,749,173              | 118,133,210               |
| Incentive stock option pool <sup>(1)</sup>  | 18,112,376               | 17,719,982                |
| Founder and key person warrants - 2019 QT <sup>(2)</sup>  | 31,801,492               | 31,801,492                |
| Investor Warrants - October 2021 Unit Offering <sup>(3)</sup>   | 4,024,999                | 4,024,999                 |
| Investor Warrants – June 2022 Unit Offering <sup>(4)</sup>  | 7,004,000                | 7,004,000                 |
| Underwriter Warrants - October 2021 Unit Offering <sup>(3)</sup>  | 23,255                   | 447,194                   |
| Underwriter Warrants – June 2022 Unit Offering <sup>(4)</sup>   | 460,280                  | 460,280                   |
| Convertible Security Funding Agreement Warrants – December 2022 Convertible Loan <sup>(5)</sup>         | 8,247,129                | 8,247,129                 |
| Amended Convertible Security Funding Agreement Warrants – December 2022 Convertible Loan <sup>(5)</sup> | 3,591,776                | 3,591,776                 |
| <b>TOTAL</b>  | <b>194,014,480</b>       | <b>191,430,062</b>        |

### **Notes:**

- (1) Represents the entire stock option pool, including allocated and unallocated stock options. The total number of issued and outstanding stock options which have been granted from the stock option pool was 10,140,343 as of November 14, 2023. See “*Incentive Stock Options*”. In accordance with the TSX policies, the incentive stock option pool was increased to 15% of the issued and outstanding common shares from 12% of the issued and outstanding common shares after the Company obtained shareholder approval for the increase at its annual general meeting held on June 29, 2023.
- (2) The previously disclosed warrants were issued on June 12, 2019 in connection with the RTO. See the Company’s MD&A for the year ended December 31, 2019 and the Filing Statement dated as of May 14, 2019 for further details.
- (3) See “*October 2021 Unit Offering*”.
- (4) See “*June 2022 Unit Offering*”.
- (5) See “*December 2022, July 2023 Convertible Loan*”.

## Incentive Stock Options

The Company did not grant any stock options during Q3 2023. As of the date of this MD&A, an aggregate of 8,373,082 stock options have vested.

The following table presents the changes in the number of stock options and the weighted average exercise prices of the incentive stock options.

| For the nine month period ended September 30         | 2023              |                                      | 2022              |                                      |
|--|-------------------|--------------------------------------|-------------------|--------------------------------------|
|  | Number of Options | Weighted average exercise price (\$) | Number of Options | Weighted average exercise price (\$) |
| Stock options outstanding at beginning of the period | 11,148,780        | 0.96                                 | 8,666,961         | 1.45                                 |
| Stock options granted during the period              | -                 | -                                    | 1,690,000         | 0.67                                 |
| Stock options forfeited during the period            | (650,993)         | 1.91                                 | (396,973)         | 2.06                                 |
| Stock options exercised during the period            | (175,000)         | 0.25                                 | -                 | -                                    |
| Stock options outstanding at end of the period       | <b>10,322,787</b> | <b>0.93</b>                          | 9,959,988         | 1.03                                 |
| Stock options exercisable at end of the period       | <b>8,191,075</b>  | <b>1.26</b>                          | 6,345,942         | 1.22                                 |

## Warrants

The following table presents the changes in the number of share purchase warrants and the weighted average exercise prices of the aforementioned share purchase warrants. As of the date of this MD&A, an aggregate of 23,775,378 share purchase warrants have vested.

| For the nine month period ended September 30          | 2023               |                                      | 2022               |                                      |
|---|--------------------|--------------------------------------|--------------------|--------------------------------------|
|   | Number of Warrants | Weighted average exercise price (\$) | Number of Warrants | Weighted average exercise price (\$) |
| Share warrants outstanding at beginning of the period | 51,985,094         | 0.59                                 | 52,672,125         | 0.81                                 |
| Share warrants granted during the period              | 3,591,776          | 0.9058                               | -                  | -                                    |
| Share warrants expired during the period              | -                  | -                                    | 3,058,727          | 0.968                                |
| Share warrants exercised during the period            | -                  | -                                    | -                  | -                                    |
| Share warrants forfeited during the period            | -                  | -                                    | -                  | -                                    |
| Share warrants outstanding at end of the period       | <b>55,576,870</b>  | <b>0.609</b>                         | 49,613,398         | 0.8                                  |
| Share warrants exercisable at end of the period       | <b>23,775,378</b>  | <b>1.422</b>                         | 17,811,906         | 2.24                                 |

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

| Warrant Measurements                        | Fair Value  |
|---|-------------|
| Dividend yield (%)                          | -           |
| Expected volatility of the share prices (%) | 61.9 – 88.6 |
| Risk-free interest rate (%)                 | 3.27 – 4.75 |
| Expected life of share warrants (years)     | 3.83 – 3.5  |
| Share price (\$)                            | 0.315       |

### October 2020 Unit Offering

On October 6, 2020, the Company closed a unit offering (the “**October 2020 Unit Offering**”) through a bought deal of 9,200,000 units, at a price of \$2.25 per unit, for aggregate gross proceeds of approximately \$20,700, including the exercise of the overallotment option in full. Each unit consisted of one common share of the Company and one-half of one common purchase warrant. Each such warrant entitled the holder to purchase one common share at a price of \$3.25 per share until October 6, 2022.

In connection with the October 2020 Unit Offering, the Company issued to the underwriters an aggregate of 597,920 broker warrants, each broker warrant entitled the holder to purchase one common share at a price of \$2.25 per share until October 6, 2022. As of December 31, 2022, an aggregate of 336,583 broker warrants have been exercised and an aggregate of 261,337 broker warrants have expired.

Concurrent with the October 2020 Unit Offering, the Company issued 2,224,111 units on a private placement basis for additional gross proceeds of approximately \$5,000. Of this total amount, NewH2 subscribed for \$4,000 of units, pursuant to a previously disclosed investor rights agreement dated March 2, 2020 between the Company and NewH2.

At the time of closing the Company recorded an increase in equity in respect of shares, totaling \$18,393 (after deduction of issuance expenses totaling \$5,556) and liability in respect of share for warrants at the amount of \$1,344 (after deduction of issuance expenses totaling \$406). As the exercise price of the warrants is denominated in Canadian dollars while the functional currency of the Company is the NIS the private placement warrants are presented at fair value through profit or loss using the Black & Scholes option pricing model, and the public warrants are measured based on market price.

In October 2022, the warrants expired.

### October 2021 Unit Offering

On October 20, 2021, the Company closed a marketed public offering of units (the “**October 2021 Unit Offering**”) for aggregate gross proceeds of approximately \$17,300, including the exercise of the overallotment option in full. The Company issued 8,050,000 units at a price of \$2.15 per unit, each unit consisting of one common share and one-half of one common share purchase warrant. Each full warrant is exercisable into one common share at a price of \$2.70 per Common Share until October 20, 2026. The warrants are listed and posted for trading on the TSX under the ticker symbol ‘BABY.WT.A’.

The offering was conducted through a syndicate of underwriters led by Stifel Nicolaus Canada Inc. and Canaccord Genuity Corp., as co-lead underwriters and co-bookrunners. On closing, the Company issued an aggregate of 423,940 broker warrants, each warrant entitles the holder to purchase one Common Share at a price of \$2.15 per Common Share until October 20, 2023. In addition, the Company issued 23,255 warrants exercisable at a price of \$2.70 per Common Share until October 20, 2026 to a finder in connection with a portion of the offering.

At the time of closing the Company recorded an increase in equity in respect of its common shares, totaling \$14,076 (after deduction of issuance expenses totaling \$1,461) and liability in respect of warrants at the amount of \$1,605 (after deduction of issuance expenses totaling \$166). 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.

During the nine months ended September 30, 2023, the Company recorded other expenses in the amounts of \$105 for the revaluation of liability warrants from the October 2021 public offering. The public warrants with a fair value of \$342 as of September 30, 2023, are classified as level 1 on the fair value hierarchy.

### **June 2022 Unit Offering**

On June 29, 2022, the Company closed a marketed public offering of units (the “**June 2022 Unit Offering**”) for aggregate gross proceeds of approximately \$7,354, including the partial exercise of an over-allotment option. The Company issued 7,004,000 units at a price of \$1.05 per unit, each unit consisting of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of \$1.25 per common share until June 29, 2027.

The offering was conducted through a syndicate of underwriters led by Stifel Nicolaus Canada Inc. On closing, the Company issued an aggregate of 460,280 broker warrants, each warrant entitles the holder to purchase one common share at a price of \$1.05 per Common Share until June 29, 2024.

At the time of closing the Company recorded an increase in equity in respect of its common shares, totaling 4,449 (after deduction of issuance expenses totaling \$454) and liability in respect of warrants at the amount of \$2,225 (after deduction of issuance expenses totaling \$226). 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.

During the nine months ended September 30, 2023, the Company recorded other income in the amounts of \$1,003 for the revaluation of liability warrants from the June 2022 public offering. The public warrants with a fair value of \$357 as of September 30, 2023, are classified as level 1 on the fair value hierarchy.

### **December 2022 Convertible Loan**

On December 19, 2022, the Company entered into a convertible security funding agreement with Lind Global Fund II LP, an entity managed by The Lind Partners, LLC, a New York-based institutional fund manager (together, “**Lind**”). Pursuant to the agreement, Lind agreed to invest up to an aggregate of US\$13,750 thousand in the Company.

On December 22, 2022, the Company completed the first tranche closing for net proceeds of US\$4,133,000, after deduction of the original issue discount and closing fee (the “**First Tranche**”). Pursuant to the First Tranche, the Company issued: (i) a convertible security (the “**Initial Convertible Security**”) with a two-year term and a face value of US\$5,10,000; and (ii) 8,247,129 common share purchase warrants exercisable into common shares of the Company for a period of 48 months from the date of issuance at an exercise price of \$1.15 per share.

On July 7, 2023, the Company and Lind entered into an amending agreement pursuant to which: (i) the amount of the Initial Convertible Security was increased by US\$3,000,000 for net proceeds of US\$2,420,012; and (ii) the Company issued to Lind an additional 3,591,776 common share purchase warrants exercisable into common shares of the Company for a period of 48 months from the date of

issuance at an exercise price of \$0.9058 per common share. As a result of the increase, the total face value of the Initial Convertible Security was increased from US\$5,100,000 to US\$8,100,000.

The Initial Convertible Security has a 36-month maturity date. Lind can 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 face value 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 33.3% of the face value of the Initial Convertible Security into common shares.

The Company has 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 securities. Each of the Second Draw and Third Draw, if applicable, will include detached warrants to purchase common shares. The number of warrants issued on the Second Draw and Third Draw will be calculated based on 75% of the amount of the draw divided by the VWAP per the Company’s common shares 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 VWAP 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 VWAP 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.

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 (Second Draw), 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.

The convertible loan is accounted at fair value through profit and loss. During the three and nine months ended September 30, 2023, the Company recorded financial expenses in the amounts of \$421 and \$1,339, respectively, for the revaluation of the convertible loan. The convertible loan with a fair value of \$2,388 as of September 30, 2023, and \$2,807 as of December 31, 2022, are classified as level 3.

During the nine months ended September 30, 2023, the Company recorded other income in the amount of \$1,814 for the revaluation of liability Warrants from the December 2022 convertible loan. The Warrants with a fair value of \$660 as of September 30, 2023, and \$2,474 as of December 31, 2022, are classified as level 3.

During the nine months ended September 30, 2023, the Company recorded other income in the amount of \$934 for the revaluation of liability Warrants from the July 2023 convertible loan. The Warrants with a fair value of \$503 as of September 30, 2023, are classified as level 3.

### **OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTION**

To the best of management’s knowledge, there are no off-balance sheet arrangements or proposed transactions that have or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company other than as disclosed in this MD&A.

## **TRANSACTIONS WITH RELATED PARTIES**

Related party transactions are in the ordinary course of operations and measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. Amounts due to or from related parties are non-interest bearing and unsecured. Repayment terms, if any, are determined at the time of the advance.

### **Key management compensation**

Key management includes members of the board of directors and executive officers of the Company. Overall compensation awarded to key management during the nine month period ended September 30, 2023 and Q3 2022 is provided below.

|   | <b>Nine months ended September 30</b> |             |
|---|---------------------------------------|-------------|
| <i>(expressed in thousands of Canadian dollars)</i>   | <b>2023</b>                           | <b>2022</b> |
| Management, wages and related, General Administration | 600                                   | 673         |
| Share-based compensation                              | 37                                    | 67          |

Share based compensation for the nine month period ended September 30, 2023 and Q3 2022 for the directors and officers of the Company consists of the following:

|   | <b>Nine months ended September 30</b> |             |
|---|---------------------------------------|-------------|
| <i>(expressed in thousands of Canadian dollars)</i> | <b>2023</b>                           | <b>2022</b> |
| Hamutal Yitzhak - CEO and Director                  | 6                                     | 9           |
| Uriel Kesler - COO and Director                     | 6                                     | 9           |
| Michael Azar - CTO                                  | 6                                     | 9           |
| Sokhie Puar - Director                              | 5                                     | 2           |
| Reuben Halevi - VP Sales Operation                  | 7                                     | 10          |
| Shay Shamir - CFO and Corporate Secretary           | 7                                     | 10          |
| Satwinder Mann - Director                           | -                                     | 7           |
| Eli Ronen - Director                                | -                                     | 11          |
| Yaki Lutski- Director                               | -                                     | -           |
| <b>Total</b>  | <b>37</b>                             | <b>67</b>   |

### **Other related party transactions and balances**

| <i>(expressed in thousands of Canadian dollars)</i> | <b>September 30, 2023</b> | <b>September 30, 2022</b> |
|---|---------------------------|---------------------------|
|   | <b>\$</b>                 | <b>\$</b>                 |
| Company controlled by a director <sup>(1)</sup>     | 10                        | 9                         |
| Salaries payable                                    | 67                        | 75                        |

#### **Notes:**

- (1) Paid to Sokhie Puar, a director of the Company, for monthly consulting fees of C\$10,500 per month including GST related to Canadian regulatory and capital markets advisory services.

## **SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

The Interim Financial Statements are impacted by the significant accounting policies used, and the estimates and assumptions made by management during their preparation. The Company's accounting policies are described in note 2 of the Interim Financial Statements.

### **CHANGES IN ACCOUNTING POLICIES**

From September 30, 2023 to the date of this MD&A, there have been no changes in the Company's accounting policies.

### **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company's financial assets consist of cash, taxes and accounts receivable, inventory and prepaid. The estimated fair values of cash, accounts receivable, and due from related parties approximate their respective carrying values due to the short period to maturity.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - inputs that are not based on observable market data.

For Q3 2023 and Q3 2022, the Company's cash, accounts receivable, restricted cash and accounts payable are classified as level 1.

The publicly traded warrants are classified as level 1 and all other warrants and broker warrants with a fair value are classified as level 3 of the fair value hierarchy.

The Company is exposed to a variety of financial instrument-related risks. The Company's board of directors approve and monitor the risk management processes, inclusive of counterparty limits, controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided below.

#### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company ensures, as far as reasonably possible, it will have sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources will be sufficient to cover the likely short-term cash requirements.

#### *Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates. The Company has no significant interest rate risk.

*Credit Risk*

Credit risk is the risk of a loss in a counterparty to a financial instrument when it fails to meet its contractual obligations. The Company's exposure to credit risk is limited to its cash. The Company limits its exposure to credit risk by holding its cash in deposits with high credit quality financial institutions.

*Share Price Risk*

The Company's warrant liability is sensitive to market price risk arising from uncertainties about future value of the Company. However, there will be no effect on the cash flow of the Company as the warrants can be only exercised to Company's shares.

**FORWARD-LOOKING STATEMENTS**

This MD&A, including any information incorporated by reference, contains statements that, to the extent that they are not historical fact, may constitute "forward-looking statements" within the meaning of applicable securities legislation.

Forward-looking statements may include, but are not limited to, statements with respect to:

- financial and other projections, future plans, objectives, performance, revenues, growth, profits or operating expenses;
- the use of available funds and/or net proceeds from the offerings described herein;
- the performance of the Company's business and operations, including expectations regarding its anticipated future gross revenues, profit margins and expenses to be incurred in its operations;
- plans to research, develop, implement, adopt, market and sell new technology or products, including continued research, development and commercialization regarding the Company's products and proposed products;
- estimates and projections regarding the industry in which the Company operates or will operate, including the global baby and toddler food market, infant formula market, nutritional drinks market, and baby feeding accessories market, kids and adult nutritional food and drinks market and expectations relating to trends and the adoption of new products;
- requirements for additional capital and future financing options;
- plans to launch new products, obtain new customers or expand the customer base, and enter into new markets;
- expansion and acceptance of the Company's products in markets across different jurisdictions;
- manufacturing and distribution partnerships and agreements;
- plans related to marketing, distribution and production capacity;
- the timing and possible outcome of regulatory and legislative matters, including, without limitation, the Food and Drug Administration ("FDA"), European Medicines Agency ("EMA") and other regulatory approval processes;
- the Company's business objectives, milestones and the anticipated timing of execution; and
- other expectations of the Company.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "project", "estimates", "forecasts", "budget", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Such forward-looking statements, made as of the date hereof, reflect the Company's current views with respect to future events and are based on information currently available to the Company and are subject to and involve certain known and unknown risks, uncertainties, assumptions and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed in or implied by such forward-looking statements, including but not limited to those described below and referred to under the heading "*Risk Factors*" and those discussed under the "*Risk Factors*" section of our most recent annual information form.

In making the forward-looking statements included in this MD&A, the Company has made various material assumptions, including, but not limited to:

- the general business, economic, financial market, regulatory and political conditions in which the Company operates will remain positive;
- the Company will continue to be in compliance with regulatory requirements;
- the tax treatment of the Company and its subsidiaries will remain constant and the Company will not become subject to any material legal proceedings;
- the Company will have sufficient working capital and be able to secure additional funding necessary for the continued operation and development of the Company; and
- key personnel will continue their employment with the Company and the Company will be able to obtain and retain additional qualified personnel, as needed, in a timely and cost-efficient manner.

These risks, uncertainties, assumptions, and other factors should be considered carefully, and prospective investors and readers should not place undue reliance on the forward-looking statements. In addition, the Company has attempted to identify important risks and other factors that could cause actual actions or results to differ materially from those described in this forward-looking information, although there may be other risks or factors that cause actions or results not be as anticipated, estimated or intended.

These risks, uncertainties and other factors include, but are not limited to: the risks and factors set out below under the heading "*Risk Factors*"; risks posed by the economic and political environments in which the Company operates and intends to operate; changes in the laws and regulatory requirements with respect to the Company's product lines; contamination or adulteration of the Company's products; market instability due to the COVID-19 pandemic; the potential for losses arising from the expansion of operations into new markets; increased competition; assumptions regarding market trends and the expected demand and desires for the Company's products and proposed products; reliance on industry manufacturers, suppliers and others; the failure to adequately protect intellectual property; a failure to adequately manage future growth and product development; adverse market conditions; expansion of business into emerging markets; the Company's ability to access and purchase raw materials; and failure to satisfy ongoing regulatory requirements.

Investors are cautioned that the above list of cautionary statements is not exhaustive. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or information or statements to reflect information, events, results, circumstances or otherwise after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by law including securities laws.

## **RISK FACTORS**

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Such investment should be undertaken only by investors whose financial resources are sufficient to enable them to assume these risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, the Company and its financial position, including risks described in this MD&A.

For other risk factors applicable to the Company, please refer to the Company's Filing Statement dated May 14, 2019 under the heading "*Else Nutrition/Resulting Issuer Risk Factors*" and the AIF under the heading "*Risk Factors*", all of which are currently available and may be accessed on the Company's SEDAR+ profile at [www.sedarplus.com](http://www.sedarplus.com).

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting ("ICFR"). ICFR is a process to provide reasonable assurance regarding the reliability of the Company's financial reporting for external purposes in accordance with IFRS. ICFR includes maintaining records that in reasonable detail accurately and fairly reflect the Company's transactions and dispositions of the assets of the Company; providing reasonable assurance that transactions are recorded as necessary for preparation of the Company's consolidated financial statements in accordance with IFRS; providing reasonable assurance that receipts and expenditures are made in accordance with authorizations of management and the directors of the Company; and providing reasonable assurance that unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements would be prevented or detected on a timely basis. Our management and the board of directors do not expect that our disclosure controls and procedures or ICFR will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable (not absolute) assurance that the control system's objectives will be met. Further, the design, maintenance and testing of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control gaps and instances of fraud have been detected. These inherent limitations include the reality that judgment in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design, maintenance and testing of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any control system may not succeed in achieving its stated goals under all potential future conditions.

Subject to any limitations noted below, the CEO and CFO have, as at the end of the period covered by this MD&A, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management conducted an evaluation of the effectiveness of the Company's ICFR based on the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013) ('COSO'). This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation.

Based on this evaluation, management concluded that as of December 31, 2022, the Company's ICFR, as defined in NI 52-109 - *Certification of Disclosure in Issuer's Annual and Interim Filings*, is effective to achieve the purpose for which it has been designed. There were no changes in the Company's ICFR that occurred during the period covered by this MD&A that has materially affected, or is reasonably likely to materially affect, the Company's ICFR

### **INVESTOR RELATIONS**

The Company appreciates your continued support in our vision to create the first infant and toddler dairy-free, soy-free, plant-based nutrition for babies and toddlers. To find out more about the Company, please visit our website at [www.elsenutrition.com](http://www.elsenutrition.com).

### **ADDITIONAL INFORMATION**

For more information, please contact the following officers and directors of the Company:

**Ms. Hamutal Yitzhak**, CEO, Co-Founder & Director, Else Nutrition Holdings Inc.

Email: [hamutaly@elsenutrition.com](mailto:hamutaly@elsenutrition.com),

Telephone: +972(0)52-447-9931

**Mr. Sokhie Puar**, Director of Else Nutrition Holdings Inc.

Email: [sokhie@elsenutrition.com](mailto:sokhie@elsenutrition.com),

Telephone: (604)-603-7787

On behalf of the Board of Directors

*"Hamutal Yitzhak"*

**Hamutal Yitzhak**

CEO and Director

*November 14, 2023*