

# **BioHarvest Sciences Inc.**

**Unaudited Interim Condensed Consolidated Financial Statements**

**For the Three and Six Months Ended June 30, 2022**

**Expressed in U.S. dollars in thousands**

## **NOTICE TO SHAREHOLDERS**

The accompanying unaudited interim condensed consolidated financial statements of BioHarvest Sciences Inc. for the three and six months ended June 30, 2022 have been prepared by management in accordance with International Financial Reporting Standards applicable to consolidated interim financial statements (Note 2). Recognizing that the Company is responsible for both the integrity and objectivity of the unaudited interim condensed consolidated financial statements, management is satisfied that these unaudited interim condensed consolidated financial statements have been fairly presented.

Under National Instrument 51-102, part 4, sub-section 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 Company's independent auditor has not performed a review of these unaudited interim condensed consolidated financial statements in accordance with standards established by the Institute of Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

# BioHarvest Sciences Inc.

## Unaudited Interim Condensed Consolidated Financial Statements For the Three and Six Months Ended June 30, 2022 Expressed in U.S. dollars in thousands

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**BioHarvest Sciences Inc.**  
**Unaudited Interim Condensed Consolidated Statement of Financial Position**  
**U.S. dollars in thousands, except per share data**

	Notes	June 30, 2022	December 31, 2021 (Audited)
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents	\$	1,214	\$ 4,117
Trade accounts receivable		402	386
Other accounts receivable		401	234
Inventory		1,466	928
<b>Total current assets</b>		<b>3,483</b>	<b>5,665</b>
<b>Non-current</b>			
Restricted cash		164	179
Property and equipment, net		4,752	4,364
<b>Total non-current assets</b>		<b>4,916</b>	<b>4,543</b>
<b>Total assets</b>	\$	<b>8,399</b>	\$ <b>10,208</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade accounts payable	\$	1,475	\$ 875
Other accounts payable		1,345	1,277
Accrued liabilities		149	135
Convertible Loan	6	2,118	-
Derivative liability - Warrants	3,7	-	636
<b>Total current liabilities</b>		<b>5,087</b>	<b>2,923</b>
<b>Non-current liabilities</b>			
Cash-settled share-based payment		218	340
Lease liability		1,852	2,273
Liability to Agricultural Research Organization		1,951	1,817
<b>Total non-current liabilities</b>		<b>4,021</b>	<b>4,430</b>
<b>Shareholders' equity</b>			
Share capital and contributed surplus	4	63,502	62,560
Accumulated deficit		(64,211)	(59,705)
<b>Total Shareholders' equity (deficit)</b>		<b>(709)</b>	<b>2,855</b>
<b>Total liabilities and shareholders' equity</b>	\$	<b>8,399</b>	\$ <b>10,208</b>

Going concern (Note 1b)

 August 29, 2022 Date of approval of the financial statements	 "Zaki Rakib" Director	 "Ilan Sobel" CEO
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The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

**BioHarvest Sciences Inc.****Unaudited Interim Condensed Consolidated Statement of Comprehensive Loss**

U.S. dollars in thousands, except per share data

	Three-months period ended		Six-months period ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Revenues	\$ 838	\$ 415	\$ 1,537	\$ 728
Cost of revenues	738	301	1,258	528
<b>Gross revenue</b>	<b>100</b>	<b>114</b>	<b>279</b>	<b>200</b>
<b>Operating expenses</b>				
Research and development	415	724	1,186	1,374
Selling and marketing	1,079	541	2,109	1,077
General and administrative	1,071	1,241	2,082	2,373
<b>Total operating expenses</b>	<b>(2,565)</b>	<b>(2,506)</b>	<b>(5,377)</b>	<b>(4,824)</b>
<b>Loss from operations</b>	<b>(2,465)</b>	<b>(2,392)</b>	<b>(5,098)</b>	<b>(4,624)</b>
Finance expenses	150	242	298	559
Finance income	239	4,413	890	153
<b>Net income (loss) before tax</b>	<b>(2,376)</b>	<b>1,779</b>	<b>(4,506)</b>	<b>(5,030)</b>
Tax expenses	-	-	-	-
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ (2,376)</b>	<b>\$ 1,779</b>	<b>\$ (4,506)</b>	<b>\$ (5,030)</b>
Basic and diluted income (loss) per share	(0.01)	0.00	(0.01)	(0.01)
Weighted average number of shares outstanding	454,496,636	431,483,866	454,423,907	427,270,302

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

**BioHarvest Sciences Inc.****Unaudited Interim Condensed Consolidated Statement of Changes in Shareholders' Equity**

U.S. dollars in thousands, except per share data

**For the six-month period ended June 30, 2022:**

	Note	Number of shares	Share Capital	Accumulated deficit	Total
<b>Balance, January 1, 2022</b>		453,630,137	\$ 62,560	\$ (59,705)	\$ 2,855
Share based compensation		-	790	-	790
Exercise of options and warrants by employees and consultants	5	702,499	88	-	88
Exercise of warrants by investors	3,7	164,000	64	-	64
Comprehensive loss for the period		-	-	(4,506)	(4,506)
<b>Balance, June 30, 2022</b>		454,496,636	\$ 63,502	\$ (64,211)	\$ (709)

*The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.*

**BioHarvest Sciences Inc.****Unaudited Interim Condensed Consolidated Statement of Changes in Shareholders' Equity**

U.S. dollars in thousands, except per share data

**For the six-month period ended June 30, 2021:**

	<b>Number of shares</b>	<b>Share Capital</b>	<b>Accumulated deficit</b>	<b>Total</b>
<b>Balance, January 1, 2021</b>	410,619,089	\$ 47,583	\$ (49,878)	\$ (2,295)
Issuance of units of securities, net	15,449,829	3,531	-	3,531
Share based compensation	-	1,675	-	1,675
Exercise of warrants	5,430,333	2,133	-	2,133
Comprehensive loss for the period	-	-	(5,030)	(5,030)
<b>Balance, June 30, 2021</b>	431,499,251	\$ 54,922	\$ (54,908)	\$ 14
Issuance of units of securities, net	7,781,375	2,581	-	2,581
Share based compensation	-	1,365	-	1,365
Exercise of warrants	14,349,511	3,692	-	3,692
Comprehensive loss for the period	-	-	(4,797)	(4,797)
<b>Balance, December 31, 2021</b>	453,630,137	\$ 62,560	\$ (59,705)	\$ 2,855

*The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.*

**BioHarvest Sciences Inc.****Unaudited Interim Condensed Consolidated Statement of Cash Flows**

U.S. dollars in thousands, except per share data

	Six-months period ended		
	June 30,		
	Note	2022	2021
<b>Cash flows from operating activities:</b>			
Net loss for the period		\$ (4,506)	\$ (5,030)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization		326	135
Fair value adjustments of derivative liability - convertible loan		-	-
Fair value adjustments of derivative liability - warrants		(630)	161
Interest and re-assessment on liability for Agricultural Research Organization, net		134	314
Finance expense, net		(168)	29
Share based compensation (including cash-settled share-based payment)		668	1,718
<b>Changes in operations assets and liabilities:</b>			
Change in inventory		(538)	(330)
Change in trade accounts receivables		(16)	(46)
Change in other accounts receivables		(167)	(178)
Changes in trade payables and accrued expenses		733	205
<b>Cash from operations</b>		<b>(4,164)</b>	<b>(3,022)</b>
Interest paid		(75)	(57)
<b>Net cash used in operating activities</b>		<b>(4,239)</b>	<b>(3,079)</b>
<b>Cash flow from investing activities:</b>			
Purchase of property and equipment		(714)	(780)
<b>Net cash used in investing activities</b>		<b>(714)</b>	<b>(780)</b>
<b>Cash flow from financing activities</b>			
Payments of lease liabilities		(192)	(137)
Net proceeds from issuance of unit of securities	4	-	4,713
Convertible loan received	6	2,118	-
Exercise of options		88	-
Exercise of warrants		58	1,006
<b>Net cash provided by financing activities</b>		<b>2,072</b>	<b>5,582</b>
Exchange rate differences on cash and cash equivalents		(22)	(1)
(Decrease)/Increase in cash and cash equivalents		(2,881)	1,723
Cash and cash equivalents at the beginning of the period		4,117	1,783
<b>Cash at the end of the period</b>		<b>\$ 1,214</b>	<b>\$ 3,505</b>

*The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.*



## **BioHarvest Sciences Inc.**

### **Notes to the Unaudited Interim Condensed Consolidated Financial Statements**

**U.S. dollars in thousands, except per share data**

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#### **NOTE 1- GENERAL:**

##### **A. Formation of the Company and Description of business:**

BioHarvest Sciences Inc. the “Company” or “BioHarvest Sciences”) together with its wholly owned subsidiaries (the "Group") was incorporated under the Business Corporations Act of British Columbia on April 19, 2013. On September 27, 2018, the Company completed a qualifying transaction (the “Transaction”) with BioHarvest Ltd., (“BioHarvest”), a company incorporated in Israel, and BioHarvest’s 100% wholly owned subsidiary, Dolarin Ltd., (“Dolarin”), a corporation incorporated in Israel. The Company issued 48,337,496 shares to BioHarvest in consideration for 100% of the issued share capital of Dolarin (1,000,000 shares). As a result of the Transaction, Dolarin became a wholly-owned subsidiary of the Company. Completion of the Transaction resulted in a reverse takeover and change of business for the Company (the “RTO”)

BioHarvest was incorporated in January 2007 and commenced its activity in July 2007.

In July 2014, BioHarvest Ltd incorporated a Delaware based subsidiary, BioHarvest Inc.

On February 26, 2018, BioHarvest incorporated a wholly owned subsidiary in Israel, Dolarin Ltd.

On December 5, 2019, BioHarvest Sciences incorporated a wholly owned subsidiary in Israel, BioFarming Ltd. ("BioFarming" or "Merger Sub").

On October 28, 2020, BioHarvest Sciences incorporated a wholly owned subsidiary in Delaware, Superfood Nutraceuticals Inc. ("Superfood").

##### *Description of Business*

The Company is engaged in two business segments.

- a) It is engaged in research and development in the food industry via its Superfruits products and
- b) It is engaged in research and development in the cannabis industry via its Bio-Plant CELLicitation™ technology. The Bio-Plant CELLicitation™ technology developed by the Company is protected by 14 granted patents.

##### Super fruits

The Company’s first nutraceutical superfruits product, VINIA®, is a red grape powder to be consumed as a food that supplies the benefits of red wine consumption but without the sugar and alcohol found in wine. The Company has conducted various clinical trials, to verify the efficacy of the VINIA® powder and has made all required notifications required by the FDA to support the use of its claims on packaging and in communication materials. VINIA® has gone through the necessary regulatory approval processes both in the US and in Israel and is approved classification as a food item as well as a dietary supplement in these respective markets.

##### Cannabis

The Company's Bio-Plant CELLicitation™ technology is used in the medical cannabis industry to produce cannabis cells in a process that is controlled, consistent, aseptic, non-GMO, pesticide-free and chemical-free.

## **BioHarvest Sciences Inc.**

### **Notes to the Unaudited Interim Condensed Consolidated Financial Statements**

**U.S. dollars in thousands, except per share data**

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#### **NOTE 1- GENERAL (Continued):**

##### **B. Going concern:**

Since inception through June 30, 2022, the Company has generated a cumulative loss of \$64,211. The Company generated negative cash flows from operating activities of \$4,239 and a loss in the amount of \$4,506 for the six months ended June 30, 2022. As of the date of the issuance of these financial statements, the Company has not yet commenced generating significant sales, and therefore depends on fundraising from new and existing investors to finance its activities.

These factors raise material uncertainties that cast substantial doubt about the Company's ability to continue as a going concern.

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

##### **C. COVID-19:**

The Company assesses that for the six month period ended 2022, COVID-19 had no additional material effect on its business, operations or financial results than stated on the yearly 2021 report.

#### **NOTE 2 - BASIS OF PREPARATION:**

The Company prepares its unaudited interim condensed consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) using the accounting policies described herein as issued by International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations. These interim unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting.

The interim condensed consolidated financial information does not include all of the information required for annual consolidated financial statements and should be read in conjunction with the annual financial statements as of December 31, 2021. The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2021 are applied consistently in these interim consolidated financial statements.

##### *New IFRSs adopted in the period*

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective for periods beginning subsequent to December 31, 2022 (the date of the Company’s next annual financial statements). The Company has decided not to early adopt these standards and interpretations. The Company does not believe these standards and interpretations will have a material impact on the financial statements once adopted.

**BioHarvest Sciences Inc.****Notes to the Unaudited Interim Condensed Consolidated Financial Statements****U.S. dollars in thousands, except per share data****NOTE 3 - DERIVATIVE LIABILITY- WARRANTS:**

- (i) A summary of changes in share purchase warrants issued by the Company during the six months ended June 30 is as follows:

	Number of Warrants	Weighted Average Exercise Price (\$)
Balance, December 31, 2020	26,786,332	0.18
Issuance of warrants	19,340,521	0.47
Exercised	(18,298,832)	0.19
Expired	(8,487,500)	0.19
<b>Balance, December 31, 2021</b>	<b>19,340,521</b>	<b>0.47</b>
Exercised	(164,000)	0.45
Expired	(15,285,829)	0.45
<b>Balance, June 30, 2022</b>	<b>3,890,692</b>	<b>0.55</b>

The following table summarizes information about warrants outstanding as of June 30, 2022:

Date of issuance	Date of expiry	Exercise price	Exercisable at September 30, 2021
August 30, 2021	August 30, 2022	\$ 0.43 (CAD 0.55)	3,422,687
October 4, 2021	October 4, 2022	\$ 0.43 (CAD 0.55)	468,005
			<b>3,890,692</b>

As the warrants issued by the Company have an exercise price denominated in Canadian dollars, which differs from the Company's functional currency, they do not qualify for classification as equity. These warrants have been classified as warrant liability and are recorded initially at the fair value and revalued at each reporting date, using the Black-Scholes valuation method. Changes in fair value for each period are included in comprehensive profit and loss for the period.

- (ii) The Company uses the Black-Scholes option pricing model to estimate fair value of the warrant liability at the end of each reporting period.

- (iii) The following assumptions were used to estimate the fair value of the derivative warrant liability on:

	3,422,687		468,005	
	At Issuance Date August 30, 2021	June 30, 2022	At Issuance Date October 4, 2021	June 30, 2022
Expected life of warrants	1 year	0.1 years	1 year	0.25 years
Expected volatility	50%	50%	50%	50%
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	0.89%	3.11%	1.15%	3.11%
Market price of Common share	CAD 0.395	CAD 0.24	CAD 0.33	CAD 0.24

## BioHarvest Sciences Inc.

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements

U.S. dollars in thousands, except per share data

#### NOTE 3 - DERIVATIVE LIABILITY- WARRANTS (Continued):

The Company looks at the expected volatility of the shares of comparable companies and compares these with the volatility of its common shares in estimating its future stock price volatility. The risk-free interest rate for the expected life of the options was based on the yield available on Canadian government benchmark bonds with an approximate equivalent remaining term at the time of the grant. The expected life is based on the contractual term.

For the six month period ended June 30, 2022, the Company recorded an income of \$630 (June 30, 2021: loss of \$161) in the statement of comprehensive loss as a result of the change in the fair value of the warrant liability.

#### NOTE 4 - SHARE CAPITAL:

	Number of shares	
	June 30, 2022	December 31, 2021
	Issued and outstanding	Issued and outstanding
Ordinary shares	454,496,636	453,630,137

- The Company is authorized to issue an unlimited number of common shares.
- During the six month period ended June 30, 2022 the Company issued 464,000 common shares as a result of the exercise of 300,000 warrants issued to employees and or consultants with an exercise price of CAD 0.14 (\$0.10) and the exercise of 164,000 warrants issued to investors with an exercise price of CAD 0.45 (\$0.36). The increase in share capital as a result of these transactions is \$99.
- During the six month period ended June 30, 2022 the Company issued 402,499 common shares as a result of the exercise of 152,499 options with an exercise price of CAD 0.19 (\$0.15) and the exercise of 250,000 options with an exercise price of CAD 0.15 (\$0.11). The increase in share capital as a result of these transactions is \$53

#### NOTE 5 - SHARE BASED COMPENSATION:

- Options granted under the Company's 2008 Israeli Share Option Plan ("Plan") are exercisable in accordance with the terms of the Plan, within 10 years from the date of grant, against payment of the exercise price.
- On January 1, 2022 the Company canceled 650,000 options granted on December 24, 2020 at CAD 0.19 (\$0.15).
- On March 25, 2022 the Company granted 482,000 options to purchase the Company's shares at CAD 0.35 (\$0.28) per share under the Company's share option plan. The options will be exercisable for a 10-year period. 240,000 options will vest quarterly over a 3-year period, 215,000 options will vest quarterly over a 1-year period, 12,000 options will vest monthly over a 6 month period and 15,000 options will vest monthly over 4 month period. The total value of the options granted is CAD 79 (\$63).
- On May 5, 2022 the Company granted 350,000 options to purchase the Company's shares at CAD 0.34 (\$0.27) per share under the Company's share option plan. The options will be exercisable for a 10-year period. The options will vest quarterly over a 3-year period. The total value of the options granted is CAD 58 (\$46).

**BioHarvest Sciences Inc.****Notes to the Unaudited Interim Condensed Consolidated Financial Statements****U.S. dollars in thousands, except per share data****NOTE 5 - SHARE BASED COMPENSATION (Continued):**

- e. The following table summarizes information about the expenses recorded as a result of share based compensation:

	<b>Three months ended June 30, 2022</b>	<b>Six months ended June 30, 2022</b>	<b>Three months ended June 30, 2021</b>	<b>Six months ended June 30, 2021</b>
Equity settled compensation	349	789	994	1,659
Cash settled compensation	(154)	(122)	30	54
	<b>195</b>	<b>667</b>	<b>1,024</b>	<b>1,713</b>

- f. A summary of activity of options granted to purchase the Company's shares under the Company's share option plan is as follows:

	<b>June 30, 2022</b>		<b>December 31, 2021</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Options outstanding at the beginning of the period	63,958,113	0.19	48,542,113	0.11
<b>Changes during the period:</b>				
Options granted (See c,d)	832,000	0.28	15,416,000	0.43
Options cancelled (See b)	(650,000)	0.15	-	-
Options exercised (See note 4c)	(402,499)	0.13	-	-
Options forfeited*	(110,001)	0.33	-	-
<b>Options outstanding at the end of the period (**)</b>	<b>63,627,613</b>	<b>0.19</b>	63,958,113	0.19
Options exercisable at end of period	58,638,696		52,566,077	

(\*) The during the six month period ended June 30, 2022 110,001 options were forfeited due to termination of employment.

(\*\*) The options outstanding at June 30, 2022 had a weighted-average contractual life of 7.9 years (June 30, 2021: 4.7 years).

## BioHarvest Sciences Inc.

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements

U.S. dollars in thousands, except per share data

#### NOTE 5 - SHARE BASED COMPENSATION (Continued):

The following table summarizes information about the options outstanding as at June 30, 2022:

Number Outstanding at June 30, 2022	Options Outstanding		Options Exercisable
	Exercise Price	Expiry Date	at June 30, 2022
18,098,196	\$0.105 (CAD 0.14)	June 9, 2030	17,207,387
11,008,917	\$0.11 (CAD 0.15)	June 10, 2030	11,008,917
12,410,000	\$0.11 (CAD 0.15)	July 27, 2030	12,344,063
700,000	\$0.11 (CAD 0.15)	September 10, 2030	691,493
950,000	\$0.10 (CAD 0.135)	November 9, 2030	815,153
4,315,000	\$0.15 (CAD 0.19)	December 24, 2030	3,567,112
765,000	\$0.23 (CAD 0.36)	January 12, 2031	569,290
245,000	\$0.34 (CAD 0.43)	January 29, 2031	241,057
431,000	\$0.40 (CAD 0.50)	February 8, 2031	346,097
6,000,000	\$0.52 (CAD 0.66)	February 25, 2031	5,506,200
5,223,800	\$0.41 (CAD 0.51)	March 22, 2031	4,618,792
375,500	\$0.36 (CAD 0.45)	July 9, 2031	250,703
950,000	\$0.27 (CAD 0.34)	October 8, 2031	537,231
400,000	\$0.28 (CAD 0.35)	October 21, 2031	215,112
73,200	\$0.33 (CAD 0.40)	October 29, 2031	25,939
850,000	\$0.30 (CAD 0.38)	November 29, 2031	435,097
482,000	\$0.28 (CAD 0.35)	March 25, 2032	203,741
350,000	\$0.27 (CAD 0.34)	May 6, 2032	55,312
<b>63,627,613</b>			<b>58,638,696</b>

#### Warrants

- g. A summary of activity of warrants granted to purchase the Company's shares, accounted for as share based compensation is as follows:

	June 30, 2022		December 31, 2021	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding at the beginning of the period	3,147,467	0.13	4,415,615	0.11
<b>Changes during the period:</b>				
Issuance of warrants (See b-i)	-	-	247,467	0.33
Exercised (See Note 4b)	(300,000)	0.10	(1,481,012)	0.11
Expired	(197,467)	0.35	(34,603)	0.11
<b>Warrants outstanding at the end of the period</b>	<b>2,650,000</b>	<b>0.11</b>	<b>3,147,467</b>	<b>0.13</b>

## BioHarvest Sciences Inc.

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements

U.S. dollars in thousands, except per share data

#### NOTE 5 - SHARE BASED COMPENSATION (Continued):

The following table summarizes information about the warrants outstanding as at June 30, 2022:

Warrants Outstanding		
Number Outstanding at June 30, 2022	Exercise Price	Expiry Date
1,600,000	\$0.11 (CAD 0.15)	August 5, 2022
1,000,000	\$0.11 (CAD 0.15)	August 5, 2022
50,000	\$0.27 (CAD 0.34)	October 8, 2023
<b>2,650,000</b>		

#### NOTE 6 - CONVERTIBLE LOAN:

Since April 2022, the Company signed an agreement ("the Agreement") with certain lenders (the "Lenders"), according to which the Company authorized the sale and issuance to the Lenders of Convertible Loan (the "Convertible Loan") with aggregate principal amounts of up to \$5,000 ("Principal Loan Amount"). The Principal Loan Amount, to the extent and for the period of time that such Principal Amount is unconverted, shall bear interest at a rate of 9% per annum from the closing date (the "Closing Date") up to and including the date that is 24 months following the Closing Date (the "Second Anniversary"). The Company will pay the Lenders, to the extent such interest is unconverted:

- any Interest accrued up to and including the date that is twelve months following the Closing Date (the "Anniversary"), on the Anniversary; and
- any Interest accrued between and including the dates that are one day following the Anniversary and twenty-four months following the Closing Date (the "Secondary Anniversary"), on the Second Anniversary.

The Convertible Loan shall mature on the date that is twenty-four months following the Closing Date (the "Maturity Date"). Any unconverted portion of the Principal Loan Amount will be paid on the Maturity Date.

The Lenders may, at any time prior to the Maturity Date, elect to convert any unconverted portion of the Principal Loan Amount together with the accrued Interest thereon (the "Remaining Amount"), into common shares in the capital of the Company as constituted on the date hereof ("Shares") at the Conversion Price.

The conversion price is the price per Share (the "Conversion Price") that is equal to:

- CAD 0.32, if the date of the receipt of such Conversion Notice by the Company occurs between and including the Closing Date and the date that is 90 days following the Closing Date;
- CAD 0.35, if the date of the receipt of such Conversion Notice by the Company occurs between and including the dates that are 91 days following the Closing Date and 180 days following the Closing Date;
- CAD 0.39, if the date of the receipt of such Conversion Notice by the Company occurs between and including the dates that are 181 days following the Closing Date and 270 days following the Closing Date;
- CAD 0.44, if the date of the receipt of such Conversion Notice by the Company occurs between and including the date that is 271 days following the Closing Date and the date that is one day prior to the Anniversary; or
- If the date of the receipt of such Conversion Notice by the Company occurs on or following the Anniversary the Discounted Conversion Price shall be:

## BioHarvest Sciences Inc.

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements

U.S. dollars in thousands, except per share data

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#### NOTE 6 - CONVERTIBLE LOAN (Continued):

- 75% of the closing price of the Shares, on the principal exchange on which the Shares are listed (the “Exchange”), on the date of receipt of the Conversion Notice by the Company (the “Closing Price”) if the Closing Price is CAD 0.50 or less; or
- 80% of the Closing Price, if the Closing Price is CAD 0.51 or greater.

In the event that the Discounted Conversion Price is less than CAD 0.26 per Share (the “Floor Price”), the Conversion Price will be equal to the Floor Price. In the event that the Discounted Conversion Price is greater than CAD 0.65 per Share, the Conversion Price shall not exceed:

- CAD 0.65, if the date of the receipt of such Conversion Notice by the Company occurs between and including the Anniversary and the date that is 90 days following the Anniversary;
- CAD 0.75, if the date of the receipt of such Conversion Notice by the Company occurs between and including the dates that are 91 days following the Anniversary and 180 days following the Anniversary;
- (j) CAD 0.85, if the date of the receipt of such Conversion Notice by the Company occurs between and including the dates that are 181 days following the Anniversary and 270 days following the Anniversary; or
- (k) CAD 0.95, if the date of the receipt of such Conversion Notice by the Company occurs between and including the date that is 271 days following the Anniversary and the date that is one day prior to the Maturity Date.

The Company paid finder's fees of \$50 in connection with the transaction.

The Convertible Loan is denominated in Canadian dollars and convertible into common shares based on the principal and interest balance. The conversion rate to common shares is variable as it depends on the Company's share price prevailing at specific dates on the stock exchange.

Therefore, the convertible loan is a hybrid instruments that include a debt host contract and an embedded derivative liability.

As the instrument contains an embedded derivative, it has been designated at fair value through profit or loss on initial recognition and as such the embedded conversion feature is not separated. All transaction costs related to financial instruments designated as fair value through profit or loss are expensed as incurred.

The component of fair value changes relating to the company's own credit risk is recognized in other comprehensive income. Amounts recorded in OCI related to credit risk are not subject to recycling in profit or loss but are transferred to retained earnings when realized. Fair value changes relating to market risk are recognized in profit or loss. There was no change in the company company's own credit risk since the issuance of the convertible notes.

The fair value of the Convertible Loans has been determined using the Black-Scholes model. The following assumptions were used to determine the fair value of the Convertible Loans:

	<b>June 30, 2022</b>
Risk-free interest rate	3.11%
Expected volatility	50%

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**BioHarvest Sciences Inc.****Notes to the Unaudited Interim Condensed Consolidated Financial Statements**

U.S. dollars in thousands, except per share data

**NOTE 7 - FINANCIAL INSTRUMENTS - FAIR VALUE MEASUREMENT:**

This note provides an update on the judgements and estimates made by the Company in determining the fair values of the financial instruments since the last annual financial report.

The following table summarizes the information about the level 3 fair value measurements:

Item	Fair value	Valuation technique	Fair value hierarchy level	Significant unobservable inputs
Derivative liability - Warrants	-	Black-Scholes model	level 3	Volatility of firm's assets returns*
Convertible loan	2,118	Binomial model	level 3	Volatility of firm's assets returns**

\* A change in the volatility measure by 5% results in a change of +/- \$- of the fair value

\*\* A change in the volatility measure by 5% results in a change of +/- \$21 of the fair value

Reconciliation of fair value measurements that are categorized within Level 3 of the fair value hierarchy:**Derivative liability - Warrants**

Balance as of December 31, 2020	672
Issuance of warrants	1,379
Exercise of warrants	(2,189)
Loss recognized due to changes in warrant's terms	-
Loss (income) recognized in profit or loss	774
<b>Balance as of December 31, 2021</b>	<b>636</b>
Warrants exercise	(6)
Loss (income) recognized in Profit or loss	(630)
<b>Balance as of June 30, 2022</b>	<b>-</b>

**Convertible loan**

Balance as of December 31, 2020	-
Loss (income) recognized in Profit or loss	-
<b>Balance as of December 31, 2021</b>	<b>-</b>
Convertible loan received	<b>(2,118)</b>
Loss (income) recognized in Profit or loss	(-)
<b>Balance as of June 30, 2022</b>	<b>(2,118)</b>

**BioHarvest Sciences Inc.****Notes to the Unaudited Interim Condensed Consolidated Financial Statements**

U.S. dollars in thousands, except per share data

**NOTE 7 - FINANCIAL INSTRUMENTS - FAIR VALUE MEASUREMENT (Continued):****Financial instruments not measured at fair value:**

Financial instruments not measured at fair value includes cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, and Liability to Agricultural Research Organization.

Due to their short-term nature, the carrying value of cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables approximates their fair value.

The fair value of Liability to Agricultural Research Organization for June 30, 2022, June 30, 2021 and December 31, 2021 is not materially different to the carrying amount, since the interest rate used in the initial recognition is close to current market rates.

**NOTE 8 - RELATED PARTIES TRANSACTIONS:**

Related parties including the Company's CEO, CFO, Chairman of the Board and Directors.

**Related party transactions (unaudited):**

	Six months ended June 30, 2022	Three months ended June 30, 2022	Six months ended June 30, 2021	Three months ended June 30, 2021
<b>Compensation of key management personnel of the Company:</b>				
CEO management fees	261	128	201	106
Chairman management fees	99	59	120	84
CFO management fees	16	8	15	7
Share based payment to CEO	84	41	139	31
Share based payment to Chairman	146	61	283	259
<b>Other related party transactions:</b>				
Share based payments	41	15	197	82

**Balance with related parties:**

<b>As of June 30,</b>	<b>2022</b>	<b>2021</b>
Amounts due to the CEO	289	82

**BioHarvest Sciences Inc.****Notes to the Unaudited Interim Condensed Consolidated Financial Statements**

U.S. dollars in thousands, except per share data

**NOTE 9 - OPERATING SEGMENTS:**

The Company and its subsidiaries are engaged in the following segments:

- Superfruits: development, design, manufacture and marketing of "VINIA®" for the retail market.
- Cannabis: development, design, manufacture and marketing of medical Cannabis.

## 1) Segment information

	<b>Six months ended June 30, 2022</b>		
	<b>Superfruits</b>	<b>Cannabis</b>	<b>Total</b>
<i>Revenues</i>			
External	1,537	-	1,537
Inter-segment	-	-	-
<i>Total</i>	1,537	-	1,537
<i>Segment loss</i>	3,540	1,558	5,098
<i>Finance expense (income), net</i>			(592)
<i>Tax expenses</i>			-
<i>Loss (income)</i>			4,506

	<b>Three months ended June 30, 2022</b>		
	<b>Superfruits</b>	<b>Cannabis</b>	<b>Total</b>
<i>Revenues</i>			
External	838	-	838
Inter-segment	-	-	-
<i>Total</i>	838	-	838
<i>Segment loss</i>	1,666	799	2,465
<i>Finance expense (income), net</i>			(89)
<i>Tax expenses</i>			-
<i>Loss (income)</i>			2,376

	<b>As of June 30, 2022</b>			<b>Total</b>
	<b>Superfruits</b>	<b>Cannabis</b>	<b>Adjustment &amp; Elimination</b>	
<i>Segment assets</i>	10,209	19,006	(20,816)	8,399
<i>Segment liabilities</i>	17,862	7,700	(16,454)	9,108

**BioHarvest Sciences Inc.****Notes to the Unaudited Interim Condensed Consolidated Financial Statements**

U.S. dollars in thousands, except per share data

**NOTE 9 - OPERATING SEGMENTS (Continued):**

	<b>Six months ended June 30, 2021</b>			
	<b>Unaudited</b>			
	<b>Superfruits</b>	<b>Cannabis</b>	<b>Total</b>	
<i>Revenues</i>				
External	728	-	728	
Inter-segment				
<i>Total</i>	728	-	728	
<i>Segment loss</i>	1,608	3,016	4,624	
<i>Finance expense, net</i>			406	
<i>Tax expenses</i>				
<i>Loss</i>			5,030	
	<b>Three months ended June 30, 2021</b>			
	<b>Unaudited</b>			
	<b>Superfruits</b>	<b>Cannabis</b>	<b>Total</b>	
<i>Revenues</i>				
External	415	-	415	
Inter-segment				
<i>Total</i>	415	-	415	
<i>Segment loss</i>	712	1,682	2,392	
<i>Finance expense (income), net</i>			(4,171)	
<i>Tax expenses</i>				
<i>Loss (income)</i>			(1,779)	
	<b>As of June 30, 2021</b>			
	<b>Unaudited</b>			
	<b>Superfruits</b>	<b>Cannabis</b>	<b>Adjustment &amp; Elimination</b>	<b>Total</b>
<i>Segment assets</i>	8,471	10,588	(10,704)	8,355
<i>Segment liabilities</i>	9,441	5,242	(6,342)	8,341

## BioHarvest Sciences Inc.

### Notes to the Unaudited Interim Condensed Consolidated Financial Statements

U.S. dollars in thousands, except per share data

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#### NOTE 9 - OPERATING SEGMENTS (Continued):

- 2) Entity wide disclosures of external revenue by location of customers:

	Six months ended June 30,	
	2022	2021
Israel	860	662
Other	677	66
	<b>1,537</b>	728

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	Three months ended June 30,	
	2022	2021
Israel	468	349
Other	370	66
	<b>838</b>	415

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- 3) Additional information concerning revenues:

There is no single customer from which revenues amount to 10% or more of total revenues reported in the financial statements.

#### NOTE 10 - SUBSEQUENT EVENTS:

- On July 4, 2022, the Company granted to employees and consultants 1,360,000 options to purchase the Company's shares at CAD 0.24 (\$0.19) per share under the Company's share option plan.
- On July 4, 2022, the Company cancelled 4,343,800 options granted to the Chairman on March 22, 2021 at CAD 0.51 (\$0.41)
- On July 8, 2022, the Company granted to consultants 30,000 options to purchase the Company's shares at CAD 0.23 (\$0.18) per share under the Company's share option plan.
- On August 5, 2022, 2,600,000 warrants were exercised at CAD 0.15 (\$0.11).
- On August 11, 2022, 3,619,639 options were exercised at CAD 0.15 (\$0.11)
- During July-August 2022, the Company received an additional \$552 as Convertible Loan.