

NUREXONE BIOLOGIC INC.

(FORMERLY ENERSPAR CORP.)

CONSOLIDATED

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2022

NUREXONE BIOLOGIC INC.

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF **NUREXONE BIOLOGIC INC.**

Opinion

We have audited the accompanying consolidated financial statements of NurExone Biologic Inc. (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and its financial performance, and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern and Other

We draw attention to Note 1(B) in the consolidated financial statements, which indicates that the Company is in a development stage, has incurred a net loss of USD\$ 8.2 million during the year ended December 31, 2022 and has not generated any revenues and expects to continue to fund its operations through raising adequate funds in the foreseeable future. As stated in Note 1B, these events or conditions, along with other matters as set forth in Note 1B, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were the most significance in our audit of the consolidated financial statements of the current period. In addition to the matter described in the section "Material Uncertainty Related to Going Concern", we consider that there are no key audit matters to be reported in our report.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, included in Management's Discussion and Analysis. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Hila Malka.

Tel-Aviv, Israel

March 29, 2023

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Ziv Haft

Certified Public Accountants (Isr.)
BDO Member Firm

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NUREXONE BIOLOGIC INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(U.S. Dollars in thousands)

	Note	December 31, 2022	December 31, 2021
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	\$ 2,463	\$ 2,214
Restricted deposit	5	54	19
Due from shareholders with respect to shares issuance		-	451
Other receivables	6	175	152
<u>Total current assets</u>		2,692	2,836
NON-CURRENT ASSETS:			
Property, plant and equipment, net	7	51	-
Right-of-use assets	8	51	-
<u>Total non-current assets</u>		102	-
<u>Total assets</u>		\$ 2,794	\$ 2,836

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

NUREXONE BIOLOGIC INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(U.S. Dollars in thousands)

	Note	December 31, 2022	December 31, 2021
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Other payables	9	\$ 278	\$ 259
Employees and payroll accruals		305	87
Convertible notes		-	1,043
Derivatives		-	242
		583	1,631
NON-CURRENT LIABILITIES:			
Royalty payments	17	95	28
Lease liability	8	20	-
		115	28
EQUITY:			
Share capital	10	*	*
Additional paid-in capital and other reserves		11,250	3,257
Warrants reserve		930	-
Foreign currency translation reserve		(73)	(5)
Share-based payment reserve		407	174
Accumulated Deficit		(10,418)	(2,249)
		2,096	1,177
Total liabilities and shareholders' equity		\$ 2,794	\$ 2,836

* Represents an amount lower than \$0.5.

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

<i>"Yoram Drucker"</i>	<i>"Dr. Lior Shaltiel"</i>	March 29, 2023
Yoram Drucker Chairman of the board	Dr. Lior Shaltiel Director and CEO	Date of approval of the Financial Statements

NUREXONE BIOLOGIC INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(U.S. Dollars in thousands)

	<u>Note</u>	<u>Year ended December 31, 2022</u>	<u>Year ended December 31, 2021</u>
Research and development expenses	11	\$ 1,391	\$ 573
General and administrative expenses	12	4,150	1,140
Listing expenses	13	<u>2,078</u>	<u>-</u>
Operating loss		<u>7,619</u>	<u>1,713</u>
Finance (income) expenses, net	14	<u>550</u>	<u>(66)</u>
Net loss		<u>8,169</u>	<u>1,647</u>
<u>Other comprehensive (income) loss:</u>			
<u>Items that may be reclassified to profit or loss:</u>			
Exchange losses arising on translation of foreign operations		91	-
<u>Items that will not be reclassified to profit or loss:</u>			
Gain from foreign currency translation adjustments		<u>(23)</u>	<u>(5)</u>
Total comprehensive loss		<u>\$ 8,237</u>	<u>\$ 1,642</u>
Net loss per share:			
Basic and diluted loss per share	18	<u>\$ 0.216</u>	<u>\$ 0.100</u>
Weighted average number of common shares – basic and diluted *		<u>37,733,703</u>	<u>16,452,064</u>

* The share split has been retroactively presented in all periods. (Note 1(C)).

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

NUREXONE BIOLOGIC INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(U.S. Dollars in thousands)

	Number of shares	Ordinary share capital *	Additional paid-in capital	Share-based payments reserve	Warrants reserve	Foreign currency translation reserve	Accumulated losses	Total
Balance as of January 1, 2022	2,536,000	\$ -	\$ 3,257	\$ 174	-	\$ (5)	\$ (2,249)	\$ 1,177
<u>Changes during the period:</u>								
Net loss	-	-	-	-	-	-	(8,169)	(8,169)
Other comprehensive loss	-	-	-	-	-	(68)	-	(68)
Net loss and total comprehensive	-	-	-	-	-	(68)	(8,169)	(8,237)
Fair value of reverse takeover	22,290,519	-	1,605	-	-	-	-	1,605
Warrants exercised	3,927,000	-	16	-	-	-	-	16
Expiry of full-ratchet protection	-	-	115	-	-	-	-	115
Share-based compensation	-	-	-	233	-	-	-	233
<u>Issuance of common shares to:</u>								
Subscription receipts investors **	4,551,814	-	2,613	-	343	-	-	2,956
Private placement investors	2,465,221	-	854	-	-	-	-	854
Reclassification of warrants liability to warrant equity in respect of the private placement	-	-	-	-	510	-	-	510
Convertible notes investors	2,684,249	-	1,171	-	18	-	-	1,189
Reclassification of warrants liability to warrant equity in respect of the convertible notes	-	-	-	-	59	-	-	59
Founders, consultants and creditors	4,400,355	-	1,619	-	-	-	-	1,619
Balance as of December 31, 2022	42,855,158	\$ -	\$ 11,250	\$ 407	\$ 930	\$ (73)	\$ (10,418)	\$ 2,096

* Represents an amount lower than \$0.5.

** Includes issuance expenses of \$139.

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

NUREXONE BIOLOGIC INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(U.S. Dollars in thousands)

	<u>Ordinary share capital *</u>	<u>Additional paid-in capital and other reserves</u>	<u>Share-based payments reserve</u>	<u>Foreign currency translation reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance as of January 1, 2021	\$ -	\$ 673	\$ -	\$ (10)	\$ (602)	\$ 61
<u>Changes during the period:</u>						
Net loss	-	-	-	-	(1,647)	(1,647)
Other comprehensive income	-	-	-	5	-	5
Net loss and total comprehensive	-	-	-	5	(1,647)	(1,642)
Share-based compensation	-	-	174	-	-	174
Issuance of common shares to investors **	-	2,584	-	-	-	2,584
Balance as of December 31, 2021	\$ -	\$ 3,257	\$ 174	\$ (5)	\$ (2,249)	\$ 1,177

* Represents an amount lower than \$0.5.

** Includes issuance expenses of \$58.

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

NUREXONE BIOLOGIC INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. Dollars in thousands)

	Year ended December 31, 2022	Year ended December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (8,169)	\$ (1,647)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6	-
Share-based compensation	233	174
Interest expenses on convertible notes	30	12
Revaluation of financial derivatives	158	(60)
Revaluation of royalty payments	66	-
Compensation for consultants through share issuance	1,744	-
Reverse takeover transaction cost (Appendix A)	1,847	-
Changes in operating assets and liabilities:		
Increase in employees and payroll accruals	276	87
Increase in other receivables	(10)	(55)
Increase in other payables	(29)	257
Net cash used in operating activities	(3,848)	(1,232)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment, net	(52)	-
Restricted deposit, net	(37)	(19)
Net cash used in investing activities	(89)	(19)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of subscription receipts	1,027	-
Proceeds from the issuance of private placement	1,304	2,226
Proceeds from the issuance of convertible notes	111	1,119
Proceeds from the issuance to consultants and founders	43	-
Proceeds from warrants reserve	148	-
Cash received through reverse takeover completion (Appendix A)	1,677	-
Proceeds from derivatives	-	118
Payment of lease liabilities	(15)	-
Net cash provided by financing activities	4,295	3,463

NUREXONE BIOLOGIC INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. Dollars in thousands)

	Year ended December 31, 2022	Year ended December 31, 2021
Effect of exchange rate changes on cash and cash equivalents	(109)	-
Net increase in cash and cash equivalents	249	2,212
Cash and cash equivalents at the beginning of the period	2,214	2
Cash and cash equivalents at the end of the period	\$ 2,463	\$ 2,214

SIGNIFICANT NON-CASH ACTIVITIES:

Account receivable in associate with the issuance of ordinary shares	\$ -	\$ 416
Account receivable in associate with derivatives liabilities	\$ -	\$ 35
Expiry of full-ratchet protection	\$ 115	\$ -
Issuance expenses	\$ 139	\$ 58
Conversion of debt into shares	\$ 135	\$ -
Conversion of debt and prepaid expenses into shares	\$ -	\$ 360
Right-of-use asset and lease liability	\$ 59	\$ -
Conversion of convertible notes to Common shares	\$ 1,285	\$ -

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

Appendix A – Reverse takeover transaction cost:

	June 20, 2022
<u>Reverse takeover costs as of the completion</u>	
Cash received through reverse takeover completion	\$ 1,677
Accounts payables	136
Debt to director	123
HST/GST receivables	(17)
Fair value of consideration of 2,536,000 EnerSpar Shares at CAD \$0.80	1,605
Reverse takeover transaction cost	(1,847)
Cash received	\$ 1,677

NUREXONE BIOLOGIC INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(U.S. Dollars in thousands)

NOTE 1 - GENERAL:

A. Nature and continuance of operation

NurExone Biologic Inc. (formerly EnerSpar Corp. or “EnerSpar”) (“the Company” or “NurExone”) is a publicly-traded company with a registered office located at Suite 1600, 1 First Canadian Place, 100 King Street West, Toronto, ON M5X 1G5, Canada. The Company and its business as presented are the result of the Reverse Takeover Transaction (“RTO”) of EnerSpar by NurExone Biologic Ltd (“NurExone Ltd”), a pharmaceutical business incorporated in Israel in June 2020. (Note 1(C)).

The Company was incorporated in Alberta in 2011 and is traded on the Toronto Stock Exchange Venture (“TSXV”) with the symbol “NRX”, and in Germany with the symbol “J90” on the Frankfurt Stock Exchange, German Composite, Stuttgart Stock Exchange, and Munich Stock Exchange, is a Reporting Issuer in Alberta, Ontario and British Columbia.

NurExone is developing a revolutionary treatment for the reversal or reduction of paralysis following Spinal Cord Injury (“SCI”) using Exosomes (membrane-bound extracellular vesicles). This technology, subject to conducting clinical trials and receiving Food and Drug Administration (the “FDA”) approval, can be used in various conditions such as SCI, Brain Trauma Injury (“BTI”), and potentially other brain and neurological indications.

B. Going Concern

Since its inception, the Company is in the research and development stage and has incurred losses with no expectation for any revenue in the further period and expects to continue to finance itself through raising adequate funds in the foreseeable future.

As of December 31, 2022, the Company had cash of \$2,463 (December 31, 2021 - \$2,214), and as of that date the Company’s current liabilities exceeded its total assets by \$2,096 (December 31, 2021 - \$1,177). The Company had a deficit of \$10,418 as of December 31, 2022, (December 31, 2021 - \$2,249).

Management believes the Company may not have sufficient funds to cover planned operations throughout the next twelve months. However, management may secure additional financing through the issue of new equity and/or debt. There is no assurance that these initiatives will be successful. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. This could result in adjustments to the amounts and classifications of assets and liabilities in the Company’s consolidated financial statements.

C. Reverse takeover of EnerSpar Corp.

On June 15, 2022, the Company completed the RTO with NurExone Ltd. The common shares in the capital of the Company (“Common Shares”) were consolidated with each 10 pre-consolidation Common Shares being exchanged for 1 post-consolidation Common Share.

As a condition of closing the RTO, the Company completed a plan of arrangement on May 31, 2022, pursuant to which the Company spun out its wholly-owned subsidiary, 1222150 B.C. Ltd. by way of distributing all shares of the subsidiary held by the Company pro-rata on a one for one share basis to the shareholders of the Company. All of the former mining assets of the Company were transferred with the subsidiary, thereby divesting the Company of such assets prior to the completion of the RTO.

NUREXONE BIOLOGIC INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(U.S. Dollars in thousands)

NOTE 1 – GENERAL (CONT.):

C. Reverse takeover of EnerSpar Corp. (cont.)

Pursuant to the RTO, the Company completed its previously announced non-brokered private placements (“Private Placements”), as follows:

- (i) 35,296,149 Common Shares were issued to the shareholders of NurExone Ltd in exchange for all of the issued and outstanding ordinary shares of NurExone Ltd, that includes: convertible notes resulting in 2,684,249 Common Shares at a share price of CAD \$0.59 (Note 1(D)(i)), and NurExone Ltd Private Placement resulting in 2,465,221 Common Shares issued at a share price of CAD \$0.44 (Note 1(D)(ii));
- (ii) 4,551,814 Common Shares were issued to holders of subscription receipts of the Company pursuant to a concurrent private placement which closed on May 5, 2022, the subscription receipts being sold at a price of CAD \$0.80 per subscription receipt; and
- (iii) 2,536,000 Common Shares were issued to the existing shareholders of the Company upon the 10:1 consolidation of the existing 25,360,000 pre-consolidation Common Shares.

Following completion of the RTO and conversion of the subscription receipts, there were 42,383,963 Common Shares issued and outstanding and, if all of the outstanding options and warrants were to be exercised into Common Shares, 61,759,764 Common Shares would have been issued and outstanding on a fully diluted basis.

D. Private Placements

The Company completed its previously announced Private Placements, as follows:

- (i) NurExone Ltd Convertible Notes - On April 30, 2022 (“effective date”), the Company completed a Convertible Notes conversion into issued 2,684,249 Common Shares at a share price of CAD \$0.59 and issued 1,374,573 Common Share purchase warrants at an exercise price of CAD \$1.20 per warrant for gross proceeds of \$1,249 (2022 - \$130, 2021 - \$1,119). The warrants are exercisable for a period of 24 months following the effective date of the agreement. In the event that the share price of the Common Shares of the Company exceeds CAD \$2.00 on a volume-weighted price over 20 consecutive days, the holder shall have 30 days to exercise the warrants.
- (ii) NurExone Ltd Private Placement - From January until April 2022, the Company completed a private placement into issuance of 2,465,221 Common Shares at a share price of CAD \$0.44 and 2,465,221 Common Share purchase warrants at an exercise price of CAD \$1.20 per warrant) for gross proceeds of \$870. The warrants are exercisable for a period of 24 months following the effective date of the agreement. In the event that the share price of the Common Shares of the Company exceeds CAD \$2.00 on a volume-weighted price over 20 consecutive days, the holder shall have 30 days to exercise the warrants.
- (iii) EnerSpar Subscription Receipts - Resulting of the RTO completion, the Company converted 4,551,814 subscription receipts at a price of CAD \$0.80 per subscription receipt for gross proceeds of CAD \$3,642 (2022 – CAD \$1,523, 2021 – CAD \$2,119). Each subscription receipt was converted into one Common Share and one Common Share purchase warrant of the Company. The warrants are exercisable for a period of 24 months following the date of issuance. In the event that the share price of the Common Shares of the Company exceeds CAD \$2.00 on a volume-weighted price over 20 consecutive days, the holder shall have 30 days to exercise the warrants.

NUREXONE BIOLOGIC INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(U.S. Dollars in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention except for certain derivatives. The Company has elected to present the statement of comprehensive loss using the function of expense method.

These consolidated financial statements of the Company were authorized for issue by the board of directors on March 29, 2023.

Basis of consolidation

The Financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions and any unrealized income and expenses arising from such transactions are eliminated upon consolidation.

Use of estimates and assumptions in the preparation of the financial statements

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of expenses during the reporting periods. By their nature, these estimates are subject to measurement uncertainty and are reviewed periodically, and adjustments, if necessary, are made in the year in which they are identified. Actual results could differ from those estimates. (Note 3).

Foreign currency

These consolidated financial statements of the Company for the year ended December 31, 2022, are presented in United States dollars. The functional currency of the Company is the Canadian dollar, and the functional currency of the Israeli subsidiary company ("the Subsidiary Company" or "NurExone Ltd") is the New Israeli Shekel, which was decided using the principal currency of the primary economic environment in which the Subsidiary Company operate. References to the symbol "CAD\$" mean the Canadian dollar, "NIS" mean the New Israeli Shekel. Except as otherwise set out herein, all amounts expressed herein are in thousands and are in the currency of the United States, denominated by "\$" or "US\$".

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in profit or loss, except of a net investment in a foreign operation, in which case exchange differences are recognized in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

NUREXONE BIOLOGIC INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(U.S. Dollars in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Foreign currency (cont.)

On consolidation, the results of overseas operations are translated as follows:

All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognized in other comprehensive income and accumulated in the foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognized in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Fair value measurement

Fair value is the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (i) In the principal market for the asset or liability, or
- (ii) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Classification of financial instruments by fair value hierarchy

Assets and liabilities presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data (valuation techniques that use inputs that are not based on observable market data).

NUREXONE BIOLOGIC INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(U.S. Dollars in thousands)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Financial instruments

(i) Financial assets

The Company's accounting policy for its financial assets comprising of cash, deposit and other accounts receivable is the amortized cost.

The objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognized at fair value plus transaction costs (if any) that are directly attributable to their acquisition or issue and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

(ii) Financial liabilities

The Company classifies its financial liabilities based on the purpose for which the liability was acquired. The Company's accounting policy is as follows:

Fair value through profit or loss: The Company measures its derivatives and convertible notes at fair value through profit or loss.

Amortized cost: other accounts payable are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

(iii) De-recognition

Financial assets: the Company derecognizes a financial asset when the contractual rights to the cash flow from the financial asset expire or it transfers the rights to receive the contractual cash flows.

Financial liabilities: the Company derecognizes a financial liability when its contractual obligations are discharged, canceled, or expired.

(iv) De-recognition

At the end of the reporting period, the Company assesses whether there is any objective evidence of impairment of a financial asset as follows:

Financial assets carried at amortized cost: there is objective evidence of impairment of other accounts receivable if one or more events have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows.

Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

NUREXONE BIOLOGIC INC.
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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Research and development expenditures

Research expenditures are recognized in profit or loss when incurred. An intangible asset arising from a development project or from the development phase of an internal project is recognized if the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the ability to reliably measure the respective expenditure asset during its development. For the period presented, development costs incurred have not met the criteria for capitalization.

Cash and cash equivalents

Cash equivalents are considered by the Company to be highly-liquid investments, including, inter alia, short-term deposits with banks and maturity of which do not exceed three months at the time of deposit, and which are not restricted.

Listing expenses

The Company recognized the incremental costs that were directly attributable to issuing Common Shares in equity and the costs that were related to the stock market listing or are otherwise not incremental and directly attributable to issuing Common Shares, were recognized as an expense in the statement of comprehensive loss. Costs that were related to both Common Share issuance and listing were allocated between those functions based on the number of Common Shares on a relative basis.

Leases

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low-value assets; and
- Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable.

Right-of-use assets are initially measured at the amount of the lease liability. Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

Property, plant, and equipment

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, accumulated impairment losses and any related investment grants, excluding day-to-day servicing expenses. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

NUREXONE BIOLOGIC INC.
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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Property, plant, and equipment (cont.)

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

Machinery and lab equipment	-	15% per annum straight line
Computer equipment	-	33% per annum straight line

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in the accounting estimate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

Share-based payments

The Company has a stock option plan (the "Option Plan") (Note 10(C)). The Company uses the fair value-based method of accounting for share-based payment arrangements. The fair value of each option, granted to directors, officers, consultants and employees is accounted for in operations over the vesting period of the option using the Black-Scholes option pricing model at the date of grant, with the related increase to contributed surplus. Upon exercise of the stock options, the consideration paid, together with the amount previously recognized in contributed surplus, is recorded as an increase in share capital.

At each reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Loss per share

Basic and diluted loss per share are calculated as net loss, divided by the weighted average number of outstanding ordinary shares during the period.

NUREXONE BIOLOGIC INC.
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NOTE 3 – CRITICAL ACCOUNTING ESTIMATES JUDGMENTS:

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions in the application of the Company's accounting policies. These may affect the carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, the results of which form the basis of the valuation of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates, which are revised on an ongoing basis.

Judgments

As the basis for its judgments, management uses estimates and related assumptions which are based on previous experience and various commercial, economic and other factor that are considered reasonable under the circumstances. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised. Actual outcomes may differ from these estimates under different assumptions and conditions. Judgments relate to the following:

Estimates

The areas requiring the use of estimates and critical judgments that may potentially have a significant impact on the Company's financial position are the share-based compensation expenses and the fair value valuation of warrants, convertible notes and anti-dilution terms attached to share issuances.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options, warrants, convertible notes and anti-dilution terms.

In estimating the fair value, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Company's future share price, risk-free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in different outcomes.

NUREXONE BIOLOGIC INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 – CASH AND CASH EQUIVALENTS:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Cash for immediate withdrawal	\$ 204	\$ 2,214
Cash equivalents - short-term deposits ⁽¹⁾	<u>2,259</u>	<u>-</u>
Total	<u>\$ 2,463</u>	<u>\$ 2,214</u>

(1) The cash equivalents are short-term bank deposits, as follows: \$200 at USD deposit that bears an interest rate of 4.40% per annum, and a \$2,059 at CAD deposit that bears an interest rate of 3.95% per annum.

NOTE 5 – RESTRICTED DEPOSIT:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Restricted deposit – Canadian credit line ⁽¹⁾	\$ 37	\$ -
Restricted deposit – Israeli credit line ⁽¹⁾	<u>17</u>	<u>19</u>
Total	<u>\$ 54</u>	<u>\$ 19</u>

(1) The deposit is restricted cash to secure the line of credit for the issuance of the bank's credit cards.

NOTE 6 – OTHER RECEIVABLES:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Receivable from tax authorities	\$ 48	\$ 66
Prepaid expenses	123	86
Other	<u>4</u>	<u>-</u>
Total	<u>\$ 175</u>	<u>\$ 152</u>

NUREXONE BIOLOGIC INC.
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NOTE 7 – PROPERTY, PLANT AND EQUIPMENT, NET:

Composition and movements:

	<u>Machinery and lab equipment</u>	<u>Computer equipment</u>	<u>Total</u>
<u>Cost:</u>			
Balance as of January 1, 2022	\$ -	\$ -	\$ -
Additions	50	1	51
Foreign currency translation	1	-	1
Balance as of December 31, 2022	<u>51</u>	<u>1</u>	<u>52</u>
<u>Accumulated depreciation:</u>			
Balance as of January 1, 2022	-	-	-
Depreciation	(1)	-	(1)
Balance as of December 31, 2022	<u>(1)</u>	<u>-</u>	<u>(1)</u>
Property, plant and equipment, net as of December 31, 2022	<u>\$ 50</u>	<u>\$ 1</u>	<u>\$ 51</u>

NOTE 8 – LEASES:

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the year:

Right-of-use-assets:

	<u>Right-of-use assets</u>	
	<u>Vehicles</u>	<u>Total</u>
As of January 1, 2022	\$ -	\$ -
Additions	63	63
Depreciation expense	(13)	(13)
Foreign currency translation	1	1
As of December 31, 2022	<u>\$ 51</u>	<u>\$ 51</u>

The vehicles leases are under non-cancellable terms that are maturely and amortized over three years.

NUREXONE BIOLOGIC INC.
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NOTE 8 – LEASES (CONT.):

Lease liabilities:

	Lease liabilities	
	Vehicles	Total
As of January 1, 2022	\$ -	\$ -
Additions	(58)	(58)
Interest expenses	(3)	(3)
Payments	17	17
Foreign currency translation	(1)	(1)
As of December 31, 2022	\$ (45)	\$ (45)

NOTE 9 – OTHER PAYABLES:

	December 31, 2022	December 31, 2021
Accrued expenses	\$ 151	\$ 96
Issuance expenses	-	58
Short-term lease liability	24	-
Owed to director	22	-
Other	81	105
Total	\$ 278	\$ 259

NOTE 10 – SHAREHOLDERS' EQUITY:

A. Share capital

The Company's authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of preferred shares that are non-voting, subject to non-cumulative dividends at a rate set by the Board at the time of their issuance, redeemable at paid up capital both the holder's and the Company's option. The Authorized and Issued and outstanding share capital, is as follows:

	Authorized		Issued and outstanding	
	As of December 31,			
	2022	2021	2022	2021
Consolidated Common Shares without a nominal par value	Unlimited	Unlimited	42,855,159	24,826,519

NUREXONE BIOLOGIC INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10 – SHAREHOLDERS’ EQUITY (CONT.):

B. Issued and outstanding

A summary of the change in the issued and outstanding Common Shares for the two years period ended December 31, 2022, is as follows:

	Issued Shares (*)
Outstanding shares as of December 31, 2020	16,974,321
Issued shares of NurExone Ltd Private Placement in June 2021	(1) 1,408,076
Issued Consultant Services Shares in August 2021	(2) 1,020,000
Issued shares of NurExone Ltd Private Placement from August to December 2021	(3) 5,424,122
Outstanding shares as of December 31, 2021	24,826,519
Exercised warrants in February 2022	(4) 3,927,000
Issued Consultants Services Shares from January to March 2022	(5) 2,779,160
Issued shares of NurExone Ltd Convertible Notes in April 2022	(6) 2,684,249
Issued shares of NurExone Ltd Private Placement in April 2022	(7) 2,465,221
Issued Advisory Services Shares on May 13, 2022	(8) 1,150,000
Issued shares of EnerSpar Subscription Receipts in June 2022	(9) 4,551,814
Issued debt settlement with EnerSpar’s creditors in November 2022	(10) 348,766
Issued debt settlement with EnerSpar’s creditors in December 2022	(11) 122,430
Outstanding shares as of December 31, 2022	42,855,159

(*) The share split has been retroactively presented in all periods. (Note 1(C)).

- (1) In June 2021, with respect to the completion of a Private Placement, NurExone Ltd issued a total of 1,408,076 Common Shares at a share price of CAD \$0.44. (Note 10(D)(1)).
- (2) In August 2022, NurExone Ltd issued 1,020,000 Common Shares to Consultant at a share price of CAD \$0.44 for total consideration of \$360 in connection with consulting services.
- (3) From August to December 2021, with respect to the completion of a Private Placement, NurExone Ltd issued a total of 5,424,122 Common Shares at a share price of CAD \$0.44. (Note 10(D)(2)).
- (4) On February 7, 2022, Technion Research and Development Foundation Ltd., ("TRDF") exercised 3,927,000 warrants to Common Shares at a share price of CAD\$0.005.
- (5) From January to March 2022, NurExone Ltd issued 2,779,160 Common Shares to several Consultants at a share price of CAD \$0.44 for total consideration of CAD \$1,223 in connection with consulting services.

NUREXONE BIOLOGIC INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10 – SHAREHOLDERS' EQUITY (CONT.):

B. Issued and outstanding (cont.)

- (6) Refer to Note 1(D)(i) with respect to the conversion of NurExone Ltd Convertible Notes to a total of 2,684,249 Common Shares at a share price of CAD \$0.59.
- (7) Refer to Note 1(D)(ii) with respect to the completion of NurExone Ltd Private Placement to a total of 2,465,221 Common Shares at a share price of CAD \$0.44.
- (8) NurExone Ltd issued 1,150,000 Common Shares (Exiteam Capital Partners Ltd.) at a share price of CAD \$0.80 for total consideration of CAD \$920 for financial advisory services related to a going public transaction on a Canadian stock exchange.
- (9) Refer to Note 1(D)(iii) with respect to the completion of EnerSpar Subscription Receipts to a total of 4,551,814 Common Shares at a share price of CAD \$0.80.
- (10) On November 7, 2022, the TSXV approved an issuing at a premium over the current Common Share price to settle certain EnerSpar's debts prior to RTO. The Company offered 170,195 Common Shares at a deemed price of CAD \$0.80 per share to settle indebtedness of CAD \$136 owed to certain senior officers, directors, creditors, and consultants of EnerSpar. In addition, the TSXV approved additional securities for debt settlement to settle additional debts in the amount of CAD \$75 with the issuance of 178,571 Common Shares of the Company at a deemed price of CAD \$0.42 per share. These debts were incurred during the recent RTO. The common shares issued will be subject to a four-month plus one-day hold period pursuant to the policies of the TSX Venture Exchange.
- (11) On December 6, 2022, the TSXV approved an issuing at the current Common Share price to settle certain EnerSpar's debts prior to RTO. The Company offered 122,430 Common Shares at a deemed price of CAD \$0.38 per share to settle indebtedness of CAD \$47 owed to a creditor of EnerSpar. The common shares issued will be subject to a four-month plus one-day hold period pursuant to the policies of the TSX Venture Exchange.

C. Incentive Share Option Plan

On December 19, 2022, following the board approval, the shareholders approved the 2022 equity incentive plan ("the Equity Incentive Plan") of the Company, to be effective at that day. The Equity Incentive Plan has replaced the Option Plan that was in place. The number of Shares reserved for issuance to Participants under the Equity Incentive Plan and all other share compensation arrangements of the Company (including the Shares reserved for issuance pursuant to the Option Plan) is set at a fixed limit of up to an aggregate of 7,691,891 Shares, such number is being equal to approximately 18% of the issued and outstanding Shares at the Annual and Special meeting of shareholders. If any Award is terminated, cancelled, forfeited or has expired without being fully exercised, any unissued Shares that had been reserved to be issued upon the exercise of the Award will be returned to the Total Share Authorization and become available to be issued under Awards subsequently granted under the Equity Incentive Plan.

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NOTE 10 – SHAREHOLDERS’ EQUITY (CONT.):

C. Incentive Share Option Plan (cont.)

As of December 31, 2022, the Company had 3,633,396 Common Shares available for issuance pursuant to the exercise or vesting of awards under the Company’s equity incentive plan.

	Number of Options (*)
Share options outstanding as of December 31, 2020	12,500 (**)
Grant of NurExone options on August 26, 2021	3,947,995
Cancellation of NurExone options on November 14, 2021	(125,800)
Share options outstanding as of December 31, 2021	3,834,695
Grant of NurExone options on January 23, 2022	374,000
Forfeiture of NurExone options on March 30, 2022	(44,200)
Expiry of EnerSpar options on May 4, 2022	(12,500) (**)
Forfeiture of NurExone options in December 2022	(93,500)
Share options outstanding as of December 31, 2022	4,058,495

(*) The share split has been retroactively presented in all periods. (Note 1(C)).

All share options at an exercise price of CAD \$0.80.

(**) 12,500 share options of EnerSpar granted to a director that were expired unexercised.

D. Warrants

A summary of the change in the share purchase warrants outstanding for the two years period ended December 31, 2022, is as follows:

		Outstanding (*)	Weighted-average exercise price (CAD\$)
Outstanding warrants as of December 31, 2020		3,927,000	0.005
Issued warrants of NurExone Ltd Private Placement	(1)	1,408,076	1.20
Issued warrants of NurExone Ltd Private Placement	(2)	5,424,122	1.20
Issued warrants of NurExone Ltd Convertible Notes	(3)	1,091,974	1.20
Outstanding warrants as of December 31, 2021		11,851,172	0.80
Issued warrants of NurExone Ltd Convertible Notes	(3)	282,599	1.20
Exercised NurExone Ltd warrants to shares offering	(4)	(3,927,000)	0.005
Issued warrants of EnerSpar Subscription Receipts	(5)	4,551,814	1.20
Issued warrants of NurExone Ltd Private Placement	(6)	2,465,221	1.20
Outstanding warrants as of December 31, 2022		15,223,806	1.20

(*) After giving effect to the share split.

NUREXONE BIOLOGIC INC.
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NOTE 10 – SHAREHOLDERS’ EQUITY (CONT.):

D. Warrants (cont.)

Following the acceptance of the RTO on June 20, 2022 ("the RTO acceptance date"), and pursuant to the Securities Exchange Agreement, all ordinary shares, warrants, and options of NurExone Ltd were exchanged for instruments of the Company on a 17:1 post-consolidation basis.

Following the RTO, the warrants meet the fixed-to-fixed criteria under IAS 32, and therefore the warrants’ liability classified to warrants equity as of the securities exchange date.

(1) NurExone Ltd Private Placement

Issued 1,408,076 Common Share purchase warrants at an exercise price of CAD \$1.20 per warrant, with respect to the completion of a NurExone Ltd Private Placement in June 2021, for a total of 1,408,076 Common Shares at a share price of CAD \$0.44.

(2) NurExone Ltd Private Placement

Issued 5,424,122 Common Share purchase warrants at an exercise price of CAD \$1.20 per warrant, with respect to the completion of a NurExone Ltd Private Placement from August to December 2021, for a total of 5,424,122 Common Shares at a share price of CAD \$0.44.

(3) NurExone Ltd Convertible Notes

Prior to the filed filing statement dated May 12, 2022, the Convertible Notes and accrued interest thereon were fully converted on April 30, 2022 (“conversion date”), into a total of 2,684,249 Common Shares and 1,374,573 Common Share purchase warrants at an exercise price of CAD \$1.20 per warrant.

A total of 1,091,974 Common Share purchase warrants as of December 31, 2021, and 28,406 Common Share purchase warrants as of the conversion date were re-measured at a fair value of \$58.

An additional 254,193 Common Share purchase warrants issued pursuant to the convertible notes, as of the conversion date, were accounted at first at a fair value of \$19, and the total warrants derivative amounted to \$77, as of the RTO acceptance date, was allocated as warrants equity. (Note 1(D)(i)).

(4) On February 7, 2022, TRDF exercised 3,927,000 warrants to Common Shares at a share price of CAD\$0.005.

(5) EnerSpar Subscription Receipts

The subscription receipts have been converted for a total of 4,551,814 Common Shares at a share price of CAD \$0.80 and 4,551,814 Common Share purchase warrants with an exercise price of CAD \$1.20 per warrant. The warrants were accounted at first at a fair value of \$343 as warrants equity. (Note 1(D)(iii)).

(6) NurExone Ltd Private Placement

Issued 2,465,221 Common Share purchase warrants in April 2022, at an exercise price of CAD \$1.20 per warrant, which were accounted at a fair value of \$175. (Note 1(D)(ii)).

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NOTE 11 – RESEARCH AND DEVELOPMENT EXPENSES:

	Year ended December 31, 2022	Year ended December 31, 2021
Service providers ⁽¹⁾	\$ 461	\$ 383
Salary and related expenses	623	103
Share-based compensation	95	22
Patents expenses	111	61
Laboratory materials	82	-
Depreciation	1	-
Other	18	4
Total	\$ 1,391	\$ 573

(1) Services provider’s expenses amounted to \$461 as of December 31, 2022, which mainly included \$336 for sponsored research services by TRDF (Note 16), \$61 for professional services, and \$64 for collaboration expenses with Polyrizon. (Note 17(4)).

NOTE 12 – GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31, 2022	Year ended December 31, 2021
Salary and related expenses	\$ 668	\$ 197
Share-based compensation	138	152
Professional services ⁽¹⁾	3,050	709
Legal fees	143	53
Insurance expenses	54	-
Amortization of right-of-use assets	14	-
Other	83	29
Total	\$ 4,150	\$ 1,140

(1) Professional services expenses amounted to \$3,050 as of December 31, 2022, which mainly included \$2,286 for strategic consultants, \$498 for IR/PR services, \$237 for audit and accounting services, and \$29 for other services.

NUREXONE BIOLOGIC INC.
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NOTE 13 – LISTING EXPENSES:

Completion of the RTO with EnerSpar

On June 15, 2022, the Company completed the RTO with NurExone Ltd. The common shares in the capital of the Company (“Common Shares”) were consolidated with each 10 pre-consolidation Common Shares being exchanged for 1 post-consolidation Common Share.

On June 20, 2022, the final acceptance of the RTO was effected pursuant to the terms of a securities exchange agreement dated January 3, 2022, as amended on April 12, 2022. Pursuant to the securities exchange agreement, the Company acquired each ordinary share of NurExone Ltd in exchange for 17 post-consolidation Common Shares.

For accounting purposes, NurExone Ltd is considered the accounting acquirer, and EnerSpar is considered the acquired company. Since EnerSpar 's operations do not constitute a business, the acquisition of EnerSpar is not a business combination pursuant to IFRS 3 and the transaction is accounted for as a reverse takeover of the publicly traded company. A reverse takeover transaction involving a non-public operating company and non-operating public company is in substance a share-based payment transaction, rather than a business combination.

The reverse takeover was accounted for under IFRS 2 Share-based Payments. Accordingly, the acquisition of EnerSpar was accounted for at the fair value of the consideration transferred by the accounting acquirer, which is the fair value of the equity instruments of NurExone would have had to issue to the owners of EnerSpar to effect the transaction. The difference between the net liabilities acquired, and the fair value of the consideration granted was accounted for as a listing expense.

The transaction is equivalent to the issuance of shares by the non-public operating company, NurExone Ltd, for the net assets and the listing status of the non-operating public company, EnerSpar.

Current shareholders of the Company acquired 2,536,000 post-consolidation common shares of EnerSpar at a deemed value of CAD\$0.80 per share, representing 6% of the common shares of EnerSpar (undiluted) as constituted upon completion of the transaction and the private placement. The transaction was accounted for as a reverse takeover.

Listing expenses are as follows:

	Year ended December 31, 2022
Fair value of consideration of 2,536,000 EnerSpar Shares at CAD \$0.80	\$ 1,605
Net liabilities of EnerSpar ⁽¹⁾	242
Reverse takeover transaction cost	\$ 1,847
Indirect issuance costs ⁽²⁾	\$ 231
Listing expenses	\$ 2,078

(1) Net liabilities of EnerSpar amounted to \$242, as of the RTO completion on June 15, 2022, which mainly included \$136 for accounts payables, \$123 for debt to the director, and (\$17) for HST/GST receivables.

(2) Indirect issuance costs are mainly related to legal expenses.

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NOTE 14 – FINANCE (INCOME) EXPENSES, NET:

	Year ended December 31, 2022	Year ended December 31, 2021
Revaluation of financial derivatives	\$ 280	\$ (60)
Currency exchange expenses	28	(19)
Convertible notes interest	33	12
Revaluation of warrants liability	158	-
Revaluation of a royalty liability	66	-
Bank fees and credit card	(15)	1
Total	\$ 550	\$ (66)

NOTE 15 – TAXES ON INCOME:

A. Tax rate applicable to income in Canada

For the Canadian Company (“NurExone Inc”), the Canadian statutory income tax rate of 26.5% for both 2022 and 2021 is comprised of the Federal and provincial income tax rates of 15% and 11.5%, respectively, for both years.

B. Tax rate applicable to income in Israel

The Israeli corporate tax rates are 23% in 2022 and 2021.

The Israeli Company, NurExone Ltd, has not received a final tax assessment since its inception.

C. Net operating losses carry-forwards

As of December 31, 2022, NurExone Inc has accumulated non-capital losses of \$1,071, which will be expired from 2031 to 2041.

As of December 31, 2022, NurExone Ltd has accumulated non-capital losses of \$6,234, which may be deducted in the calculation of taxable income in future years.

D. Reconciliation of statutory rate income tax to the Company’s effective tax rate

The Company’s income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company’s effective tax rate is as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Loss before income tax	\$ (8,237)	\$ (1,642)
Theoretical tax at applicable statutory tax rate (26.5%, 23%)	2,183	378
Different tax rates applied in overseas jurisdictions (3.5%)	(288)	-
Deferred tax that cannot be recognized due to uncertainty	(1,895)	(378)
Income tax expenses	\$ -	\$ -

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NOTE 16 – RELATED PARTIES:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party’s making of financial or operational decisions, or if both parties are controlled by the same third party. The Company has transactions with key management personnel and directors.

Key management personnel compensation

Key management personnel compensation and director’s fees comprised the following:

<u>Expenses</u>	Year ended December 31, 2022	Year ended December 31, 2021
Key management personnel - Salary and related expenses	\$ 583	\$ 181
Key management personnel - Share-based compensation	81	77
Director’s fees - Service provider expenses	11	-
Director’s fees - Share-based compensation	13	5
Total	\$ 688	\$ 263

<u>Balances</u>	December 31, 2022	December 31, 2021
Balances owing to the CEO	\$ 80	\$ 27
Balances owing to the CFO	80	12
Balances owing to the VP of Strategic Development	56	18
Balances owing to directors	29	92
Total	\$ 245	\$ 149

Issuance of Common Shares to Directors

A total of 117,033 Common Shares were issued as a debt settlement, which debt amounted to CAD \$94 owed to a director of the Company that was a creditor of EnerSpar, at a share price of CAD \$0.80.

Related party (“TRDF”)

TRDF is a key vendor and main shareholder, which holds 9% on a fully diluted basis.

On June 23, 2020, NurExone Ltd and TRDF signed on a Sponsored Research Agreement from September 2020 to October 2021.

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NOTE 16 – RELATED PARTIES (CONT.):

Related party (“TRDF”) (cont.)

On October 21, 2021, NurExone Ltd signed the first amendment to extend the agreement until March 31, 2022, in the same consideration.

On April 1, 2022, NurExone Ltd signed a second amendment to extend the agreement until September 30, 2023, for a total consideration of \$411 in three (3) equal installments on a half-year basis, as follows: Q2-2022, Q4-2022, Q2-2023. In the event that the Company decides to terminate the service agreement, this would not result in the termination of the License Agreement with TRDF.

On May 15, 2022, NurExone Ltd signed on lab services agreement with TRDF from May 2022 until December 2022 for a total consideration of \$30 in two (2) equal installments.

On February 27, 2023, NurExone Ltd signed on lab services agreement with TRDF from January to June 2023, for a total consideration \$43 in two (2) equal installments.

The transactions and balances of the Company to TRDF are as follows:

Assets related to related party

	December 31, 2022	December 31, 2021
	<hr/>	<hr/>
Other receivables	\$ 65	\$ -
	<hr/>	<hr/>

Liabilities related to related party

	December 31, 2022	December 31, 2021
	<hr/>	<hr/>
Other account payables	\$ -	\$ 59
	<hr/>	<hr/>

Expenses

	Year ended December 31, 2022	Year ended December 31, 2021
	<hr/>	<hr/>
Transactions	\$ 336	\$ 464
	<hr/>	<hr/>

NUREXONE BIOLOGIC INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 17 – COMMITMENT AND CONTINGENT LIABILITIES:

- (1) In June 2020, the Company signed an exclusive worldwide license agreement with TRDF and Ramot at Tel Aviv University Ltd ("Ramot"), the licensors of the technology, to take responsibility for the development, clinical studies, and commercialization of the technology as a licensor and/or sub-licensor. The technology comprises provisional patents, owned by TRDF and Ramot for use of certain intellectual property relating to the Exosomes initiative. The license term is on a Product-by-Product and a country-by-country basis until the later of 15 years following a first commercial sale of a product in such country or the date of expiry of the last of the licensed patents in such country.

In consideration for the exclusive worldwide license agreement:

- (a) Shares issuance - the Company issued 1,683,000 common shares to Ramot and 3,927,000 warrants to purchase shares to TRDF at an exercise price of CAD \$0.005 for common shares, which were fully exercised in February 2021, for a total amount of \$16.
- (b) Royalty payments - the Company shall pay TRDF the following payments:
- (i) 4.25% on net sales of products sold by the Company or its affiliates; and
 - (ii) 50% of the amounts received by the Company or its affiliates on account of sales of products by sublicensees, but in any case, not less than 2% and not more than 4.25% of the net sales of the sublicensee.
- (c) A minimum royalty payment of \$20 payable as of the 3rd anniversary, which shall increase by 30% every year, to a limit of \$50.
- (d) The Company shall also pay sublicense fees at the rate of 16%.

The fair value of the above-mentioned future payments described in (c) and (d) was valued at \$90, as of December 31, 2022.

- (2) On June 22, 2022, the Company retained Questrade Inc., an unrelated entity to the Company, to provide market-making services for a fee of CAD \$5.5 per month. The engagement is for an initial term of one year and is automatically renewable for successive one-year terms.
- (3) On July 5, 2022, the Company signed a services agreement with Thesis Capital Inc. ("Thesis"). Thesis provides investor relations and advisory services to the Company. Pursuant to the agreement, Thesis will be paid a monthly retainer of CAD \$5.5 for a period of 12 months.
- (4) On July 11, 2022, NurExone Ltd signed a collaboration agreement with Polyrizon Ltd. ("Polyrizon") for intranasal administration of exosome therapy. NurExone Ltd shall pay EUR €215 in three equal installments, subject to certain milestones. The Company has paid the first installment. In addition, the Company shall pay \$3,350, upon completion of development milestones. NurExone expects to be able to perform a biological efficacy study of the intranasal system by Q2-23. Moreover, NurExone shall pay royalties to Polyrizon from revenue as follows: (i) for an income of \$50-\$2,500, the Company shall make a royalty payment of 2.25% from net income; (ii) for an income of \$2,500-\$10,000, the Company shall make a royalty payment of 2.75% from net income; (iii) for an income of \$10,000 and above, the Company shall make a royalty payment of 3.25% from net income; and (iv) for an income through a sublicense, the Company shall make a royalty payment equal to 35% from net income relating to such sublicense. As disclosed in the agreement, the execution of each of the development steps of the project is subjected to the Company's approval including the tasks and timelines, based on a signed work order.

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NOTE 17 – COMMITMENT AND CONTINGENT LIABILITIES (CONT.)

- (5) On July 18, 2022, NurExone Ltd signed a material transfer agreement with Yissum Research Development Company of the Hebrew University of Jerusalem Ltd (“Yissum”). The Company will make biological, chemical, and other tangible materials, at no charge, available for the use of Yissum for research purposes. NurExone Ltd has the option to receive an exclusive license to the jointly owned results and related intellectual property that may arise from the research, in the field of neurodegenerative diseases and central nervous system indications upon commercialization, subject to terms and conditions.
- (6) On August 16, 2022, the Company signed a business services agreement with public eye CONSULTING BUSCHE. The engagement is for an initial term of 12 months, starting September 1, 2022. The Company agreed to pay a total fee of CAD \$252 in three installments: 33% upon agreement signing; 33% 4 months after the 1st installment; and the remaining balance 4 months after the 2nd installment. The second and third installments have not been paid, due to the Company’s request to hold services, which have not been continued as of the date hereof.
- (7) On September 1, 2022, the Company signed a letter of intent for international strategic collaboration with denovoMATRIX GMBH towards large-scale exosome production. The primary aim of the collaboration is to develop a mutually beneficial supply agreement, whereby denovoMATRIX will develop and provide technologies enabling large-scale exosome production.
- (8) On September 18, 2022, NurExone Ltd signed a letter of intent for research collaboration with Nanometrix Ltd. (“Nanometrix”). Nanometrix will process and analyze the exosome and cargo samples provided by the Company using its technology and produce a molecular profile of the exosomes received.

NOTE 18 – LOSS PER SHARE:

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share amounts is calculated by dividing net loss attributable to common shareholders by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential of warrants and options into common shares if the warrants and/or options are exercisable at prices less than the then market price. During the years ended December 31, 2022, and 2021, shares issuable on exercise of all the outstanding stock options were not included in the computation of diluted loss per share as the effect would have been anti-dilutive owing to the loss incurred.

Details of the number of shares and loss used in the computation of net loss per share:

	Year ended December 31, 2022	Year ended December 31, 2021
Loss for the year attributed to shareholders	\$ 8,169	\$ 1,647
Weighted average number of ordinary shares (*)	37,733,703	16,452,064
Basic and diluted loss per share	\$ 0.216	\$ 0.100

(*) The share split has been retroactively presented in all periods. (Note 1(C)).

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NOTE 19 - FINANCIAL RISK FACTORS:

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(1) Credit risk:

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash. The Company's cash balance was held at major Canadian and Israeli institutions.

The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

(2) Liquidity risk:

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they come due by raising sufficient funds. As of December 31, 2022, the Company had \$2,096 current liabilities that exceeded its total assets (December 31, 2021 - \$1,177), and the Company has little exposure to liquidity risk, as it will balance expenditures with available working capital and its available funds are held in appropriately liquid instruments in extremely credit-worthy financial institutions.

The Company is in the research and development stage and has incurred losses with no expectation for any revenue in the further period and expects to continue to finance itself through raising adequate funds in the foreseeable future. Management believes the Company may not have sufficient funds to cover planned operations throughout the next twelve months. However, management may secure additional financing through the issue of new equity and/or debt. There is no assurance that these initiatives will be successful. These events and conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

(3) Capital management:

The Company considers its capital to be comprised of shareholders' equity. The Company's objectives in managing its capital are to maintain its ability to continue as a going concern and to further develop its business.

(4) Foreign currency risk:

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The functional currency of the Company is the Canadian dollar, and the functional currency of the subsidiary, NurExone Ltd is the New Israeli Shekel. The Company does not currently enter into forwarding contracts to mitigate this risk. The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates.

As of December 31, 2022, a 5% increase/decrease in the NIS/CAD currency rate would decrease/increase the net loss by \$9 (2021 - \$56).

As of December 31, 2022, a 5% increase/decrease in the NIS/USD currency rate would increase/decrease the net loss by \$8 (2021 - \$84).

(5) Fair value:

The carrying values of other receivables approximate their fair values due to their short terms to maturity. The cash is valued using quoted market prices in active markets.

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NOTE 20 - SUBSEQUENT EVENTS:

- (1) On January 11, 2023, the Company signed a services agreement with Only Orphans Cote LLC (“Only Orphans Cote”). Only Orphans Cote will write the FDA Orphan Drug Designation application for the Company drug treatment of acute spinal cord injury, which is expected to be completed within three to four weeks of executing an engagement letter. The Company shall pay \$41 for the service in two installments: 50% payment due upon return of the signed proposal, and the remaining 50% balance due upon completion of the final draft.
- (2) On January 17, 2023, the Company signed a services agreement with Bio Pharmax Group (1996) Ltd. (“Bio Pharmax”). Bio pharmax shall provide detailed design for the research labs, which are expected to be built by the Company. The Company shall pay \$27 plus VAT for the service in two installments: 50% upfront payment, and the remaining 50% balance upon design completion, but not before April 1, 2023.