

Unaudited Interim Condensed Consolidated Financial
Statements of

ELEMENT NUTRITIONAL SCIENCES INC.

For the three and six months ended June 30, 2021
and 2020
(Unaudited)

ELEMENT NUTRITIONAL SCIENCES INC.

For the three and six months ended June 30, 2021 and 2020

Table of Contents	Page
Notice of no auditor review of interim financial statements	1
Interim Condensed Consolidated Balance Sheets	2
Interim Condensed Consolidated Statements of Loss and Comprehensive Loss	3
Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency)	4
Interim Condensed Consolidated Statements of Cash Flows	5
Notes to Unaudited Interim Condensed Consolidated Financial Statements	6 - 21

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors of the Company.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

ELEMENT NUTRITIONAL SCIENCES INC.

Interim Condensed Consolidated Balance Sheets
As at June 30, 2021 and December 31, 2020
(Unaudited)

	June 30, 2021	December 31, 2020
Assets		
Current assets		
Cash	\$ 5,812,178	\$ 87,481
Amounts receivable (note 4)	965,942	626,976
Prepaid expenses	421,400	77,200
Inventories (note 5)	2,240,440	341,053
	9,439,960	1,132,710
Non-current assets		
Property and equipment (note 6)	86,109	68,362
Right-of-use assets (note 7)	70,963	99,443
Total assets	9,597,032	1,300,515
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities		
Bank demand loan (note 8)	300,000	500,000
Accounts payable and accrued liabilities	3,324,661	2,432,240
Current portion of notes payable (note 9)	451,372	456,372
Current portion of government loans (note 13)	249,350	256,150
Current portion of lease liabilities (note 7)	52,996	55,890
	4,378,379	3,700,652
Non-current liabilities		
Long-term portion of lease liabilities (note 7)	25,853	52,060
Government loan (note 13)	28,045	27,423
Notes payable (note 9)	-	25,000
Total liabilities	4,432,277	3,805,135
Shareholders' equity (deficiency)		
Share capital (note 10)	20,556,538	10,925,635
Common shares to be issued	-	354,374
Options and warrants (note 10)	3,048,890	131,728
Accumulated other comprehensive loss	13,522	60,264
Deficit	(18,454,195)	(13,976,621)
Total shareholders' equity (deficiency)	5,164,755	(2,504,620)
Total liabilities and shareholders' equity (deficiency)	\$ 9,597,032	\$ 1,300,515

Going concern (note 3)
Commitments and contingencies (note 16)
Subsequent events (note 18)

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

ELEMENT NUTRITIONAL SCIENCES INC.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
For the three and six months ended June 30, 2021 and June 30, 2020
(Unaudited)

	For the three months June 30, 2021	For the three months June 30, 2020	For the six months June 30, 2021	For the six months June 30, 2020
Revenue from sale of goods	\$1,080,514	\$302,873	\$1,426,248	\$479,920
Cost of sales	847,839	162,187	1,192,854	285,728
	\$232,675	140,686	\$233,394	194,192
Operating expenses:				
Salaries and wages	250,357	59,357	974,660	279,334
Advertising and marketing	1,208,111	114,134	1,411,438	187,486
Professional fees	2,343,164	9,351	2,814,991	13,121
General and administrative	96,547	51,866	139,070	133,159
Depreciation and amortization	21,134	40,547	39,766	78,798
Product development	750	2,021	2,785	32,950
	3,920,063	277,276	5,382,710	724,848
Operating loss	(3,687,388)	(136,590)	(5,149,316)	(530,656)
Other income (expenses)				
Other income	617,905	13,344	621,093	13,386
Finance costs:				
Interest expense	(13,996)	(9,692)	(20,358)	(17,272)
Bank charges	(5,902)	(3,043)	(15,365)	(10,800)
Foreign exchange gain (loss)	40,171	(1,707)	86,372	(22,273)
	638,178	(1,098)	671,742	(36,959)
Loss before income taxes	(3,049,210)	(137,688)	(4,477,574)	(567,615)
Income tax expense	-	-	-	-
Net loss	(3,049,210)	(137,688)	(4,477,574)	(567,615)
Other comprehensive loss (gain)				
Foreign currency translation	7,510	(31,111)	(46,742)	14,518
Net loss and other comprehensive loss	(\$3,041,700)	(\$168,799)	(\$4,524,316)	(\$553,097)
Basic and diluted loss per common share	(0.04)	(0.01)	(0.06)	(0.03)
Weighted average number of common shares outstanding	81,104,110	17,153,936	71,062,780	17,153,936

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

ELEMENT NUTRITIONAL SCIENCES INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the six months ended June 30, 2021 and June 30, 2020

(Unaudited)

	Share capital	Options and warrants	Common shares to be issued	Accumulated other comprehensive loss	Deficit	Total equity
Balance, December 31, 2020	\$10,925,635	\$ 131,728	\$ 354,374	\$ 60,264	\$(13,976,621)	\$ (2,504,620)
Shares issued (note 10)	354,374	-	(354,374)	-	-	-
Stock options (note 10)	-	511,419	-	-	-	511,419
Warrants issued (note 10)	-	327,500	-	-	-	327,500
Shares and warrants issued for cash (note 10)	10,590,009	1,533,391	-	-	-	12,123,400
Finders' fees for issuance of shares paid in cash (note 10)	(868,628)	-	-	-	-	(868,628)
Warrants issued as finders' fees (note 10)	(544,852)	544,852	-	-	-	-
Common shares issued as private placement (note 10)	125,000	-	-	-	-	125,000
Common shares issued as finder's fees (note 10)	(125,000)	-	-	-	-	(125,000)
Common shares issued for services (note 10)	100,000	-	-	-	-	100,000
Net loss and other comprehensive loss	-	-	-	(46,742)	(4,477,574)	(4,524,316)
Balance, June 30, 2021	\$20,556,538	\$ 3,048,890	\$ -	\$ 13,522	\$(18,454,195)	\$ 5,164,755

	Share capital	Options and warrants	Common shares to be issued	Accumulated other comprehensive loss	Deficit	Total deficiency
Balance, December 31, 2019	\$ 3,313,116	\$ -	\$ -	\$ -	\$(6,160,303)	\$ (2,847,187)
Net loss and other comprehensive loss	-	-	-	14,518	(567,615)	(553,097)
Balance, June 30, 2020	\$ 3,313,116	\$ -	\$ -	\$ 14,518	\$(6,727,918)	\$ (3,400,284)

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

ELEMENT NUTRITIONAL SCIENCES INC.

Interim Condensed Consolidated Statements of Cash Flows
For the six months ended June 30, 2021 and June 30, 2020
(Unaudited)

	June 30, 2021	June 30, 2020
Operating activities		
Net loss	\$ (4,477,574)	\$ (567,615)
Items not involving cash:		
Depreciation of property and equipment	12,888	8,117
Depreciation of right-of-use asset	26,878	70,681
Government assistance	-	(13,186)
Interest accretion	4,703	1,375
Share based compensation	938,919	-
	(3,494,186)	(500,628)
Changes in non-cash operating working capital:		
Decrease in amounts receivable	(346,372)	(107,874)
Decrease in prepaid expenses	(520,384)	(7,737)
Decrease in inventories	(1,741,626)	(29,488)
Increase in accounts payable and accrued liabilities	916,158	260,798
Cash used in operating activities	(5,186,410)	(384,929)
Investing activities		
Purchase of property and equipment	(30,929)	-
Cash used in investing activities	(30,929)	-
Financing activities		
Proceeds from issuance of common shares, net	12,123,400	-
Payment of finder's fees	(868,628)	-
Repayment of notes payable	(30,000)	-
(Repayment) proceeds from demand loan	(200,000)	491,391
Repayment to shareholder	-	(36,779)
Principal repayments of lease liabilities	(26,178)	(74,255)
Proceeds from government loan	-	40,000
Repayment of working capital loan	-	(135,351)
Cash provided by financing activities	10,998,594	285,006
Net increase (decrease) in cash	5,781,255	(99,923)
Impact of foreign exchange rate changes on cash	(56,558)	13,143
Cash, beginning of period	87,481	104,829
Cash, end of period	\$ 5,812,178	\$ 18,049
Supplementary information		
Interest paid	-	-
Income tax paid	-	-

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

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

Element Nutritional Sciences Inc. (the “Company”), formerly PJ1 Capital Corp., was incorporated under the Business Corporations Act of British Columbia on June 25, 2018. Effective August 31, 2020, the Company changed its name from PJ1 Capital Corp. to Element Nutritional Sciences Inc.

The Company completed the acquisition of Element Nutrition Inc. (“Element”) through a share exchange agreement (“RTO Transaction”) whereby the Company acquired all the issued and outstanding shares of Element on August 31, 2020, with the former shareholders of Element obtaining control of the Company. On the same date, the Company completed the acquisition of Hammock Pharmaceuticals, Inc. (“Hammock”) through an agreement and plan of merger. References to PJ1 Capital Corp. prior to the RTO Transaction herein are referred to as “PJ1 Capital”.

Element was incorporated under the laws of the province of Ontario on July 11, 2014 and sells nutritional supplements in the form of powders and bars under various brands. Element has completed the development and has begun the commercialization of its flagship brand Rejuvenate.

Following the RTO Transaction, the Company is controlled by Element. Since Element controls the Company after the RTO Transaction, the transaction was accounted for as a reverse acquisition of the Company by Element for accounting purposes.

The historical figures presented in these interim condensed consolidated financial statements represents those of Element and its subsidiaries. The acquired assets and liabilities and results of operations and cash flows of PJ1 Capital and Hammock are reflected only for periods from the acquisition date on August 31, 2020.

The registered office of the Company is located at 1100 Walkers Line, Suite 401 in Burlington, Ontario.

1. Basis of presentation

a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee. Accordingly, certain disclosures included in annual consolidated financial statements prepared in accordance with IFRS have been condensed or omitted and these unaudited interim condensed consolidated financial statements should be read in conjunction with the notes to the Company’s audited consolidated financial statements for the year ended December 31, 2020.

The unaudited interim condensed consolidated financial statements have been authorized for issuance by the Board of Directors on August 30, 2021.

b) Basis of measurement

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis under the historical cost method.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

1. Basis of presentation (continued)

c) Basis of consolidation

The unaudited interim condensed consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiaries, Jaktrx Inc., which was incorporated on June 17, 2014 and acquired by the Company on March 2, 2018, and Element Nutrition Ltd., which was incorporated on December 3, 2018 in the state of Nevada, Element Nutrition Inc., which was acquired in an RTO on August 31, 2020 and Hammock Pharmaceuticals, Inc. which was acquired on August 31, 2020. The Company controls an entity when it has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company consolidates subsidiaries from the date control is obtained and ceases to consolidate a subsidiary on the date control is lost.

All intercompany balances and transactions have been eliminated upon consolidation and preparation of these unaudited interim condensed consolidated financial statements.

d) Functional and presentation currency

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency for the Company, Element Nutrition Inc. and Jaktrx Inc. is Canadian dollars and the functional currency for Element Nutrition Ltd. and Hammock Pharmaceuticals, Inc. is U.S. dollars. Foreign currency differences are recognized in other comprehensive income (loss) in the cumulative translation account within accumulated other comprehensive income (loss).

e) Use of estimates and judgments

The preparation of the unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities, the disclosures about contingent assets and liabilities, and the reported amounts of revenues and expenses.

The estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. Management adjusts such estimates and assumptions when facts and circumstances dictate. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period relate to:

- i. Note 3 – going concern.
- ii. Estimating the Company's incremental borrowing rate in connection with measuring lease liabilities involves judgment when the interest rate implicit in a lease is not readily determinable.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

1. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

- iii. Determining estimates and assumptions in measuring deferred tax assets and liabilities. The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. Changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in the provision for income taxes.
- iv. Note 10 – determination of the fair value of warrants and options issued estimated at the date of grant using a Black-Scholes pricing model using key assumptions on the life of the warrants, volatility, and risk-free interest rate.

2. Significant accounting policies

These unaudited interim condensed consolidated financial statements have been prepared using the same accounting policies, significant accounting judgments and estimates, and methods of computation as the annual consolidated financial statements of the Company as at and for the year ended December 31, 2020, with the exception of the impact of certain amendments to accounting standards or new interpretations issued by the IASB which are applicable for annual periods beginning on or after January 1, 2021.

Changes in accounting standards effective January 1, 2021:

IFRS 3 - Business Combinations

In October 2018, new amendments to IFRS 3 were issued to provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The adoption of this amendment did not have an impact on the unaudited interim condensed consolidated financial statements.

IAS 1 - Presentation of Financial Statements

In October 2018, new amendments to IAS 1 were issued to provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications. The adoption of this amendment did not have an impact on the unaudited interim condensed consolidated financial statements.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

3. Going concern

These unaudited interim condensed consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company has experienced a net loss and negative cash outflows from operations for the six months ended June 30, 2021. While the Company has experienced an increase in the number of locations in which its products are sold, the Company is dependent on additional sources of liquidity to discharge its current liabilities and finance continued growth and operations. While the Company has secured additional sources of liquidity as described in note 10, the Company's ability to continue as a going concern and manage any risks associated with the response to COVID-19 pandemic is dependent upon raising additional capital and sources of liquidity. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

These unaudited interim condensed consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern assumption was not appropriate for these interim condensed consolidated financial statements, adjustments would be necessary to the interim condensed consolidated statement of financial position and classifications used, which may be material.

4. Amounts receivable

	June 30, 2021	December 31, 2020
Trade receivables	\$ 738,305	\$ 407,400
HST receivable	189,159	111,619
Other receivable	38,478	107,957
	<u>\$ 965,942</u>	<u>\$ 626,976</u>

5. Inventories

	June 30, 2021	December 31, 2020
Finished goods	\$ 1,055,894	\$ 100,789
Packaging	255,311	113,103
Sub-components	929,235	127,161
	<u>\$ 2,240,440</u>	<u>\$ 341,053</u>

The amount of inventory included in cost of sales was \$699,108 (June 30, 2020 - \$79,458) for the six months ended June 30, 2021. The amount of inventory included in cost of sales was \$522,280 (June 30, 2020 - \$155,430) for the three months ended June 30, 2021. For the three and six months ended June 30, 2021 there were no write down from cost to net realizable value and included in cost of sales (June 30, 2020 - \$nil).

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

6. Property and equipment

Reconciliation of the net carrying amounts for each class of property and equipment is summarized below:

	Office Furniture and equipment	Computer equipment	Dies and plates	Leasehold improvements	Total
Cost					
January 1, 2020	\$ 113,278	\$ 54,701	\$ 13,974	\$ 14,645	\$ 196,598
Additions	-	4,627	5,364	7,961	17,952
December 31, 2020	\$ 113,278	\$ 59,328	\$ 19,338	\$ 22,606	\$ 214,550
Additions	-	25,659	5,270	-	30,929
June 30, 2021	\$ 113,278	\$ 84,987	\$ 24,608	\$ 22,606	\$ 245,479
Accumulated depreciation					
January 1, 2020	\$ 70,068	\$ 39,155	\$ 13,974	\$ 3,425	\$ 126,622
Depreciation	8,642	5,126	-	3,839	17,607
Foreign exchange impact	-	-	-	1,959	1,959
December 31, 2020	\$ 78,710	\$ 44,281	\$ 13,974	\$ 9,223	\$ 146,188
Depreciation for the period	4,321	4,465	1,313	2,789	12,888
Foreign exchange impact	-	-	146	148	294
June 30, 2021	\$ 83,031	\$ 48,746	\$ 15,433	\$ 12,160	\$ 159,370
Net carrying amounts					
At December 31, 2020	34,568	15,047	5,364	13,383	68,362
At June 30, 2021	30,247	36,241	9,175	10,446	86,109

7. Leases

The Company leases building space for a term ended in October 2020 at which point the Company maintains the same payments on a month-by-month basis in the amount of \$12,646. Through the acquisition of Hammock Pharmaceuticals, Inc., the Company acquired operating leases ending in October 2022 and November 2022.

The Company's lease obligations are calculated using the Company's incremental borrowing rate based on the specific lease commitment and term. The average incremental borrowing rate for 2021 ranged between 4% to 10% (2020 - 4% to 10%).

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

7. Leases (continued)

(i) Right-of-use assets

Right of use asset	June 30, 2021	December 31, 2020
Opening balance	\$ 99,443	\$ 113,790
Additions: Hammock acquisition	-	119,820
Less: depreciation	(26,878)	(131,780)
Foreign exchange translation impact	(1,602)	(2,387)
Ending balance	\$ 70,963	\$ 99,443

(ii) Lease liabilities

Lease liabilities	June 30, 2021	December 31, 2020
Opening balance	\$ 107,950	\$ 112,315
Additions: Hammock acquisition	-	125,960
Add: interest expense	4,703	5,388
Less: principal repayments	(26,178)	(129,726)
Less: interest payments	(4,703)	(5,388)
Foreign exchange translation impact	(2,923)	(599)
Ending balance	\$ 78,849	\$ 107,950

(iii) Lease liabilities included in the unaudited interim condensed consolidated balance sheets

	June 30, 2021	December 31, 2020
Current	\$ 52,996	\$ 55,890
Non-current	25,853	52,060
Balance	\$ 78,849	\$ 107,950

(iv) Maturity analysis for leased liabilities – contractual undiscounted cash flows:

	June 30, 2021	December 31, 2020
Less than one year	\$ 62,699	\$ 63,659
1 to 5 years	26,282	54,023
Over 5 years	-	-
Total undiscounted lease obligations	\$ 88,981	\$ 117,682

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

8. Bank demand loan

The Company maintains a demand loan with RBC with an interest rate of prime + 1.61% (4.06%) and a limit of \$500,000. The amount outstanding as at June 30, 2021 was \$300,000 (December 31, 2020 - \$500,000). The demand loan is secured by a general security agreement.

9. Notes payable

As consideration for the acquisition of Jaktrx Inc. by Element on March 2, 2018, Element issued unsecured, non-interest bearing notes payable to the four vendors in the aggregate amount of \$500,000 subject to working capital adjustments. After consideration of the working capital adjustments of \$163,725, the net amount owing to the four vendors amount to \$336,275. These notes are all repayable in part or in full at any time and are due on-demand following the earlier of the completion of a capital raise of a sufficient magnitude and March 1, 2020. As at June 30, 2021, the notes are in default and have been classified as a current liability.

Through the acquisition of Jaktrx Inc., Element assumed a note payable of \$59,997 to a previous shareholder of Jaktrx Inc. who became a shareholder of Element. This note is unsecured, non-interest bearing with no specific terms of repayment.

On August 21, 2020, a promissory note of \$100,000 was issued to a former shareholder of Element to buy back and cancel 200,000 class B common shares held by the shareholder with a cost of \$2. The promissory note is interest free and will be repaid in 20 monthly instalments of \$5,000 commencing October 1, 2020. The first scheduled payment was paid early in September 2020. The balance owing as at June 30, 2021 is \$55,000 and is recorded in current liabilities.

10. Share capital

The following table provides a breakdown of the authorized and issued share capital and warrants of the Company at June 30, 2021:

	June 30, 2021
Authorized:	
Unlimited number common shares, voting, no par value	
Unlimited number of special warrants	
Issued and outstanding:	
95,784,996 common shares	\$ 20,556,538
9,864,380 special warrants	3,048,890
	<u>\$ 23,605,428</u>

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

10. Share capital (continued)

- a) On January 15, 2021, the Company issued 1,417,500 common shares in relation to severance payment to a former employee pertaining to the fiscal year ended December 31, 2020.
- b) The Company issued 6,012,000 common shares for \$1,503,000 (\$0.25/share) through multiple private placements that closed on February 1, 2021, February 4, 2021 and March 15, 2021. As part of the private placements, Canaccord Genuity Corp. received a finder's fee of \$92,240 and 386,960 special warrants exercisable at \$0.25/share for a period of two years from the date of grant. The value of these special warrants \$50,692 was calculated using the Black-Scholes pricing model with the following assumptions: (i) expected option life of 2.00 years; (ii) risk free rate of 0.5%; (iii) dividend yield of nil; (iv) expected volatility of 100%; and (v) fair value of the share price of \$0.25 at the time of grant based on the most recent private placement for a valuation of \$0.131 per option.
- c) On August 31, 2020, the Company entered into an underwriting agreement to file a prospectus for the purposes of completing an initial public offering. Pursuant to a concurrent private placement completed on January 18, 2021 and March 29, 2021, the Company issued an aggregate of 22,480,000 subscription receipts at a price of \$0.25 each to raise aggregate gross proceeds of \$5,620,000. The gross proceeds were placed into escrow. Upon conversion of the subscription receipts, and without additional payment therefor, the Company issued 22,480,000 common shares which were qualified under the prospectus. The qualified final prospectus was issued and receipted and the monies in escrow were released from escrow in May 2021.

As part of the concurrent private placement, the Company entered into a finder's agreement with Canaccord Genuity Corp. Under the terms of the finder's agreement, the Company issued a finder's fee of \$426,360 and issued 1,705,440 broker warrants exercisable for 1,705,440 common shares at a price of \$0.25/share for a period of two years from the date of closing. A corporate finance fee of \$200,000 was also paid to Canaccord Genuity Corp. as at the date the prospectus was receipted by way of \$100,000 in cash and \$100,000 in 400,000 common shares valued at \$0.25 per share. The fair value of warrants was estimated using Black-Scholes valuation model with the following assumptions: (i) expected life of 2.00 years; (ii) risk free rate of 0.5%; (iii) dividend yield of nil; (iv) expected volatility of 100%; and (v) fair value of the share price of \$0.25 at the time of grant based on the most recent private placement for a valuation of \$0.131 per warrant. These issuance costs were adjusted against share capital in the interim condensed consolidated statements of changes in shareholders' equity (deficiency).

- d) On April 27, 2021, the Company entered into a bridge loan agreement with L5 Capital Inc. to borrow up to \$1,250,000 in three tranches of \$500,000, \$500,000, and \$250,000 whereby it would pay an interest rate of 10% and in addition to the interest, issue two (2) warrants for each one (1) dollar loaned. Accordingly, the Company issued the 2,500,000 warrants on May 19, 2021 exercisable for 2,500,000 common shares at a price of \$0.25/share for a period of two years from the date of closing.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

10. Share capital (continued)

The fair value of warrants was estimated using Black-Scholes valuation model with the following assumptions: (i) expected life of 2.00 years; (ii) risk free rate of 0.5%; (iii) dividend yield of nil; (iv) expected volatility of 100%; and (v) fair value of the share price of \$0.25 at the time of grant based on the most recent private placement for a valuation of \$0.131 per warrant. These issuance costs were adjusted against share capital in the interim condensed consolidated statements of changes in shareholders' equity (deficiency). As at June 30, 2021, the loan was repaid.

- e) The Company issued 8,334,000 units for \$5,000,400 through multiple private placements that closed on June 18, 2021. Each unit comprised of one common share and on-half of common share purchase warrant exercisable at \$1/share for a period of two years from the date of issuance. The proceeds from issuance of units were allocated between common shares and warrants based on relative proportionate method. The proportionate fair value of the common shares was determined to be \$3,467,009 and the proportionate fair value of warrants was estimated to be \$1,533,391. The fair value of shares is based on the share price as of the issuance date with no warrants. The fair value of warrants was estimated using Black-Scholes valuation model with the following assumptions: (i) expected life of 2.00 years; (ii) risk free rate of 0.45%; (iii) dividend yield of nil; (iv) expected volatility of 100%; and (v) fair value of the share price of \$0.79 at the time of grant based on the market rate for a valuation of \$0.37 per warrant. These issuance costs were adjusted against share capital in the interim condensed consolidated statements of changes in shareholders' equity (deficiency).

As part of the private placements, Canaccord Genuity Corp. received a finder's fee of \$350,028 in cash, 583,380 warrants exercisable at \$0.60/share for a period of two years from the date of issuance and 208,334 common shares. The value of the common shares were \$0.60/share. The value of these special warrants \$270,747 was calculated using the Black-Scholes pricing model with the following assumptions: (i) expected life of 2.00 years; (ii) risk free rate of 0.45%; (iii) dividend yield of nil; (iv) expected volatility of 100%; and (v) fair value of the share price of \$0.79 at the time of grant based on the market rate for a valuation of \$0.46 per warrant. These issuance costs were adjusted against share capital in the interim condensed consolidated statements of changes in shareholders' equity (deficiency).

The Company has 24,000,000 management performance warrants reserved for issuance in connection with the Element share exchange agreement and Hammock merger and share exchange agreement. Each management performance warrant has a term of five years from the date of issue and entitles its holder to acquire one common share at an exercise price of \$0.25 per share.

Upon issuance, the management performance warrants are exercisable based on the following criteria:

- (a) 7,200,000 management performance warrants shall become exercisable upon the Company reaching \$10,000,000 in revenue and a positive net profit for a financial year;
- (b) 8,400,000 management performance warrants shall become exercisable upon the Company reaching \$25,000,000 in revenue and \$2,500,000 in EBITDA for a financial year; and

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

10. Share capital (continued)

- (c) 8,400,000 management performance warrants shall become exercisable upon the Company reaching \$50,000,000 in revenue and \$5,000,000 in EBITDA for a financial year.

The share exchange agreements contain voluntary lock-up provisions that apply to the former shareholders of Element Nutrition Inc.

Stock options

The Company recorded share-based compensation during the three and six months ended June 30, 2021 of \$52,273 and \$511,419 in relation to the stock options issued.

- a) On January 18, 2021, the Company issued 1,300,000 options to the President and Chief Executive Officer to purchase common shares of the Company. All options vested immediately at the date of issuance and have an exercise price of \$0.25/share and expire five years from the date of issuance. The value of these options vested during the period in amount of \$240,500 was calculated using the Black-Scholes pricing model with the following assumptions: (i) expected option life of 5.00 years; (ii) risk free rate of 0.5%; (iii) dividend yield of nil; (iv) expected volatility of 100%; and (v) fair value of the share price of \$0.25 at the time of grant based on the most recent private placement for a valuation of \$0.185 per option.
- b) On March 10, 2021, the Company issued 3,400,000 options to certain employees and officers of the Company to purchase common shares of the Company at \$0.25/share for a period of five year. One-third of all options vested immediately on the grant date, one-third will vest on the one-year anniversary of the grant date, with the remaining one-third vesting on the two year anniversary of the grant date. The value of these options was calculated using the Black-Scholes pricing model with the following assumptions: (i) expected option life of 5.00 years; (ii) risk free rate of 0.5%; (iii) dividend yield of nil; (iv) expected volatility of 100%; and (v) fair value of the share price of \$0.25 at the time of grant based on the most recent private placement for a valuation of \$0.185 per option.

The outstanding stock options as at June 30, 2021 are as follows:

Grant date	Exercise price	Number of options	Number of vested options	Weighted average remaining life (Years)
December 22, 2020	\$0.25	500,000	500,000	4.48
January 18, 2021	\$0.25	1,300,000	1,300,000	4.55
March 10, 2021	\$0.25	3,400,000	1,116,667	4.69
Total	\$0.25	5,200,000	2,916,667	4.59

	June 30, 2021	December 31, 2020
Opening # of options	500,000	-
Issued during the period	4,700,000	500,000
Cancelled/forfeited during the period	-	-
Closing # of options	5,200,000	500,000

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

11. Related party transactions

Key management personnel:

The Company's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of the Company and include the Company's Chief Executive Officer. During the three- and six-months ended June 30, 2021, the Company recorded \$62,500 and \$125,000, respectively (three- and six months ended June 30, 2020 - \$25,000 and \$50,000, respectively) related to key management personnel salaries and benefits.

12. Segmented information:

The operations of the Company include activity in Canada and the United States. The Company is organized into one operating segment. For the operating segment, the Company's Chief Operating Decision Maker ("CODM") reviews internal management reports, evaluating the metrics as summarized in the table below.

Sales revenue by geographical location is comprised of:

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Canada	\$ 129,931	\$ 152,685	\$ 211,935	\$ 225,628
United States	950,583	150,188	1,214,313	254,292
	<u>\$ 1,080,514</u>	<u>\$ 302,873</u>	<u>\$ 1,426,248</u>	<u>\$ 479,920</u>

Approximately, 90% of the Company's property and equipment are located in Canada.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

13. COVID-19 Pandemic

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and Ontario governments, enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally including Canada and the United States of America resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business are not known at this time. As at the date of the interim condensed consolidated financial statements, the Company has extended its payments terms with suppliers to assist in managing cashflow.

Canada Emergency Wage Subsidy

The Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") for Canadian employers whose businesses were affected by the COVID-19 pandemic. The CEWS provides a subsidy towards eligible employees' remuneration, subject to certain criteria. Accordingly, the Company applied for the CEWS to the extent it met the requirements to receive the subsidy during the three and six months ended June 30, 2021 and recognized \$89,123 and \$146,684, respectively, as wage subsidy in the interim condensed consolidated statement of loss and comprehensive loss as a reduction of the salaries and wages expenses at the time they are incurred. Included in other receivable (Note 4) was \$32,032 CEWS receivable.

Canada Emergency Rent Subsidy

On November 19, 2020, the Government of Canada also implemented the Canada Emergency Rent Subsidy ("CERS"). CERS provides a taxable subsidy to cover eligible expenses for qualifying properties, subject to certain maximums, starting on September 27, 2020 until June 2021, with the amount of the subsidy based on the percentage decline of the Company in certain of its Canadian-sourced revenues in each qualifying period. Accordingly, the Company applied for the CERS to the extent it met the requirements to receive the subsidy and, during the three- and six-months period ended June 30, 2021, \$22,108 and \$40,724, respectively, is recognized as rent subsidy in the interim condensed consolidated statement of loss and comprehensive loss as a reduction of rent at the time they are incurred. Included in other receivable (Note 4) was \$6,446 CERS receivable.

Canada Emergency Business Account

The Company received the Canada Emergency Business Account ("CEBA") loan amounting to \$40,000 during the year ended December 31, 2020. The CEBA program provided the Company with an interest free loan, which if repaid prior to December 31, 2022, will result in forgiveness of 25% of the loan. Since there is reasonable assurance that the Company will repay \$30,000 by December 31, 2022, the Company recognized \$10,000 in net income when the loan was granted. The liability resulting from the \$30,000 balance was initially recognized at its fair value of \$26,614 using an interest rate of 4.5%.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

13. COVID-19 Pandemic (continued)

Paycheck Protection Program

Prior to the acquisition, in May 2020, Hammock applied for and received a loan under the Paycheck Protection Program ("PPP") in the amount of US \$78,200. The PPP loan bears interest at 1% per annum and if not forgiven, has a maturity date of May 6, 2022.

Economic Injury Disaster Loans program

Prior to the acquisition, in May 2020, Hammock also applied for and received an Economic Injury Disaster Loans program ("EIDL") loan from the SBA in the amount of US \$120,200. The EIDL loan has a term of 30 years and bears interest at a rate of 3.75% per annum. The first instalment, including principal and interest was payable on May 4, 2021, with the balance of principal and interest payable monthly at a rate of US \$586 per month.

The acquisition of Hammock triggered an event of default for both US loans and the loans are considered due on demand. As a result, both loans are recorded as current liabilities as at June 30, 2021.

14. Fair values of financial instruments

Financial risk factors:

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: currency risk, liquidity risk and credit risk. Management monitors risk levels and reviews risk management activities as they determine to be necessary.

Accounting classifications and fair values

The Company's financial instruments consist of cash, amounts receivable, bank demand loan, accounts payable and accrued liabilities, notes payable, lease liabilities and government loans. The Company believes that the carrying amount of each of these items is a reasonable approximation of fair value due to the short-term and demand nature of the instruments.

(a) Currency risk

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Company purchases inventories and incurs operating expenses denominated in U.S. dollars. The Company does not currently enter into forward contracts to mitigate this risk, however, the Company also has sales in U.S. dollars to reduce the net currency risk. The Company held \$587,939 in U.S. cash at June 30, 2021. The Company manages its exposure through its regular operating and financing activities. A 1% change in the exchange rate between the U.S. dollars and the Canadian Dollar would have an immaterial impact on these unaudited interim condensed consolidated financial statements.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

14. Fair values of financial instruments (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company, which is in the commercial development stage of a key product, manages its liquidity risk by monitoring its operating requirements. The Company has experienced losses and the ability to meet its obligations and commitments as they come due is dependent upon raising additional capital and sources of liquidity and on the achievement of profitable operations in the future.

The Company prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. The Company's financial liabilities are comprised of its bank demand loan, accounts payable and accrued liabilities, notes payable, government loan and lease liabilities.

The following table sets out the Company's contractual maturities (representing undiscounted contractual cash flows) of financial liabilities and commitments:

	12 months	1 to 2 years	2 to 5 years	Total
	\$	\$	\$	\$
Bank demand loan	300,000	-	-	300,000
Accounts payable and accrued liabilities	3,324,661	-	-	3,324,661
Notes payable	451,372	-	-	451,372
Government loans	249,350	30,000	-	279,350
Lease obligations	62,699	26,282	-	88,981
As at June 30, 2021	4,388,082	56,282	-	4,444,364

(c) Credit risk and economic dependence

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in financial loss. The Company deals with creditworthy counterparties to mitigate the risk of financial loss from defaults. The Company monitors the credit risk of customers through credit rating reviews. The allowance for doubtful accounts as at June 30, 2021 is \$3,421 (December 31, 2020 - \$6,721). The maximum credit risk exposure for all of the Company's current financial assets is the carrying value of those assets.

The following table provides information regarding the aged trade receivable:

	Current	31-60 days	61-90 days	91 days+
June 30, 2021	88%	4%	1%	7%

As at June 30, 2021, 4 customers comprised of 85% of trade receivables.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

15. Capital management

The Company's objectives when managing capital is to ensure financial stability and sufficient liquidity to increase shareholder value through organic growth, by investing in sales, marketing and production development. The Company's senior management is responsible for managing the capital through regular review of financial information to ensure sufficient resources are available to meet operating requirements and investments to support its growth strategy. The Board of Directors is responsible for overseeing this process.

The capital structure of the Company consists of loans from its shareholders and components of equity including share capital and accumulated deficit, which as at June 30, 2021 totaled deficit of \$18,454,195 (deficit of \$13,976,621 at December 31, 2020).

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares, repurchase shares, or issue debt. Management reviews the capital structure on a regular basis to ensure that objectives are met. The Company is not subject to external restrictions on its shareholder debt or its share capital.

16. Commitments and contingencies

- a) Under the license agreements with its suppliers, the Company is required to purchase certain minimum quarterly servings and make quarterly royalty payments in order to maintain its rights under the agreements.
- b) During the six-month period ended June 30, 2021, a claim for alleged wrongful dismissal, unpaid wages and general damages in the aggregate amount of \$197,625 was filed against the Company by a former employee of Hammock Pharmaceuticals, Inc. The Company believes the claim is without merit and that the ultimate disposition of the proceedings will not have a material effect on its consolidated results of operations, cash flows, or financial position.

17. Hammock Pharmaceuticals, Inc.

As at June 30, 2021, assets of Hammock included leasehold improvement having a net book value of \$3,640 and right-of-use assets of \$70,963 and liabilities included accounts payable of \$109,504, lease liabilities of \$78,849 and government loans of \$249,350. For the six-month period ended June 30, 2021, total expenses were \$109,465 and other income of \$621,628. Other income of \$XXX represents the milestone payment received from Dare Biosciences, Inc. in relation to the sale of asset in 2018. The remaining other income include \$XXX relating to write-back to income of legal accrual upon settlement.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021 and 2020

18. Subsequent events

On July 5, 2021, the Company issued 1,700,000 incentive stock options, with an exercise price of \$0.81 per option, to certain directors, officers, employees and consultants under its existing stock option plan. The options are exercisable for a period of five years. 425,000 options will vest immediately, 62,500 options will vest in six months, 358,332 options will vest in 12 months, 62,500 options will vest in 18 months, 420,834 options will vest in 24 months, 62,500 options will vest in 30 months and 308,334 options will vest in 36 months.