Consolidated Financial Statements

ELEMENT NUTRITIONAL SCIENCES INC.

For the years ended December 31, 2021 and 2020
(expressed in Canadian dollars, unless indicated otherwise)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Element Nutritional Sciences Inc.

Opinion

We have audited the consolidated financial statements of Element Nutritional Sciences Inc. and its subsidiaries (the “Company”), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, the consolidated statements of loss and comprehensive loss, changes in shareholders’ equity (deficiency), and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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 Consolidated 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 consolidated 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.

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 7 to the consolidated financial statements, which describes 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.

Other Information

Management is responsible for the other information. The other information comprises Management’s Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

(Continues)

Independent Auditor's Report to the Shareholders of Element Nutritional Sciences Inc. *(continued)*

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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 Consolidated 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 consolidated 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.

(Continues)

Independent Auditor's Report to the Shareholders of Element Nutritional Sciences Inc. *(continued)*

- Evaluate the overall presentation, structure and content of the consolidated 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 Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the 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 Sameer Parekh.

SRCO Professional Corporation

CHARTERED PROFESSIONAL ACCOUNTANTS
Authorized to practice public accounting by the
Chartered Professional Accountants of Ontario

Richmond Hill, Canada
May 2, 2022

ELEMENT NUTRITIONAL SCIENCES INC.

Consolidated Statements of Financial Position
As at December 31, 2021 and 2020
(expressed in Canadian dollars, unless indicated otherwise)

	Notes	2021	2020
Assets		**$**	**$**
Current assets			
Cash		492,156	87,481
Amounts receivable	3	427,511	626,976
Prepaid expenses and advances		806,759	77,200
Inventories	4	3,193,033	341,053
		4,919,459	1,132,710
Non-current assets			
Property and equipment	5	76,789	68,362
Right-of-use assets	6	-	99,443
Total assets		**4,996,248**	**1,300,515**
Liabilities and shareholders' equity (deficiency)			
Current liabilities			
Bank demand loan	11	218,950	500,000
Accounts payable and accrued liabilities		2,970,528	2,432,240
Current portion of notes payable	12	219,159	456,372
Current portion of government loans	18	255,063	256,150
Current portion of lease liabilities	6	-	55,890
		3,663,700	3,700,652
Non-current liabilities			
Lease liabilities	6	-	52,060
Government loan	18	28,682	27,423
Notes payable	12	-	25,000
Total liabilities		3,692,382	3,805,135
Shareholders' equity (deficiency)			
Share capital	13	20,452,286	10,925,635
Common shares to be issued	13	-	354,374
Options and warrants	13, 14	3,672,568	131,728
Accumulated other comprehensive (loss) gain		(64,838)	60,264
Deficit		(22,756,150)	(13,976,621)
Total shareholders' equity (deficiency)		1,303,866	(2,504,620)
Total liabilities and shareholders' equity (deficiency)		**$ 4,996,248**	**$ 1,300,515**

Going concern (note 7)
Commitments and contingencies (note 21)
Subsequent events (note 23)

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

ELEMENT NUTRITIONAL SCIENCES INC.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2021 and 2020
(expressed in Canadian dollars, unless indicated otherwise)

	Note	2021	2020
Revenue from sale of goods	15	$ 2,356,788	$ 979,363
Cost of sales		2,181,826	816,635
		174,962	162,728
Operating expenses			
Impairment of intangible asset	10	-	2,180,801
Salaries and wages	18	2,467,641	1,168,016
Advertising and marketing		3,674,530	1,144,093
Professional fees		3,190,985	1,040,778
General and administrative	18	809,378	368,075
Depreciation	5, 6	81,947	149,387
Product development		15,969	42,527
		10,240,450	6,093,677
Operating loss		(10,065,488)	(5,930,949)
Other income (expenses)			
RTO Transaction	8	-	(1,727,085)
Other income	22	1,256,816	13,386
Finance costs:			
Interest expense		(26,957)	(29,951)
Bank charges		(25,280)	(23,017)
Foreign exchange loss		81,380	(18,704)
		1,285,959	(1,785,371)
Loss before income taxes		(8,779,529)	(7,716,320)
Income tax expense	16	-	-
Net loss		(8,779,529)	(7,716,320)
Other comprehensive loss			
Foreign currency translation		(125,102)	60,264
Net loss and other comprehensive loss		$ (8,904,631)	$ (7,656,056)
Basic and diluted loss per common share		(0.10)	(0.36)
Weighted average number of common shares outstanding		83,623,532	21,469,605

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

ELEMENT NUTRITIONAL SCIENCES INC.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
For the years ended December 31, 2021 and 2020
(expressed in Canadian dollars, unless indicated otherwise)

	Notes	Share capital $	Options and warrants $	Common shares to be issued $	Accumulated other comprehensive (loss) gain $	Deficit $	Total shareholders' equity (deficiency) $
Balance, December 31, 2020		10,925,635	131,728	354,374	60,264	(13,976,621)	(2,504,620)
Shares issued	13 (a)	354,374	-	(354,374)	-	-	-
Stock options	14	-	1,238,447	-	-	-	1,238,447
Warrants issued	13	-	327,500	-	-	-	327,500
Exercise of warrants	13	300,579	(103,349)	-	-	-	197,230
Shares and warrants issued for cash	13	10,590,009	1,533,391	-	-	-	12,123,400
Finders' fees for issuance of shares	13	(868,628)	-	-	-	-	(868,628)
Transactions costs for issuance of shares	13	(304,832)	-	-	-	-	(304,832)
Share issuances costs – warrants issued	13	(544,851)	544,851	-	-	-	-
Common shares issued for share issuances	13	225,000	-	-	-	-	225,000
Share issuance costs	13	(225,000)	-	-	-	-	(225,000)
Net loss and other comprehensive loss		-	-	-	(125,102)	(8,779,529)	(8,904,631)
Balance, December 31, 2021		20,452,286	3,672,568	-	(64,838)	(22,756,150)	1,303,866

ELEMENT NUTRITIONAL SCIENCES INC.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
For the years ended December 31, 2021 and 2020
(expressed in Canadian dollars, unless indicated otherwise)

	Note	Share capital	Options and warrants	Common share to be issued	Accumulated other comprehensive gain	Deficit	Total shareholders' deficiency
Balance, December 31, 2019		$ 3,313,116	$ -	$ -	$ -	$ (6,160,303)	$ (2,847,187)
Shares issued		1	-	-	-	-	1
Settlement of shareholder loan	17	2,728,696	-	-	-	-	2,728,696
Settlement of other financial liabilities on share exchange		100	-	-	-	-	100
Fair value of RTO Transaction consideration	8	3,334,974	124,228	-	-	-	3,459,202
Shares issued on Hammock acquisition	9	1,406,250	-	-	-	-	1,406,250
Share issuance transaction costs	13	60,000	-	-	-	-	60,000
Redemption of shares above paid-up capital	13	(2)	-	-	-	(99,998)	(100,000)
Warrants converted to common shares	13	82,500	(82,500)	-	-	-	-
Common shares to be issued	13	-	-	354,374	-	-	354,375
Stock options	14	-	90,000	-	-	-	90,000
Net loss and other comprehensive loss		-	-	-	60,264	(7,716,320)	(7,656,056)
Balance, December 31, 2020		$ 10,925,635	$ 131,728	$ 354,374	$ 60,264	$ (13,976,621)	$ (2,504,620)

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

ELEMENT NUTRITIONAL SCIENCES INC.

Consolidated Statements of Cash Flows
For the years ended December 31, 2021 and 2020
(expressed in Canadian dollars, unless indicated otherwise)

	Note	2021	2020
Operating activities:		$	$
Net loss		(8,779,529)	(7,716,320)
Items not involving cash:			
Depreciation of property and equipment	5	28,796	17,607
Depreciation of right-of-use asset	6	53,151	136,780
Interest accretion	6, 18	9,363	5,388
Impairment of intangible asset	10	-	2,180,801
Gain on derecognition of right-of-use assets and lease liabilities	6	(6,502)	-
Government assistance		-	(12,370)
RTO Transaction	8	-	1,727,085
Settlement of services through issuance of common shares	13/14	1,565,947	504,374
		(7,128,774)	(3,156,655)
Changes in non-cash operating working capital:			
Decrease (increase) in amounts receivable		197,960	(349,918)
(Increase) decrease in prepaid expenses		(726,057)	56,938
Increase in inventories		(2,822,154)	(52,331)
Increase in accounts payable and accrued liabilities		536,913	1,349,691
Cash used in operating activities		(9,942,112)	(2,152,275)
Investing activities:			
Purchase of property and equipment	5	(37,321)	(9,991)
Cash advance from PJ1 Capital prior to share exchange	8	-	250,000
Cash acquired through share exchange agreements	8/9	-	1,607,662
Cash (used in) provided by investing activities		(37,321)	1,847,671
Financing activities:			
Repayment of shareholder loan		-	(38,867)
Payment of finder's fees and transaction costs		(1,173,460)	-
Proceeds from issuance of class B common shares		-	1
Proceeds from issuance of shares		12,123,400	-
Proceeds from exercise of warrants		197,230	-
Proceeds from government loan	18	-	40,000
Repayment of notes payable	12	(262,213)	(15,000)
(Repayment of) proceeds from bank operating line of credit	11	(281,050)	500,000
Principal repayments of lease liabilities	6	(55,025)	(129,726)
Repayment of working capital loan		-	(135,351)
Cash provided by financing activities		10,548,882	221,057
Impact of foreign exchange rate changes on cash		(164,774)	66,199
Net increase (decrease) in cash		569,449	(88,547)
Cash, beginning of year		87,481	104,829
Cash, end of year		**$ 492,156**	**$ 87,481**
Supplementary information			
Interest paid		4,401	-
Income taxes paid		-	-
Share consideration issued to settle liabilities		-	2,728,696
Share consideration issued for RTO transaction		-	3,459,202
Share consideration issued for Hammock acquisition		-	1,406,250
Share consideration for transaction costs		-	60,000

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

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 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein, effective for the Company's reporting for the years ended December 31, 2021 and 2020.

These consolidated financial statements were authorized for issue by the Board of Directors on May 1, 2022.

b) Basis of measurement

These consolidated financial statements have been prepared on a going concern basis under the historical cost method. Significant accounting policies are presented in note 2 to these consolidated financial statements and have been consistently applied in each of the years presented.

1. Basis of presentation (continued)

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Element Nutritional Sciences Inc. and its wholly owned subsidiaries, Jaktrx Inc., which was incorporated in the province of Ontario, Canada on June 17, 2014 and acquired by the Company on March 2, 2018; 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 incorporated under the state of Delaware on January 26, 2016. 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 consolidated financial statements.

d) Functional and presentation currency

These 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 on foreign operations 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 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 relate to:

i. Note 7 – 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.

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. Notes 8 and 9 – reverse takeover transaction and business combination: determination of the accounting acquirer and control, determination of whether the acquired entity is a business, fair value of the consideration transferred and fair value of the identifiable assets and liabilities assumed, measured on a provisional basis for the business combination.

v. Note 10 – impairment test of intangible assets: key assumptions underlying recoverable amount.

vi. Notes 13 and 14 – 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

(a) Revenue recognition

Revenue is recognized by the Company in accordance with IFRS 15, *Revenue from Contracts with Customers*. Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue under IFRS 15, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to a customer;
- Allocate the transaction price to the performance obligation(s) in the contract; and
- Recognize revenue when or as the Company satisfies the performance obligation(s).

Revenue from the sale of goods is measured based on the consideration specified in a contract with a customer and the Company recognizes revenue at a point of time when it transfers control over goods or over a period of time as it provides services to a customer. Revenue is recognized when goods are shipped/delivered or services provided and the customer takes ownership and assumes risk of loss in accordance with customer contracts, collection of the related receivable is probable, persuasive evidence of an arrangement exists, the associated costs and possible return of goods can be estimated reliably and the sales price is fixed or determinable. Amounts received for future services are deferred until the service is provided.

2. Significant accounting policies (continued)

(b) Inventories

Inventories consists of finished goods, packaging and sub-components are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the normal course of business less the estimated costs necessary to make the sale. Included in the cost of inventories are costs of purchase, plus other costs, such as transportation, royalties and duty, that are directly incurred to bring inventories to their present location and condition. Cost is determined using the weighted average cost method, based on individual products.

(c) Property and equipment

Property and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated based on the assets' estimated useful life using either the declining balance or straight-line method at the following years/rates:

Asset	Basis	Years/Rates
Office furniture and equipment	Straight-line	20%
Computer equipment	Declining balance	30%
Dies and plates	Straight-line	2 years
Leasehold improvements	Straight-line	Over the lease term

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if necessary.

(d) Research and development

Expenditures on research activities are expensed as incurred. Development expenditures are capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, development expenditures are recognized in the consolidated statement of loss and comprehensive loss as incurred.

(e) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, at the date of the business acquisition, to the Company’s cash generating units that are expected to benefit from the synergies of the business combination. Goodwill is not amortized but tested at least annually for impairment.

2. Significant accounting policies (continued)

(f) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets, including property and equipment, rights-of-use assets, and goodwill, to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

The recoverable amount of an asset or cash generating unit is the greater of its value in useand its fair value less costs of disposal. Value in use is based on the estimated undiscounted future cash flows expected to be generated, discounted to their present value using a pre- tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. If the carrying amount of the asset orcash generating unit exceeds its value in use, an impairment charge is recognized. Impairment losses are recognized in the consolidated statement of loss and comprehensive loss. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit, and then to reduce the carrying value of the other assets in the cash generating unit on a pro rata basis.

An impairment loss in respect of goodwill is not subsequently reversed. For other non- financial assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined or amortized, if no impairment loss had been initially recognized.

Non-financial assets with a definite life, including property and equipment and right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The carrying amount of goodwill and an intangible asset whose life is determined to be indefinite is reviewed for impairment at each reporting date whether or not there is any indication of impairment.If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized when the asset's carrying amount exceeds its recoverable amount. Impairment losses are not subsequently reversed.

2. Significant accounting policies (continued)

(g) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income or loss unless it relates to items recognized in correlation to an underlying transaction in either other comprehensive income or equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences except in respect of taxable temporary differences when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry- forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized, within their respective expiry periods.

The carrying amount of deferred tax assets is reviewed as at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be availableto allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed as at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been substantively enacted as at the reporting date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(h) Financial instruments

Financial assets

Amounts receivable are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

2. Significant accounting policies (continued)

(h) Financial instruments (continued)

A financial asset (unless it is an amount receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. An amount receivable without a significant financing component is initially measured at the transaction price.

The Company's financial assets are comprised of cash and amounts receivable. On initial recognition, the Company classifies these financial assets as loans and receivables and measured at amortized cost, when both of the following conditions are met:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, gain or loss on derecognition and impairment are recognized in the consolidated statement of loss and comprehensive loss.

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been decreased.

For amounts receivable, the Company applies a simplified approach in calculating expected credit losses ("ECLs"). Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are offset against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Financial liabilities

The Company's financial liabilities include accounts payable and accrued liabilities, notes payable, bank demand loan, government loans, and lease liabilities. Financial liabilities are initially measured at fair value less any transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

2. Significant accounting policies (continued)

(h) Financial instruments (continued)

Transaction costs

Transaction costs that are incremental and directly attributable to the acquisition or issue of a financial asset of financial liability are recorded as follows:

- Financial assets or financial liabilities at fair value through profit or loss – expensed to net income as incurred.
- Financial assets or liabilities recorded at amortized cost – included in the carrying value of the financial asset or financial liability and amortized over the expected life of the financial instrument using the effective interest method; and
- Equity instruments recorded at fair value through other comprehensive income - included in the initial cost of the underlying asset.

Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which either substantially all of the risks and rewards of ownership are transferred or the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

(i) Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. The amount recognized as a provision is the best estimate of the consideration required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(j) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of loss and comprehensive loss.

2. Significant accounting policies (continued)

(k) Share based compensation

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as share-based compensation in the consolidated statements of loss and comprehensive loss, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. Share-based payment arrangements granted to non-employees are valued at the fair value of the goods or service received, measured at the date on which the goods are received, or the services are rendered. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure the value and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, which the Company does using the Black-Scholes option-pricing model.

The increase in equity recognized in connection with a share-based payment transaction is presented in the “Options and warrants" line item on the consolidated balance sheets, as separate component in equity. For share-based payment awards with market conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(l) Leases

At the inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represents substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from useof the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

2. Significant accounting policies (continued)

(l) Leases (continued)

For arrangements in which the Company is a lessee:

The Company recognizes a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The estimated useful lives of ROU assets are determined by the estimated lease term. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a leaseunless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets: The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognizes the lease payments associated with theseleases as an expense on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

(m) Segmented information

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer. The operating results are regularly reviewed by the CODM to determine decisions about resources and how they will be allocated to determine performance. At this time, management does not make decisions by revenue stream, but rather as an organization as a whole on a consolidated basis. Therefore, the consolidated financial statements are presented as one operating segment and two geographical areas.

(n) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive; there were none during 2021 and 2020. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

(o) Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all conditions associated with the grant are met. Claims under government grant programs related to income are recorded within the consolidated statements of loss and comprehensive loss as a reduction to the related item that the grant is intended to offset, in the period in which eligible expenses were incurred or when the services have been performed.

(p) Business combinations

The Company uses the acquisition method of accounting for business combinations. The consideration transferred for an acquisition is the fair value of the assets transferred, the liabilities incurred, and the equity interests issued by the Company. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at fair value at the acquisition date.

The excess of the consideration transferred and the acquisition date fair value of the identifiable net assets acquired is recorded as goodwill. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they are adjusted retrospectively in subsequent periods. However, the measurement period will not exceed one year from the acquisition date.

2. Significant accounting policies (continued)

(q) Standards, amendments, and interpretations issued but not yet adopted

The IASB has issued several new standards and amendments that will be effective on various dates. The listing below is of standards, interpretation and amendments issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The impact on the Company is currently being assessed.

Amendment to IAS 1, Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current: In January 2020, the IASB issued amendments to paragraphs 69-76 of IAS 1 to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2023, with early adoption permitted. The amendments are to be applied retrospectively. Management is currently assessing the impact of this amendment.

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative (G&A) costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The amendments do not have a material impact on the Company.

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The IASB also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the IASB decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively. The amendments are not expected to have a material impact on the Company.

(expressed in Canadian dollars, unless indicated otherwise)

2. Significant accounting policies (continued)

(q) Standards, amendments, and interpretations issued but not yet adopted (continued)

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

3. Amounts receivable

	December 31, 2021	December 31, 2020
Trade receivables, net of allowance	$ 156,440	$ 407,400
HST receivable	271,071	111,619
Other receivable (note 18)	-	107,957
	$ 427,511	$ 626,976

4. Inventories

	December 31, 2021	December 31, 2020
Finished goods	$ 2,452,443	$ 100,789
Packaging	317,443	113,103
Sub-components	423,147	127,161
	$ 3,193,033	$ 341,053

The amount of inventory included in cost of sales was $1,115,348 (2020 - $445,957) in the current year. For the year ended December 31, 2021 there was no write down from cost to net realizable value included in cost of sales (2020 – nil).

(expressed in Canadian dollars, unless indicated otherwise)

5. 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	-	31,985	5,336	-	37,321
December 31, 2021	$ 113,278	$ 91,313	$ 24,674	$ 22,606	$ 251,871
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	8,642	11,282	4,009	4,863	28,796
Foreign exchange impact	-	-	-	98	98
December 31, 2021	87,352	55,563	17,938	14,184	$175,082
Net carrying amounts					
At December 31, 2020	34,568	15,047	5,364	13,383	68,362
At December 31, 2021	25,926	35,750	6,691	8,422	76,789

6. 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 $12,084. 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 was 10% (2020 - 4% to 10%).

As at December 31, 2021, the Company had assessed the recoverable amount of the right-of use asset held and determined the assets were impaired given that the leases are currently not in use for operations.

(expressed in Canadian dollars, unless indicated otherwise)

6. Leases (continued)

(i) Right-of-use assets

Right-of-use assets	December 31, 2021	December 31, 2020
Opening balance	$ 99,443	$ 113,790
Additions: Hammock acquisition	-	119,820
Less: depreciation	(53,151)	(131,780)
Less: impairment	(46,292)	-
Foreign exchange translation impact	-	(2,387)
Ending balance	$ -	$ 99,443

(ii) Lease liabilities

Lease liabilities	December 31, 2021	December 31, 2020
Opening balance	$ 107,950	$ 112,315
Additions: Hammock acquisition	-	125,960
Add: interest expense	8,103	5,388
Less: principal repayments	(55,025)	(129,726)
Less: interest payments	(8,103)	(5,388)
Less: derecognition	(52,925)	-
Foreign exchange translation impact	-	(599)
Ending balance	$ -	$ 107,950

The impairment of the right-of-use assets and related lease liabilities resulted in a gain of $6,502.

(iii) Lease liabilities included in the consolidated statements of financial position

	December 31, 2021	December 31, 2020
Current	$ -	$ 55,890
Non-current	-	52,060
Balance	$ -	$ 107,950

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

	December 31, 2021	December 31, 2020
Less than one year	$ 52,925	$ 63,659
1 to 5 years	-	54,023
Total undiscounted lease obligations	$ 52,925	$ 117,682

7. Going concern

These 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 negative cash outflows from operations and net loss for the years ended December 31, 2021 and 2020. 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 23, the Company's ability to continue as a going concern and manage any risks associated with the response to COVID-19 pandemic as described in note 18 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 consolidated financial statements do not reflect adjustmentsthat would be necessary if the going concern assumption was not appropriate. Should the Company be unable to generate sufficient cash flow from operations or financing activities, the carrying value of the Company's assets could be subject to material adjustments and other adjustments may be necessary to these consolidated financial statements should such events impair the Company's ability to continue as a going concern.

8. RTO Transaction

On August 31, 2020, the Company (PJ1 Capital at the time) acquired all of the issued and outstanding shares of Element by way of the RTO Transaction, pursuant to a share exchange agreement, whereby all of the issued and outstanding shares of Element (28,870,602) were exchanged for 24,375,000 common shares of PJ1 Capital.

In the RTO Transaction, although legally PJ1 Capital is the parent of Element, Element is deemed to be the accounting acquirer and PJ1 Capital is deemed to be the acquiree for accounting purposes. Upon completion of the RTO Transaction, the former shareholders of Element have become the controlling shareholders of PJ1 Capital. As Element is deemed to be the accounting acquirer and the legal acquiree in the RTO Transaction, the assets and liabilities of Element have been accounted for at cost, and PJ1 Capital's assets and liabilities have been accounted for at fair value on acquisition at August 31, 2020. Since PJ1 Capital's operations did not constitute a business prior to August 31, 2020, the transaction has been accounted for as an asset acquisition that is not a business combination.Therefore, PJ1 Capital's share capital, reserves and deficit at the time of the RTO Transaction have been eliminated and the RTO Transaction costs have been expensed. The capital structure recognized in the consolidated balance sheet is that of the Company, but the dollar amount of the issued share capital prior to the RTO Transaction will be that of Element, including the value of shares issued prior to the RTO Transaction.

(expressed in Canadian dollars, unless indicated otherwise)

8. RTO Transaction (continued)

In the accounting for the reverse takeover, the RTO Transaction consideration was determined by reference to the fair value of equity the legal subsidiary, being Element, would have issued to the legal parent entity, being PJ1 Capital, for the shareholders of PJ1 Capital to obtain the same percentage ownership interest of approximately 41% in the combined entity. The fair value of the issued equity was determined based on the most reliable and observable fair value measures being the value of shares and warrants the legal parent had outstanding at the time of the RTO Transaction (22,233,162 common shares and 550,000 special warrants) and a market price per share from a recent transaction between third party market participants ($0.15/share) and 521,600 special warrants with a fair value of $0.08/share determined using a Black-Scholes pricing model (note 13).

The excess of the fair value of the RTO Transaction consideration to PJ1 Capital over the fair value of the assets and liabilities of PJ1 Capital acquired by Element at August 31, 2020 was as follows:

Fair value of consideration given up:		
22,233,162 shares at $0.15/share	$	3,334,974
550,000 special warrants at $0.15/share		82,500
521,600 special warrants at $0.08/share		41,728
		3,459,202
Fair value of net assets acquired:		
Cash		1,479,183
Loan receivable		250,000
Amounts receivable		9,855
Accounts payable and accrued liabilities		(6,921)
Net assets acquired		1,732,117
Excess of RTO Transaction consideration over net assets acquired	$	1,727,085

The $1,727,085 excess of the RTO Transaction consideration over the net assets acquired and the RTO Transaction costs and costs associated with the Hammock acquisition (note 9) of approximately $299,500 (including a finder's fee settled through the issuance of common shares (note 14)) have been expensed in the consolidated statements of loss and comprehensive loss during the year ended December 31, 2020.

9. Business combination

Acquisition of Hammock Pharmaceuticals, Inc.

On August 31, 2020, the Company and Hammock entered into an Agreement and Plan of Merger (the "Agreement") to acquire all of the issued and outstanding shares of Hammock consisting of 1,959,315 common shares (including 36,358 restricted shares) and 7,415,685 common shares to be issued to the holders of the convertible notes of Hammock immediately prior to the execution of the Agreement.

(expressed in Canadian dollars, unless indicated otherwise)

9. Business combination (continued)

The consideration for the acquisition and measurement of the assets acquired and liabilities assumed in accordance with IFRS 3 were as follows:

Fair value of consideration:	
9,375,000 shares of the Company at $0.15/share	$ 1,406,250
Recognized amounts of identifiable net assets:	
Cash	128,479
Amounts receivable	3,377
Prepaid expenses	14,498
Right of use assets	119,820
Leasehold improvements	6,125
Total identifiable assets acquired excluding intangible assets	272,299
Accounts payable and accrued liabilities	(630,596)
Government loans	(260,929)
Lease liabilities	(125,960)
Total liabilities assumed	(1,017,485)
Net identifiable liabilities assumed excluding intangible assets	(745,186)
License intangible assets acquired	$ **2,151,436**

The fair values of the net assets acquired, including the license intangible assets, were originally measured on a provisional basis; subsequently no new information was obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition that required the accounting for the acquisition to be revised. If the combination had taken place at the beginning of 2020, Hammock's revenue would have been $36,006 and Hammock's total comprehensive loss for the year would have been $4,365,475.

The intangible asset acquired relates to an indefinite life licensing agreement to distribute a therapeutic product in the United States and Canada. Subsequent to the acquisition, the licensing agreement was terminated resulting in impairment as detailed in note 10.

The Company satisfied the purchase price by issuing 9,375,000 common shares.

10. Intangible asset

At each reporting date, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication of impairment. If any such indication exists, then the intangible asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

10. Intangible asset (continued)

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

An indefinite life intangible asset was recognized on August 31, 2020 through the acquisition of Hammock (note 9). The indefinite life intangible asset relates to a licensing agreement to distribute a therapeutic product in the United States and Canada. The licensing agreement was entered into by Hammock on August 15, 2019 and requires licensing fees that reset on an annual basis.

Subsequent to the acquisition and prior to December 31, 2020, the Company re-evaluated the licensing agreement and decided to take steps to terminate the agreement.

As a result of the decision to terminate the licensing agreement, an indication of impairment was determined to be present at December 31, 2020 and the license intangible asset was tested for impairment. The Company determined the recoverable amount to be nil. An impairment loss in the amount of $2,180,801, representing the intangible asset acquired of $2,151,436 (Note 9) as of August 31, 2020 and foreign exchange impact of $29,365, was recognized in the consolidated statements of loss and comprehensive loss.

As at December 31, 2021, Management is undergoing discussions for the future plans to make any future material investments to grow the business of Hammock.

11. Bank demand loan

The Company maintains a demand loan with RBC with an interest rate of prime + 1.61% (4.06%) (2020 – 4.06%) and a limit of $500,000. The amount outstanding as at December 31, 2021 was $218,950 (2020 - $500,000). The demand loan is secured by a general security agreement.

12. 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 was $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 December 31, 2021, the notes are in default and have been classified as a current liability. The Company made a payment of $172,015 during the year 2021. The current balance is $164,260.

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. The Company made a payment of $30,198 during the year 2021. The current balance is $29,799. 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 December 31, 2021 is $25,000.

(expressed in Canadian dollars, unless indicated otherwise)

13. Share capital

The following table provides a breakdown of the authorized and issued share capital and warrants of the Company at December 31, 2021 and 2020:

	2021	2020
Authorized:		
Unlimited number of common shares voting, no par value		
Unlimited number of special warrants		
Issued and outstanding:		
96,573,916 common shares (2020 – 56,933,162)	$ 20,452,286	$ 10,925,635
9,075,460 special warrants (2020 – 521,600)	2,344,121	41,728
	$ 22,796,407	$ 10,967,363

Share transactions of the Company during the year ended December 31, 2021 are detailed as follows:

a) The Company issued 1,417,500 common shares as a severance payment to a former employee at $0.25 per common share. The value of these shares of $354,374 is presented as common shares reserved to be issued in the consolidated financial statements as at December 31, 2020. The shares were issued in January 15, 2021.

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. In addition, the Company incurred $13,000 in legal costs directly relating to the offering. These issuance costs were adjusted against share capital in the consolidated statements of changes in shareholders' equity (deficiency).

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 will be 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.

13. Share capital (continued)

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 $210,000 was also paid to Canaccord Genuity Corp. as at the date the prospectus was receipted by way of $110,000 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. In addition, the Company incurred $96,452 in legal costs directly relating to the offering. These issuance costs were adjusted against share capital in the consolidated statements of changes in shareholders' equity (deficiency).

On September 27, 2021, 26,880 of these broker warrants were exercised at an exercise price of $0.25 per common share for a total amount of $6,720. The Company issued 26,880 common shares.

In November 2021, 762,040 of these broker warrants were exercised at an exercise price of $0.25 per common share for a total amount of $190,510. The Company issued 762,040 common shares.

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.

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 affair value of $0.131 per warrant. These issuance costs were adjusted against share capital in the consolidated statements of changes in shareholders' equity (deficiency). As at December 31, 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 one-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.

(expressed in Canadian dollars, unless indicated otherwise)

13. Share capital (continued)

The fair value of warrants was estimated using Black-Scholes valuation model with the following assumptions: (i) expected life of 2 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 fair value of $0.37 per warrant. These issuance costs were adjusted against share capital in the 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 a corporate finance fee of $125,000, payable in common shares at a deemed price of $0.60 per share for 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 fair value of $0.46 per warrant. In addition, the Company incurred $85,380 in legal and underwriting costs directly relating to the offering. These issuance costs were adjusted against share capital in the consolidated statements of changes in shareholders' equity (deficiency).

Share transactions of the Company during the year ended December 31, 2020 are detailed as follows:

	Number of shares and warrants	Value
Total at December 31, 2019	17,153,936	3,313,216
666,666 class B common shares issued	666,666	1
200,000 class B common shares redeemed (note 12)	(200,000)	(2)
11,250,000 class A common shares issued to satisfy related party debt (note 17)	11,250,000	2,728,696
Share capital prior to RTO Transaction	28,870,602	6,041,911
RTO Transaction (note 8 and (ii))	(28,870,602)	-
	-	6,041,911
Shares and warrants of PJ1 Capital pre-RTO transaction:		
Common shares	22,233,162	-
Special warrants (i)	1,071,600	-
	23,304,762	-
Shares issued to Element in RTO Transaction (ii)	24,375,000	3,459,202
Shares issued to Hammock (iii)	9,375,000	1,406,250
Transaction costs – finder's fee (iv)	400,000	60,000
	34,150,000	4,925,452
Share capital and warrants at December 31, 2020	57,454,762	$ 10,967,363

13. Share capital (continued)

(i) PJ1 Capital issued 335,000 special warrants on June 25, 2018. An additional 215,000 special warrants were issued on July 9, 2020. The special warrants converted to common shares of the Company on November 7, 2020. The warrants are recorded at their estimated fair value which is based on $0.15/share at August 31, 2020. PJ1 Capital issued 521,600 special warrants on August 10, 2020 to Canaccord Genuity Corp. The special warrants entitle the holder to purchase common shares at $0.15/share for a period of two years from the date of grant. The warrants are recorded at their estimated fair value which is based on $0.08/share at August 10, 2020 using the Black-Scholes pricing model with the following assumptions: (i) expected option life of 1.9 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 $0.15.

(ii) All shareholders of Element Nutrition Inc., pursuant to a share exchange agreement effective August 31, 2020, exchanged all the issued and outstanding shares to Element Nutritional Sciences Inc. (see note 8). Consideration received was the issuance of 24,375,000 common shares in shares of the Company to the former shareholders of Element Nutrition Inc.

(iii) On August 31, 2020, the Company acquired all of the issued and outstanding shares of Hammock Pharmaceuticals, Inc. in consideration for the issuance of 9,375,000 common shares of the Company (see note 9).

(iv) The Company issued 400,000 common shares as a finder's fee related to the Element Nutrition Inc. share exchange and the Hammock Pharmaceuticals, Inc. acquisition. The shares were recorded at the fair value on August 31, 2020 of $0.15/share.

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

(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.

(expressed in Canadian dollars, unless indicated otherwise)

13. Share capital (continued)

The issued and outstanding warrants as at December 31, 2021 are as follows:

	#	$
Opening - warrants as at January 1, 2021	521,600	41,728
Issued during the period	9,342,780	2,405,742
Exercised during the period	(788,920)	(103,349)
Closing - warrants as at December 31, 2021	9,075,460	2,344,121

14. Share options

The Company recorded share-based compensation during the year ended December 31, 2021 of $1,238,447 (2020 - $90,000), in relation to the stock options issued.

a) On December 22, 2020, the Board of Directors approved a resolution under which the Company issued 500,000 options to certain employees, officers and consultants of the Company to purchase common shares of the Company. These options were issued in consideration of their significant contributions and as part of their annual compensation. 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 $90,000 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 0.71%; (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 $0.18 per option.

b) 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 form 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.

c) 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.

(expressed in Canadian dollars, unless indicated otherwise)

14. Share options (continued)

d) 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 three years. 425,000 options will vest immediately, 62,500 options will vest in six months, 358,333 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 308,333 options will vest in 36 months.

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 0.99%; (iii) dividend yield of nil; (iv) expected volatility of 100%; and (v) share price of $0.79 at the time of grant based on the market rate for a valuation of $0.5843 per option.

e) On August 19, 2021, the Company issued 1,500,000 options to certain directors, employees and officersof the Company to purchase common shares of the Company at $0.70/share for a period of five year. One-half of all options will vest on the one-year anniversary of the grant date, with the remaining one-half 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 0.99%; (iii) dividend yield of nil; (iv) expected volatility of 100%; and (v) share price of $0.70 at the time of grant based on the market rate for a valuation of $0.5200 per option.

The outstanding stock options as at December 31, 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	3.98
January 18, 2021	$0.25	1,300,000	1,300,000	4.05
March 10, 2021	$0.25	3,400,000	1,116,667	4.19
July 5, 2021	$0.81	1,700,000	425,000	4.51
August 19,2021	$0.70	1,500,000	-	4.64
Total		8,400,000	3,341,667	4.15

	December 31, 2021	December 31, 2020
Opening # of options	500,000	-
Issued during the period	7,900,000	500,000
Cancelled/forfeited during the period	-	-
Closing # of options	8,400,000	500,000

(expressed in Canadian dollars, unless indicated otherwise)

15. 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.

	December 31, 2021	December 31, 2020
Revenue on sale of goods	$ 2,356,788	$ 979,363
Gross profit	174,962	162,728

The following disaggregates revenue by primary geographical markets:

	December 31, 2021	December 31, 2020
Canada	$ 558,293	$ 373,186
United States	1,798,495	606,177
	$ 2,356,788	$ 979,363

16. Income taxes

(i) The Company's income tax expense varies from the amount that would otherwise result from the application of the statutory income tax rates as set out below:

	2021	2020
Net loss before income taxes	$ (8,779,529)	$ (7,716,320)
Expected income tax expense at the combined tax rate of 26.5%	$ (2,326,575)	$ (2,044,824)
Increase (decrease) in income tax expense resulting from:		
Non-taxable income or non-deductible expense	75,641	1,167,927
Share issuance costs	(310,967)	-
Other	5,036	-
Deferred tax assets not recognized	2,423,716	862,317
Impact of varying tax rates in subsidiary jurisdictions	133,149	14,580
Income tax expense	$ -	$ -

(expressed in Canadian dollars, unless indicated otherwise)

16. Income taxes (continued)

(ii) Unrecognized deferred tax assets:

	2021	2020
Deferred tax assets:		
Non-capital loss carryforwards	$ 5,558,226	$ 3,026,624
Deferred share issuance costs	248,774	-
Property, plant and equipment	7,215	6,362
Other	-	-
	5,814,214	3,032,986
Less unrecognized deferred tax assets	(5,814,214)	(3,032,986)
Deferred tax assets	$ -	$ -

(iii) At December 31, 2021, net operating loss carryforwards of Canadian entities for income tax purposes are as follows:

- Element Nutritional Sciences Inc.: $2,818,088 (expire between 2039 and 2041)
- Element Nutrition Inc.: $11,085,312 (expire between 2034 and 2041)
- Jaktrx Inc.: $305,122 (expire between 2038 and 2041)

These losses are available to offset against future years' taxable income. No deferred tax asset has been recognized in respect of these losses.

(iv) At December 31, 2021, net operating loss carryforwards of Canadian entities for income tax purposes are as under:

- Element Nutritional Ltd.: $4,258,402
- Hammock Pharmaceuticals Inc.: $3,221,158

These losses are available to offset against future years' taxable income. The net operating losses of these entities are not expected to expire and can be carried forward indefinitely. No deferred tax asset has been recognized in respect of these losses.

17. Related party transactions

Prior to the RTO Transaction (note 8), the shareholder loan outstanding of $2,728,696 was exchanged for 11,250,000 class A common shares of the Company. Transactions with the shareholder (CEO and Director) recorded through the due to shareholder account and loans from shareholder are measured at the amount agreed to with the related parties.

Included in accounts payable and accrued liabilities was a balance of $23,525 owed to the Company's Chief Executive Officer and Chief Financial Officer.

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. For the year ended December 31, 2021 and 2020 the Company recorded $275,000 and $150,000 respectively related to key management personnel salaries and benefits.

18. 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 ofAmerica 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 economicclimate 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 inthe 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 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 year ended December 31, 2021 and recognized $147,615 (2020 – $142,451), as wage subsidy in the consolidated statements of loss and comprehensive loss as a reduction of the salaries and wages expenses at the time they are incurred.

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, 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 year ended December 31, 2021, $40,953 (2020 - $26,014), is recognized as rent subsidy in the consolidated statements of loss and comprehensive loss as a reduction of rent at the time they are incurred.

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, 2023, will result in forgiveness of 25% of the loan. Since there is reasonable assurance that the Company will repay $30,000 by December 31, 2023, 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 effective interest rate of 4.5%. As at December 31, 2021, the balance was $28,682 (2020 – 27,423).

18. 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 $99,142 (US $78,200). The receipt of the loan and any subsequent forgiveness is based on future adherence to the forgiveness criteria. The final details for forgiveness of the loan are still being developed by the Small Business Administration (“SBA”) and the amount of any possible forgiveness cannot be measured. 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 $152,136 (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 at December 31, 2021 and 2020.

19. 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.

(expressed in Canadian dollars, unless indicated otherwise)

19. Fair values of financial instruments (continued)

(a) Currency risk (continued)

The Company held US$367,148 in cash at December 31, 2021 (December 31, 2020 - US$32,428) while there are two government loans in US$. 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 consolidated financial statements.

(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 (note 7).

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	218,950	-	-	218,950
Accounts payable and accrued liabilities	2,970,528	-	-	2,970,528
Notes payable	219,159	-	-	219,159
Government loans	255,063	28,682	-	283,745
Lease liabilities	52,925	-	-	52,925
As at December 31, 2021	3,716,625	28,682	-	3,745,307

(expressed in Canadian dollars, unless indicated otherwise)

19. Fair values of financial instruments (continued)

(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 credit worthy 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 December 31, 2021 was $33,174 (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+
December 31, 2021	33%	42%	1%	24%

As at December 31, 2021, 3 customers (2020 – 3 customers) comprised of 84% (2020 – 80%) of trade receivables. Four customers represented 72% of revenue for the year ended December 31, 2021 (three customers represented 59% in 2020).

20. 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 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.

21. 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 year ended December 31, 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 it consolidated results of operations, cash flows, or financial position.

22. Other Income

During the year ended December 31, 2021, included in other income was the milestone payment of $940,125 received from Dare Biosciences, Inc. in relation to the sale of asset by Hammock Pharmaceuticals, Inc. in 2018.

23. Subsequent events

a) On January 23, 2022, 1,000,000 warrants were exercised at an exercise price of $0.25 per common share for a total amount of $250,000. The Company issued 1,000,000 common shares.

b) On February 6, 2022, the Company has entered into a financing agreement with Sallyport Commercial Finance, LLC to provide the Company with revolving financing of up to US$4,000,000 pursuant to the factoring of up to 77.5% of the Company's accounts receivable (the "Factoring Facility") and a term loan of up to US$500,000 secured against the inventory of the Company (the "Term Loan"), with the maximum amount available to the Company under the Term Loan, if not advanced to the Company, decreasing by US$41,666.67 each month. As of the date of this Prospectus, the Company has drawn approximately US$1.1 million on the Factoring Facility and nil on the Term Loan.

c) On March 18, 2022 the Company announced that it was commencing a best effort marketed offering of common shares at a price of $0.25 per share for gross proceeds between a minimum of $3,000,000 and in the case of the maximum offering, $5,000,000.

In connection with the Offering, the Company has filed a preliminary short form prospectus with the securities commissions or similar regulatory authorities in each of the provinces and territories of Canada, other than Québec. The Company received final receipt on the short form prospectus on April 29, 2022.

Canaccord Genuity Corp. is acting as sole book-runner and agent for the Offering and was granted an option, exercisable in whole or in part and at any time not later than 30 days after closing of the Offering, to purchase up to an additional 15% of the common shares issued and sold by the Company pursuant to the Offering to cover any over-allotments and for market stabilization purposes. Closing of the Offering is subject to certain customary conditions and receipt of all necessary regulatory approvals.