

Unaudited Interim Condensed Consolidated Financial  
Statements of

## **ELEMENT NUTRITIONAL SCIENCES INC.**

For the three months ended March 31, 2022 and 2021  
(All amounts expressed in Canadian dollars, except as otherwise indicated)  
(Unaudited)

# ELEMENT NUTRITIONAL SCIENCES INC.

For the three months ended March 31, 2022 and 2021

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## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

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

## ELEMENT NUTRITIONAL SCIENCES INC.

Interim Condensed Consolidated Balance Sheets

As at March 31, 2022 and December 31, 2021

(All amounts expressed in Canadian dollars, except as otherwise indicated)

(Unaudited)

	Notes	March 31, 2022	December 31, 2021
<b>Assets</b>			
Current assets			
Cash		\$ 319,705	\$ 492,156
Amounts receivable	4	672,941	427,511
Prepaid expenses and advances		540,267	806,759
Inventories	5	3,741,183	3,193,033
		5,274,096	4,919,459
Non-current assets			
Property and equipment	6	71,743	76,789
<b>Total assets</b>		<b>5,345,839</b>	<b>4,996,248</b>
<b>Liabilities and shareholders' equity (deficiency)</b>			
Current liabilities			
Bank demand loan	7	420,000	218,950
Accounts payable and accrued liabilities	12	3,518,250	2,970,528
Current portion of notes payable	8	204,159	219,159
Current portion of government loans	11	251,402	255,063
Working Capital Loan	17	48,624	-
		4,442,435	3,663,700
Non-current liabilities			
Government loan	11	28,682	28,682
<b>Total liabilities</b>		<b>4,471,118</b>	<b>3,692,382</b>
<b>Shareholders' equity (deficiency)</b>			
Share capital	13	20,833,286	20,452,286
Options and warrants	13	3,796,951	3,672,568
Accumulated other comprehensive (loss) gain		(23,745)	(64,838)
Deficit		(23,731,771)	(22,756,150)
<b>Total shareholders' equity (deficiency)</b>		<b>874,721</b>	<b>1,303,866</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>		<b>\$ 5,345,839</b>	<b>\$ 4,996,248</b>

Going concern (note 3)

Commitments and contingencies (note 18)

Subsequent events (note 19)

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

## ELEMENT NUTRITIONAL SCIENCES INC.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss  
 For the three months ended March 31, 2022 and 2021  
 (expressed in Canadian dollars, unless indicated otherwise)  
 (Unaudited)

	Note	March 31, 2022	March 31, 2021
Revenue from sale of goods	12	\$2,278,658	\$345,734
Cost of sales		1,373,161	345,015
		905,497	719
Operating expenses			
Impairment of intangible asset		-	-
Salaries and wages		752,112	724,303
Advertising and marketing		216,138	203,327
Professional fees		569,002	471,827
General and administrative		221,234	42,523
Depreciation	6	7,468	18,632
Product development		2,529	2,035
		1,768,484	1,462,647
Operating loss		(862,987)	(1,461,928)
Other income (expenses)			
Other income		-	3,188
Finance costs:			
Interest expense		(27,803)	(6,362)
Bank charges		(28,891)	(9,463)
Foreign exchange loss		(55,940)	46,201
		(112,634)	33,564
Loss before income taxes		(975,621)	(1,428,364)
Income tax expense		-	-
Net loss		(975,621)	(1,428,364)
Other comprehensive loss			
Foreign currency translation		41,093	(54,252)
Net loss and other comprehensive loss		\$ (934,528)	\$ (1,482,616)
Basic and diluted loss per common share		(0.01)	(0.02)
Weighted average number of common shares outstanding		83,837,230	61,095,895

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

## ELEMENT NUTRITIONAL SCIENCES INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency)  
For the three months ended March 31, 2022 and 2021  
(expressed in Canadian dollars, unless indicated otherwise)  
(Unaudited)

	Notes	Share capital \$	Options and warrants \$	Common shares to be issued \$	Accumulated other comprehensive (loss) gain \$	Deficit \$	Total shareholders' equity (deficiency) \$
<b>Balance, December 31, 2021</b>		20,452,286	3,672,568	-	(64,838)	(22,756,150)	1,303,866
Stock options	14	-	255,383	-	-	-	255,383
Exercise of warrants	13	381,000	(131,000)	-	-	-	250,000
Net loss and other comprehensive loss		-	-	-	41,093	(975,621)	(934,528)
<b>Balance, March 31, 2022</b>		20,833,286	3,796,951	-	(23,745)	(23,731,771)	874,221

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

## ELEMENT NUTRITIONAL SCIENCES INC.

Interim Condensed Consolidated Statements of Cash Flows  
For the three months ended March 31, 2022 and 2021  
(expressed in Canadian dollars, unless indicated otherwise)  
(Unaudited)

	Note	March 31, 2022	March 31, 2021
Operating activities:		\$	\$
Net loss		\$ (975,621)	\$ (1,428,364)
Items not involving cash:			
Depreciation of property and equipment	6	7,468	5,883
Depreciation of right-of-use asset		-	13,644
Interest accretion		-	2,863
Settlement of services through issuance of common shares	13	255,383	509,838
		(712,770)	(896,136)
Changes in non-cash operating working capital:			
Decrease (increase) in amounts receivable		(245,430)	(60,789)
(Increase) decrease in prepaid expenses		266,492	(215,399)
(Increase) in inventories		(548,150)	(1,066,121)
Increase in accounts payable and accrued liabilities		547,722	1,053,102
Increase in other payable		-	50,000
Cash used in operating activities		(692,135)	(1,135,343)
Investing activities:			
Purchase of property and equipment	6	(2,422)	(13,898)
Cash (used in) provided by investing activities		(2,422)	(13,898)
Financing activities:			
Payment of finder's fees and transaction costs		-	
Proceeds from issuance of shares		-	1,503,000
Payment of finder's fees		-	(92,240)
Proceeds from exercise of warrants	13	250,000	-
Proceeds from government loan	11	(3,661)	-
Repayment of notes payable	8	(15,000)	(15,000)
(Repayment of) proceeds from bank operating line of credit	7	201,050	(90,000)
Principal repayments of lease liabilities		-	(13,123)
Repayment of working capital loan	17	48,624	-
Cash provided by financing activities		481,013	1,292,637
Impact of foreign exchange rate changes on cash		41,093	(65,816)
Net increase (decrease) in cash		(213,544)	143,396
Cash, beginning of year		492,156	87,481
<b>Cash, end of year</b>		<b>\$ 319,705</b>	<b>\$ 165,061</b>

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

# ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2021, and 2020

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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 unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee. Accordingly, certain disclosures included in annual consolidated financial statements prepared in accordance with IFRS have been condensed or omitted and these unaudited interim condensed consolidated financial statements should be read in conjunction with the notes to the Company’s audited consolidated financial statements for the years ended December 31, 2021 and 2020.

The unaudited interim condensed consolidated financial statements have been authorized for issuance by the Board of Directors on May 27, 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.



# ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2021, and 2020

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

# ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2021, and 2020

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## 1. Basis of presentation (continued)

### e) Use of estimates and judgments (continued)

1. 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.
2. 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.
3. Note 10 – impairment test of intangible assets: key assumptions underlying recoverable amount.
4. 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

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

Changes in accounting standards effective January 1, 2021:

### *IFRS 3 - Business Combinations*

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

### *IAS 1 - Presentation of Financial Statements*

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

## ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Consolidated Financial Statements  
(expressed in Canadian dollars, unless indicated otherwise)  
For the three months ended March 31, 2022 and 2021

### 3. Going concern

These interim 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 three months periods ended March 31, 2022 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 17, 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 below. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

These unaudited financial statements do not reflect adjustments that 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.

### 4. Amounts receivable

	March 31, 2022	December 31, 2021
Trade receivables, net of allowance	\$ 376,952	\$ 156,440
HST receivable	295,989	271,071
Other receivable (note 18)	-	-
	<u>\$ 672,941</u>	<u>\$ 427,511</u>

### 5. Inventories

	March 31, 2022	December 31, 2021
Finished goods	\$ 1,934,123	\$ 2,452,443
Packaging	434,547	317,443
Sub-components	1,372,513	423,147
	<u>\$ 3,741,183</u>	<u>\$ 3,193,033</u>

The amount of inventory included in cost of sales was \$1,127,559 (March 31, 2021 - \$144,412) for the three months ended March 31, 2022. For the three months ended March 31, 2022 there was no write down from cost to net realizable value included in cost of sales (2021 – nil).

## ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Consolidated Financial Statements  
(expressed in Canadian dollars, unless indicated otherwise)  
For the three months ended March 31, 2022 and 2021

### 6. Property and equipment

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

	Office Furniture and equipment	Computer equipment	Dies and plates	Leasehold improvements	Total
<b>Cost</b>					
January 01, 2021	\$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
Additions	-	2,544	-	-	2,544
March 31, 2022	\$113,278	\$93,857	\$24,674	\$22,606	\$254,415
<b>Accumulated depreciation</b>					
January 01, 2021	\$78,710	\$44,281	\$13,974	\$9,223	\$146,188
Depreciation	8,642	11,282	4009	4,863	28,796
Foreign exchange impact	-	-	-	98	98
December 31, 2021	\$87,352	\$55,563	\$17,983	\$14,184	\$175,082
Depreciation	2,161	4,039	666	602	7,468
Foreign exchange impact	-	-	89	33	122
March 31, 2022	89,513	59,602	18,738	14,819	\$182,672
<b>Net carrying amounts</b>					
At December 31, 2021	25,926	35,750	6,691	8,422	76,789
At March 31, 2022	23,765	34,255	5,936	7,787	71,743

### 7. 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 March 31, 2022 was \$420,000 (2021 - \$408,697). The demand loan is secured by a general security agreement.

## ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Consolidated Financial Statements  
(expressed in Canadian dollars, unless indicated otherwise)  
For the three months ended March 31, 2022 and 2021

### 8. 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 March 31, 2022 is \$10,000.

### 9. Share capital

The following table provides a breakdown of the authorized and issued share capital and warrants of the Company at March 31, 2022:

	March 31, 2022
Authorized:	
Unlimited number of common shares voting, no par value	
Unlimited number of special warrants	
Issued and outstanding:	
97,573,916 common share	\$ 20,833,286
8,075,460 special warrants	2,213,121
	\$ 23,046,407

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.

## ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Consolidated Financial Statements  
(expressed in Canadian dollars, unless indicated otherwise)  
For the three months ended March 31, 2022 and 2021

### 9. Share capital (Continued)

- 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).

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.

The issued and outstanding warrants as at March 31, 2022 are as follows:

	#	\$
Opening - warrants as at January 1, 2022	9,075,460	2,344,121
Issued during the period		
Exercised during the period	(1,000,000)	(131,000)
Closing - warrants as at March 31, 2022	8,075,460	2,213,121

## ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Consolidated Financial Statements  
(expressed in Canadian dollars, unless indicated otherwise)  
For the three months ended March 31, 2022 and 2021

### 10. Share options

The outstanding stock options as at March 31, 2022 and 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	3.73
January 18, 2021	\$0.25	1,300,000	1,300,000	3.80
March 10, 2021	\$0.25	3,400,000	1,116,667	3.94
July 5, 2021	\$0.81	1,700,000	425,000	4.26
August 19, 2021	\$0.70	1,500,000	-	4.39
Total		8,400,000	3,341,667	3.90

  

	March 31, 2022	December 31, 2021
Opening # of options	8,400,000	500,000
Issued during the period		7,900,000
Cancelled/forfeited during the period	-	-
Closing # of options	8,400,000	8,400,000

### 11. COVID-19 Pandemic

#### *Covid-19*

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

#### *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 March 31, 2021, the balance was \$28,682 (March 31, 2021 – 27,732).

# ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Consolidated Financial Statements  
(expressed in Canadian dollars, unless indicated otherwise)  
For the three months ended March 31, 2022 and 2021

## 11. 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.

These consolidated financial statements do not reflect adjustments that 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.

## 12. Segmented information

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

	March 31, 2022	March 31, 2021
Revenue on sale of goods	\$2,278,658	\$345,734
Gross profit	905,497	719

The following disaggregates revenue by primary geographical markets:

	March 31, 2022	March 31, 2021
Canada	\$109,405	\$82,004
United States	2,169,253	263,730
	\$2,278,658	\$345,734



## **ELEMENT NUTRITIONAL SCIENCES INC.**

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### **13. 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 \$25,000 owed to the Company's 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 three months ended March 31, 2022 and 2021 the Company recorded \$75,000 and \$62,500 respectively related to key management personnel salaries and benefits.

### **14. Fair values of financial instruments**

Financial risk factors:

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

Accounting classifications and fair values

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

#### **(a) Currency risk**

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Company purchases inventories and incurs operating expenses denominated in U.S. dollars. The Company does not currently enter into forward contracts to mitigate this risk, however, the Company also has sales in U.S. dollars to reduce the net currency risk. The Company held US\$253,785 in cash at March 31, 2022 (December 31, 2021 - US\$367,148) 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.

# ELEMENT NUTRITIONAL SCIENCES INC.

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## 14. Fair values of financial instruments (continued)

### (b) Liquidity risk

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company, which is in the commercial development stage of a key product, manages its liquidity risk by monitoring its operating requirements. The Company has experienced losses and the ability to meet its obligations and commitments as they come due is dependent upon raising additional capital and sources of liquidity and on the achievement of profitable operations in the future (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	420,000	-	-	420,000
Accounts payable and accrued liabilities	3,518,250	-	-	3,518,250
Current portion of notes payable	204,159	-	-	204,159
Current portion of government loans	251,402	28,682	-	280,084
Working Capital Loan	48,624	-	-	48,624
As at December 31, 2021	4,442,435	28,682	-	4,471,118

### (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 \$2,763 (March 31, 2021 - \$2,973). 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+
March 31, 2022	45%	23%	13%	19%

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).

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### **15. Capital management**

The Company's objectives when managing capital is to ensure financial stability and sufficient liquidity to increase shareholder value through organic growth, by investing in sales, marketing and production development. The Company's senior management is responsible for managing the capital through regular review of financial information to ensure sufficient resources are available to meet operating requirements and investments to support its growth strategy. The Board of Directors is responsible for overseeing this process. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares, repurchase shares, or issue debt. Management reviews the capital structure on a regular basis to ensure that objectives are met. The Company is not subject to external restrictions on its shareholder debt or its share capital.

### **16. Commitments and contingencies**

- a) Under the license agreements with its suppliers, the Company is required to purchase certain minimum quarterly servings and make quarterly royalty payments in order to maintain its rights under the agreements.

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 its consolidated results of operations, cash flows, or financial position.

### **17. Working Capital Loan**

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. The balance at March 31, 2022 is USD \$38,912.

## **ELEMENT NUTRITIONAL SCIENCES INC.**

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### **18. 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 three-month period ended March 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 its consolidated results of operations, cash flows, or financial position.

### **19. Subsequent events**

On May 6, 2022 the Company completed a public offering by way of short prospectus and issued 14,000,000 Common Shares at a price of \$0.25 per Common Share (the "Short Form Offering") for gross aggregate proceeds of \$3,500,000. The agent for the Short Form Offering received a cash commission equal to 8.0% of the gross proceeds from the sale of Common Shares pursuant to the Short Form Offering and broker warrants (each, a "Broker Warrant") equal to 8.0% of the number of Common Shares sold pursuant to the Short Form Offering. Each Broker Warrant is exercisable to purchase one Common Share at a price of \$0.25 per share for a period of 24 months from the date of closing of the Short Form Offering.