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

Table of Contents

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)

	Note	March 31, 2022	December 31, 2021
Assets			
Current assets			
Cash		$ 319,705	$ 492,156
Amounts receivable	4	781,405	427,511
Prepaid expenses and advances		333,161	806,759
Inventories	5	3,741,183	3,193,033
		5,175,454	4,919,459
Non-current assets			
Property and equipment	6	71,743	76,789
Total assets		**5,247,197**	**4,996,248**
Liabilities and shareholders' equity			
Current liabilities			
Bank demand loan	7	420,000	218,950
Accounts payable and accrued liabilities	13	3,551,135	2,970,528
Current portion of notes payable	8	155,644	219,159
Current portion of government loans	11	251,402	255,063
Credit facility	17	48,624	-
		4,426,805	3,663,700
Non-current liabilities			
Notes payable	8	48,515	-
Government loan	11	28,682	28,682
Total liabilities		4,504,002	3,692,382
Shareholders' equity			
Share capital	9	20,833,286	20,452,286
Options and warrants	9, 10	3,796,951	3,672,568
Accumulated other comprehensive loss		(23,547)	(64,838)
Deficit		(23,863,495)	(22,756,150)
Total shareholders' equity		743,195	1,303,866
Total liabilities and shareholders' equity		**$ 5,247,197**	**$ 4,996,248**

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

The accompanying notes are an integral part of the interim condensed 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 revenue		1,373,161	345,015
		905,497	719
Operating expenses			
Salaries and wages		752,112	724,303
Advertising and marketing		216,138	203,327
Professional fees		685,575	471,827
General and administrative		236,386	42,523
Depreciation	6	7,468	18,632
Product development		2,529	2,035
		1,900,208	1,462,647
Operating loss		(994,711)	(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		(1,107,345)	(1,428,364)
Income tax expense		-	-
Net loss		(1,107,345)	(1,428,364)
Other comprehensive income (loss)			
Foreign currency translation		41,291	(54,252)
Net loss and other comprehensive loss		$ (1,066,054)	$ (1,482,616)
Basic and diluted loss per common share		(0.01)	(0.02)
Weighted average number of common shares outstanding		97,440,583	61,095,895

The accompanying notes are an integral part of the interim condensed 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 $
Balance, December 31, 2021		20,452,286	3,672,568	-	(64,838)	(22,756,150)	1,303,866
Stock options	10	-	255,383	-	-	-	255,383
Exercise of warrants	9	381,000	(131,000)	-	-	-	250,000
Net loss and other comprehensive loss		-	-	-	41,291	(1,107,345)	(1,066,054)
Balance, March 31, 2022		20,833,286	3,796,951	-	(23,547)	(23,863,495)	743,195

	Notes	Share capital $	Options and warrants $	Common shares to be issued $	Accumulated other comprehensive gain (loss) $	Deficit $	Total shareholders' deficiency $
Balance, December 31, 2020		10,925,635	131,728	354,374	60,264	(13,976,621)	(2,504,620)
Shares issued		354,374	-	(354,374)	-	-	-
Stock options	10	-	459,146	-	-	-	459,146
Warrants issued	9	-	50,692	-	-	-	50,692
Shares issued for cash	9	1,503,000	-	-	-	-	1,503,000
Finders' fees for issuance of shares	9	(92,240)	-	-	-	-	(92,240)
Net loss and other comprehensive loss		-	-	-	(54,252)	(1,428,364)	(1,482,616)
Balance, March 31, 2021		12,690,769	641,566	-	6,012	(15,404,985)	(2,066,638)

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

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		(1,107,345)	(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
Share based compensation	10	255,383	509,838
		(844,494)	(896,136)
Changes in non-cash operating working capital:			
Increase in amounts receivable		(353,894)	(60,789)
Decrease (increase) in prepaid expenses and advances		473,597	(215,399)
Increase in inventories		(548,150)	(1,066,121)
Increase in accounts payable and accrued liabilities		580,607	1,053,102
Increase in other payable		-	50,000
Cash used in operating activities		(692,334)	(1,135,343)
Investing activities:			
Purchase of property and equipment	6	(2,544)	(13,898)
Cash used in investing activities		(2,544)	(13,898)
Financing activities:			
Proceeds from issuance of shares		-	1,503,000
Payment of finder's fees		-	(92,240)
Proceeds from exercise of warrants	9	250,000	-
Repayment of notes payable	8	(15,000)	(15,000)
Proceeds from (repayment of) bank demand loan	7	201,050	(90,000)
Principal repayments of lease liabilities		-	(13,123)
Proceeds from credit facility, net of repayment	17	48,624	-
Cash provided by financing activities		484,674	1,292,637
Impact of foreign exchange rate changes on cash		37,753	(65,816)
Net (decrease) increase in cash		(210,204)	143,396
Cash, beginning of period		492,156	87,481
Cash, end of period		**319,705**	**165,061**

Supplemental information		
Interest paid	$27,803	-
Income tax paid	-	-

The accompanying notes are an integral part of the interim condensed 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 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 July 28, 2022.

b) Basis of measurement

These unaudited interim condensed 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 unaudited interim condensed consolidated financial statements and have been consistently applied in each of the periods presented.

1. Basis of presentation (continued)

c) Basis of consolidation

The unaudited interim condensed 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 unaudited interim condensed consolidated financial statements.

d) Functional and presentation currency

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency for the Company, Element Nutrition Inc. and Jaktrx Inc. is Canadian dollars and the functional currency for Element Nutrition Ltd. and Hammock Pharmaceuticals, Inc. is U.S. dollars. Foreign currency differences 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 unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities, the disclosures about contingent assets and liabilities, and the reported amounts of revenues and expenses.

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

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

I. Note 3 – going concern.

1. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

II. 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.

III. Notes 9 and 10 – determination of the fair value of warrants and options issued estimated at the date of grant using a Black-Scholes pricing model using key assumptions on the life of the warrants, volatility, and risk-free interest rate.

2. Significant accounting policies

These unaudited interim condensed consolidated financial statements have been prepared using the same accounting policies, significant accounting judgments and estimates, and methods of computation as the annual consolidated financial statements of the Company as at and for the year ended December 31, 2021, 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, 2022.

Changes in accounting standards effective January 1, 2022

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 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.

(expressed in Canadian dollars, unless indicated otherwise)

3. Going concern

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

The Company has experienced negative cash outflows from operations and net loss for the three months periods ended March 31, 2022 and for the year ended December 31, 2021. While the Company has increased 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 interim condensed 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 unaudited interim condensed 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	$ 485,416	$ 156,440
HST receivable	295,989	271,071
	$ 781,405	$ 427,511

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
	$ 3,741,183	$ 3,193,033

The amount of inventory included in cost of revenue was $1,127,559 (March 31, 2021 - $176,828) 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 revenue (March 31, 2021 – nil).

(expressed in Canadian dollars, unless indicated otherwise)

6. Property and equipment

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

	Office Furniture and equipment	Computer equipment	Dies and plates	Leasehold improvements	Total
Cost					
January 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
Accumulated depreciation					
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
Net carrying amounts					
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% (4.31%) (December 31, 2021 – 4.06%) per annum and a limit of $500,000. The amount outstanding as at March 31, 2022 was $420,000 (December 31, 2021 - $218,950). The demand loan is secured by a general security agreement.

(expressed in Canadian dollars, unless indicated otherwise)

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. On September 01, 2021, all parties agreed to amend the terms of repayment of the debt, hence, Element paid 50% ($168,137) of the debt upon signing the agreement. The balance of the debt will be paid on or before July 15, 2023 in quarterly installments. The quarterly instalments will be the amounts equal to 10% of the JAKTRX's quarterly sales. The Company made additional payment of $707 during the year 2021 and $1,771 during the three months ended March 31, 2022. The balance of this loan at March 31, 2022 is $165,660 of which $134,212 has been classified as current and $31,448 has been classified as non-current, as estimated based on expected sales.

Through the acquisition of Jaktrx Inc., Element assumed an unsecured, non-interest bearing 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 balance of this note payable will be paid on or before July 15, 2023 in quarterly instalments. The quarterly instalments will be the amounts equal to 10% of the JAKTRX's quarterly sales. The Company made additional payment of $384 during the year 2021 and $1,016 during the three months ended March 31, 2022. The balance of this loan at March 31, 2022 is $28,399 of which $11,332 has been classified as current and $17,067 has been classified as non-current, as estimated based on expected sales.

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 and has been classified as current.

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	March 31, 2021
Authorized: Unlimited number of common shares voting, no par value Unlimited number of special warrants Issued and outstanding:		
97,573,916 common share (64,362,662 common shares at March 31, 2021)	$ 20,833,286	$ 12,690,769
8,075,460 special warrants (908,560 special warrants at March 31, 2021)	2,213,121	92,420
	$ 23,046,407	$ 12,783,189

(expressed in Canadian dollars, unless indicated otherwise)

9. Share capital (continued)

Share transactions of the Company during the three months ended March 31, 2022 are detailed as follows:

a) On January 13, 2022, 1,000,000 broker warrants were exercised at an exercise price of $0.25 per common share for a total amount of $250,000. The Company issued 250,000 common shares.

Share transactions of the Company during the three months ended March 31, 2021 are detailed as follows:

a) 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. These issuance costs were adjusted against share capital in the interim condensed consolidated statements of changes in shareholders' equity (deficiency).

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

a) 7,200,000 management performance warrants shall become exercisable upon the Company reaching $10,000,000 in revenue and a positive net profit for a financial year;

b) 8,400,000 management performance warrants shall become exercisable upon the Company reaching $25,000,000 in revenue and $2,500,000 in EBITDA for a financial year; and

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

(expressed in Canadian dollars, unless indicated otherwise)

10. Share options

The Company recorded share-based compensation during the three months ended March 31, 2022 of $255,383 (March 31, 2021 - $459,146), in relation to the stock options issued.

The outstanding stock options as at March 31, 2022 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	4.02

	March 31, 2022	March 31, 2021
Opening # of options	8,400,000	500,000
Issued during the period		4,700,000
Cancelled/forfeited during the period	-	-
Closing # of options	8,400,000	5,200,000

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 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 interim condensed consolidated financial statements, the Company has extended its payments terms with suppliers to assist in managing cashflow.

Canada Emergency Wage Subsidy

The Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") for Canadian employers whose businesses were affected by the COVID-19 pandemic. The CEWS provides a subsidy towards eligible employees' remuneration, subject to certain criteria. Accordingly, the Company applied for the CEWS to the extent it met the requirements to receive the subsidy. No subsidy was received during the three months ended March 31, 2022 (three months ended March 31, 2021 - $57,561).

11. COVID-19 Pandemic (continued)

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. No subsidy was received during the three months ended March 31, 2022 (three months ended March 31, 2021 - $18,616).

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, 2022, the balance was $28,682 (December 31, 2021 – $28,682).

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 $99,091 (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 $152,311 (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 March 31, 2022 and December 31, 2021.

(expressed in Canadian dollars, unless indicated otherwise)

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

13. Related party transactions

Included in accounts payable and accrued liabilities were a balance of $23,753 owed to the Company's Chief Executive Officer (December 31, 2021 - $4,692) and $18,833 owed to the Company's Chief Financial Officer (December 31, 2021 - $18,833).

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 recognized $75,000 and $62,500 respectively related to key management personnel salaries and benefits and $97,674 and $365,697, respectively, in share-based compensation.

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, interest rate risk and credit risk. Management monitors risk levels and reviews risk management activities as they determine to be necessary.

14. Fair values of financial instruments (continued)

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, government loans and credit facility. 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$254,885 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 interim condensed 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 3).

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 loans and credit facility.

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	3,551,135	-	-	3,551,135
Notes payable	155,644	48,515	-	204,159
Government loans	251,402	30,000	-	281,402
Credit facility	48,624	-	-	48,624
As at March 31, 2022	4,426,805	78,515	-	4,505,320

(expressed in Canadian dollars, unless indicated otherwise)

14. Fair values of financial instruments (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has two debt instruments subject to variable interest rates (Notes 7 and 17). If the interest rates were to increase substantially that would have a negative impact on the Company cash reserves and debt instruments. A 1% change in the interest rate would have an immaterial impact on these interim condensed consolidated financial statements.

(d) 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 March 31, 2022 was $32,902 (December 31, 2021 - $33,174). 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 March 31, 2022, 3 customers (March 31, 2021 – 3 customers) comprised of 90% (March 31, 2021 – 79%) of trade receivables. One customer represented 80% of revenue for the three months ended March 31, 2022 (four customers represented 72% for the three months ended March 31, 2021).

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.

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

17. Credit facility

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 with a minimum semi-annual sales volume of US$5,000,000 pursuant to the factoring of up to 85% of the Company's eligible 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 $52,067 (US$41,667) each month, for a twelve month term. The Term Loan bore interest at prime rate plus 3.00% (the "Interest Rate") and provided for a floor rate of 3.25% with a default rate of 3.00% plus the Interest Rate. In addition, the note provided for an initial factoring fee of 0.75% with an annual per day fee of US$950. The financing agreement is secured against all the Company's assets. As at March 31, 2022, the outstanding principal and accrued interest under this agreement was $48,624 (US$38,912).

18. Subsequent events

a) 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.

   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.

b) In June 2022, 8,400 warrants were exercised at an exercise price of $0.25 per common share for a total amount of $2,100. The Company issued 8,400 common shares.