

Unaudited Interim Condensed Consolidated Financial
Statements of

ELEMENT NUTRITIONAL SCIENCES INC.

For the three and six months ended June 30, 2022 and 2021
(All amounts expressed in Canadian dollars, except as otherwise indicated)
(Unaudited)

ELEMENT NUTRITIONAL SCIENCES INC.

For the three and six months ended June 30, 2022 and 2021

Table of Contents	Page
Interim Condensed Consolidated Balance Sheets	1
Interim Condensed Consolidated Statements of Loss and Comprehensive Loss	2
Interim Condensed Consolidated Statements of Changes in Shareholders' Equity	3
Interim Condensed Consolidated Statements of Cash Flows	4
Notes to Unaudited Interim Condensed Consolidated Financial Statements	5 – 22

ELEMENT NUTRITIONAL SCIENCES INC.

Interim Condensed Consolidated Balance Sheets

As at June 30, 2022 and December 31, 2021

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

	Note	June 30, 2022 (Unaudited)	December 31, 2021
Assets			
Current assets			
Cash		\$ 386,757	\$ 492,156
Amounts receivable	4	1,654,481	427,511
Prepaid expenses and advances		791,074	806,759
Inventories	5	3,858,325	3,193,033
		6,690,637	4,919,459
Non-current assets			
Property and equipment	6	66,418	76,789
Right of use assets	7	33,174	-
Prepaid expenses		200,042	-
Total assets		6,990,271	4,996,248
Liabilities and shareholders' equity			
Current liabilities			
Bank demand loan	8	495,000	218,950
Accounts payable and accrued liabilities	14	3,756,452	2,970,528
Current portion of notes payable	9	171,107	219,159
Current portion of government loans	12	259,248	255,063
Current portion of lease obligation	7	4,858	-
		4,686,665	3,663,700
Non-current liabilities			
Notes payable	9	14,259	-
Lease liabilities	7	28,316	-
Government loan	12	29,334	28,682
Total liabilities		4,758,574	3,692,382
Shareholders' equity			
Share capital	10	23,757,957	20,452,286
Options and warrants	10,11	4,178,600	3,672,568
Accumulated other comprehensive loss		(92,941)	(64,838)
Deficit		(25,611,919)	(22,756,150)
Total shareholders' equity		2,231,697	1,303,866
Total liabilities and shareholders' equity		\$ 6,990,271	\$ 4,996,248

Going concern (note 3)

Commitments and contingencies (note 17)

Subsequent events (note 19)

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 and six months ended June 30, 2022 and 2021
 (expressed in Canadian dollars, unless indicated otherwise)
 (Unaudited)

	Note	For the 3 months ended, June 30, 2022	For the 3 months ended, June 30, 2021	For the 6 months ended, June 30, 2022	For the 6 months ended, June 30, 2021
Revenue from sale of goods	13	\$1,283,898	\$1,080,514	\$3,562,556	\$1,426,248
Cost of sales		1,216,841	847,839	2,590,002	1,192,854
		67,057	232,675	972,554	233,394
Operating expenses					
Salaries and wages		717,657	250,357	1,469,769	974,660
Advertising and marketing		228,643	1,208,111	444,781	1,411,438
Professional fees		743,483	2,343,164	1,429,058	2,814,991
General and administrative		153,543	96,547	389,929	139,070
Depreciation	6,7	8,549	21,134	16,017	39,766
Product development		12,449	750	14,978	2,785
		1,864,324	3,920,063	3,764,532	5,382,710
Operating loss		(1,797,267)	(3,687,388)	(2,791,978)	(5,149,316)
Other income (expenses)					
Other income		(1,803)	617,905	(1,803)	621,093
Finance costs:					
Interest expense		(15,931)	(13,996)	(43,734)	(20,358)
Bank charges		(8,330)	(5,902)	(37,221)	(15,365)
Foreign exchange loss		74,907	40,171	18,967	86,372
		48,843	638,178	(63,791)	671,742
Loss before income taxes		(1,748,424)	(3,049,210)	(2,855,769)	(4,477,574)
Income tax expense		-	-	-	-
Net loss		(1,748,424)	(3,049,210)	(2,855,769)	(4,477,574)
Other comprehensive loss					
Foreign currency translation		(69,394)	7,510	(28,103)	(46,742)
Net loss and other comprehensive loss		(1,817,818)	(3,041,700)	(2,883,872)	(4,524,316)
Basic and diluted loss per common share		(0.02)	(0.04)	(0.03)	(0.06)
Weighted average number of common shares outstanding		106,191,331	81,104,110	101,840,130	71,062,780

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

For the six months ended June 30, 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	Deficit	Total shareholders' equity
Balance, December 31, 2021		20,452,286	3,672,568	-	(64,838)	(22,756,150)	1,303,866
Shares issued	10	3,500,000	-	-	-	-	3,500,000
Stock options	11	-	512,592	-	-	-	512,592
Exercise of warrants	10	384,200	(132,100)	-	-	-	252,100
Warrant issued as finders' fees	10	(125,540)	125,540	-	-	-	-
Share issuance costs	10	(452,989)	-	-	-	-	(452,989)
Net loss and other comprehensive loss		-	-	-	(28,103)	(2,855,769)	(2,883,872)
Balance, June 30, 2022		23,757,957	4,178,600	-	(92,941)	(25,611,919)	2,231,697

	Notes	Share capital	Options and warrants	Common shares to be issued	Accumulated other comprehensive loss	Deficit	Total shareholders' equity
Balance, December 31, 2020		\$10,925,635	\$ 131,728	\$ 354,374	\$ 60,264	\$(13,976,621)	\$(2,504,620)
Shares issued	10	354,374	-	(354,374)	-	-	-
Stock options	11	-	511,419	-	-	-	511,419
Warrants issued	11	-	327,500	-	-	-	327,500
Shares and warrants issued for cash	11	10,590,009	1,533,391	-	-	-	12,123,400
Finders' fees for issuance of shares paid in cash	10	(868,628)	-	-	-	-	(868,628)
Warrants issued as finders' fees	10	(544,852)	544,852	-	-	-	-
Common shares issued as private placement	10	125,000	-	-	-	-	125,000
Common shares issued as finder's fees	10	(125,000)	-	-	-	-	(125,000)
Common shares issued for services	10	100,000	-	-	-	-	100,000
Net loss and other comprehensive loss		-	-	-	(46,742)	(4,477,574)	(4,524,316)
Balance, June 30, 2021		\$20,556,538	\$ 3,048,890	\$ -	\$ 13,522	\$(18,454,195)	\$ 5,164,755

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 six months ended June 30, 2022 and 2021
(expressed in Canadian dollars, unless indicated otherwise)
(Unaudited)

	Note	June 30, 2022	June 30, 2021
Operating activities:		\$	\$
Net loss		\$ (2,855,769)	\$ (4,477,574)
Items not involving cash:			
Depreciation of property and equipment	6	15,237	12,888
Depreciation of right-of-use asset	7	780	26,878
Interest accretion		1,001	4,703
Share based compensation	10	512,592	938,919
		(2,326,159)	(3,494,186)
Changes in non-cash operating working capital:			
Decrease (increase) in amounts receivable		(1,226,970)	(346,372)
(Increase) decrease in prepaid expenses		(184,357)	(520,384)
Increase in inventories		(665,292)	(1,741,626)
Increase in accounts payable and accrued liabilities		785,924	916,158
Cash used in operating activities		(3,616,854)	(5,186,410)
Investing activities:			
Purchase of property and equipment (net of disposal)	6	(4,810)	(30,929)
Cash used in investing activities		(4,810)	(30,929)
Financing activities:			
Proceeds from issuance of common shares		3,500,000	12,123,400
Payment of finder's fees and transaction costs		(452,989)	(868,628)
Proceeds from exercise of warrants	10	252,100	-
Repayment of notes payable	9	(33,794)	(30,000)
(Repayment of) proceeds from bank demand loan	8	276,050	(200,000)
Principal repayments of lease liabilities	7	(780)	(26,178)
Cash provided by financing activities		3,540,587	10,998,594
Impact of foreign exchange rate changes on cash		(24,322)	(56,558)
Net increase (decrease) in cash		(81,077)	5,781,255
Cash, beginning of year		492,156	87,481
Cash, end of year		\$ 386,757	\$ 5,812,178

Supplemental information

Interest paid	\$42,732	-
Income tax paid	-	-

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

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2022, and 2021

(expressed in Canadian dollars, unless indicated otherwise)

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 August 29, 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.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2022, and 2021

(expressed in Canadian dollars, unless indicated otherwise)

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.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2022, and 2021

(expressed in Canadian dollars, unless indicated otherwise)

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 10 and 11 – 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.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

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 six months periods ended June 30, 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 18, 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

	June 30, 2022	December 31, 2021
Trade receivables, net of allowance	\$ 1,512,772	\$ 156,440
HST receivable	128,623	271,071
Receivable from Sallyport (Note 18)	13,086	-
	<u>\$ 1,654,481</u>	<u>\$ 427,511</u>

5. Inventories

	June 30, 2022	December 31, 2021
Finished goods	2,290,070	2,452,443
Packaging	269,912	317,443
Sub-components	1,298,343	423,147
	<u>\$ 3,858,325</u>	<u>\$ 3,193,033</u>

The amount of inventory included in the cost of sales was \$1,751,500 for the six months ended June 30, 2022 (June 30, 2021 - \$699,108). The amount of inventory included in cost of sales was \$623,941 for the three months ended June 30, 2022 (June 30, 2021 - \$522,280). For the three and six months ended June 30, 2022 and 2021 there were no write downs from cost to net realizable value.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 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
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	-	7,176	-	(2,366)	4,810
Foreign exchange impact	-	-	174	-	174
June 30, 2022	\$113,278	\$98,489	\$24,848	\$20,240	\$256,855
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	4,321	8,373	1,338	1,205	15,237
Foreign exchange impact	-	-	85	33	118
June 30, 2022	91,673	63,936	19,406	15,422	\$190,437
Net carrying amounts					
As at December 31, 2021	25,926	35,750	6,691	8,422	76,789
As at June 30, 2022	21,605	34,553	5,442	4,818	66,418

7. Leases

Through the acquisition of Hammock Pharmaceuticals, Inc., the Company acquired operating leases ending in October 2022 and November 2022.

The Company leases a Xerox printer on a six year term commencing May 2022 ending in April 2028 and maintains a quarterly payment of \$1,695.

The Company's Xerox 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 2022 was 6.5%.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

7. Leases (continued)

(i) Right-of-use assets

	June 30, 2022	December 31, 2021
Right of use asset		
Opening balance	\$ -	\$ 99,443
Additions: Xerox	33,954	-
Less: depreciation	(780)	(53,151)
Less: impairment	-	(46,292)
Ending balance	\$ 33,174	\$ -

(ii) Lease liabilities

	June 30, 2022	December 31, 2021
Lease liabilities		
Opening balance	\$ -	\$ 107,950
Additions: Xerox	33,954	-
Add: interest accretion expense	350	8,103
Less: principal repayments	(780)	(55,025)
Less: interest payments	(350)	(8,103)
Less: derecognition	-	(52,925)
Ending balance	\$ 33,174	\$ -

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

	June 30, 2022	December 31, 2021
Current	\$ 4,858	\$ -
Non-current	28,316	-
Balance	\$ 33,174	\$ -

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

	June 30, 2022	December 31, 2021
Less than one year	\$ 6,779	\$ 52,925
1 to 5 years	27,117	-
Over 5 years	5,649	-
Total undiscounted lease obligations	\$39,545	\$ 52,925

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

8. Bank demand loan

The Company maintains a demand loan with RBC with an interest rate of prime + 1.61% (5.31%) (December 31, 2021 – 4.06%) per annum and a limit of \$500,000. The amount outstanding as at June 30, 2022 was \$495,000 (December 31, 2021 - \$218,950). The demand loan is secured by a general security agreement.

9. Notes payable

As consideration for the acquisition of Jaktrx Inc. by Element on March 2, 2018, Element issued unsecured, non-interest-bearing notes payable to the four vendors in the aggregate amount of \$500,000 subject to working capital adjustments. After consideration of the working capital adjustments of \$163,725, the net amount owing to the four vendors 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 instalments. 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 \$4,577 during the six months ended June 30, 2022. The balance of this loan at June 30, 2022 is \$157,300 of which \$145,200 has been classified as current and \$12,100 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 \$2,486 during the six months ended June 30, 2022. The balance of this loan at June 30, 2022 is \$28,066 of which \$25,907 has been classified as current and \$2,159 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 last payment was made in May 2022.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

10. Share capital

The following table provides a breakdown of the authorized and issued share capital and warrants of the Company at June 30, 2022:

	June 30, 2022
Authorized:	
Unlimited number of common shares voting, no par value	
Unlimited number of special warrants	
Issued and outstanding:	
111,582,316 common shares (95,784,996 common shares at June 30, 2021)	\$ 23,757,957
9,187,060 special warrants (9,864,380 special warrants at June 30, 2021)	2,217,561
	<u>\$ 25,975,518</u>

Share transactions of the Company during the six months ended June 30, 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.
- b) 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% (1,120,000 warrants) of the number of Common Shares sold pursuant to the Short Form Offering. The Company also paid out \$172,989 towards legal and other expenses related to this 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.

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 2.53%; (iii) dividend yield of nil; (iv) expected volatility of 88%; and (v) fair value of the share price of \$0.24 at the time of grant based on the market price, valued at \$0.1121 per warrant. These issuance costs were adjusted against share capital in the interim condensed consolidated statements of changes in shareholders' equity (deficiency).

- c) 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.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

10. Share capital (continued)

Share transactions of the Company during the six months ended June 30, 2021 are detailed as follows:

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

As part of the concurrent private placement, the Company entered into a finder's agreement with Canaccord Genuity Corp. Under the terms of the finder's agreement, the Company issued a finder's fee of \$426,360 and issued 1,705,440 broker warrants exercisable for 1,705,440 common shares at a price of \$0.25/share for a period of two years from the date of closing. A corporate finance fee of \$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. These issuance costs were adjusted against share capital in the interim condensed consolidated statements of changes in shareholders' equity (deficiency).

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

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

10. Share capital (continued)

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

- e) The Company issued 8,334,000 units for \$5,000,400 through multiple private placements that closed on June 18, 2021. Each unit comprised of one common share and on-half of common share purchase warrant exercisable at \$1/share for a period of two years from the date of issuance. The proceeds from issuance of units were allocated between common shares and warrants based on relative proportionate method. The proportionate fair value of the common shares was determined to be \$3,467,009 and the proportionate fair value of warrants was estimated to be \$1,533,391. The fair value of shares is based on the share price as of the issuance date with no warrants.

The fair value of warrants was estimated using Black-Scholes valuation model with the following assumptions: (i) expected life of 2.00 years; (ii) risk free rate of 0.45%; (iii) dividend yield of nil; (iv) expected volatility of 100%; and (v) fair value of the share price of \$0.79 at the time of grant based on the market rate for a valuation of \$0.37 per warrant. These issuance costs were adjusted against share capital in the interim condensed consolidated statements of changes in shareholders' equity (deficiency).

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

On March 18, 2022 the Company commenced 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.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

10. Share capital (continued)

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.

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 June 30, 2022 are as follows:

	#	\$
Opening - warrants as at January 1, 2022	9,075,460	2,344,121
Issued during the period	1,120,000	125,540
Exercised during the period	(1,008,400)	(252,100)
Closing - warrants as at June 30, 2022	9,187,060	2,217,561

The issued and outstanding warrants as at June 30, 2021 are as follows:

	#	\$
Opening - warrants as at January 1, 2021	521,600	41,728
Issued during the period	9,342,780	2,405,743
Exercised during the period	-	-
Closing - warrants as at June 30, 2021	9,864,380	2,447,471

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

11. Stock options

The Company recorded share-based compensation during the three and six months ended June 30, 2022 of \$257,209 and \$512,592 respectively (three and six months ended June 30, 2021 of \$52,273 and \$511,419), in relation to the stock options issued. The outstanding stock options as at June 30, 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	3.48
January 18, 2021	\$0.25	1,300,000	1,300,000	3.55
March 10, 2021	\$0.25	3,400,000	1,116,667	3.69
July 5, 2021	\$0.81	1,700,000	425,000	4.01
August 19, 2021	\$0.70	1,500,000	-	4.14
Total		8,400,000	3,341,667	3.78

	June 30, 2022	June 30, 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

12. 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 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 and six months ended June 30, 2022 (three and six months ended June 30, 2021 - \$89,123 and \$146,684, respectively).

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

12. 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 and six months ended June 30, 2022 (three and six months ended June 30, 2021 - \$22,108 and \$40,724, respectively).

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 June 30, 2022, the balance was \$29,334 (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 \$102,183 (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 \$157,065 (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 June 30, 2022 and December 31, 2021.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

13. 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 reviews internal management reports, evaluating the metrics as summarized in the table below.

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Revenue on sale of goods	\$1,283,898	\$1,080,514	\$ 3,562,556	\$ 1,426,248
Gross profit	67,057	232,675	972,554	233,394

The following disaggregates revenue by primary geographical markets:

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Canada	\$ 81,197	\$ 129,931	\$ 190,602	\$ 211,935
United States	1,202,701	950,583	3,371,954	1,214,313
	\$ 1,283,898	\$ 1,080,514	\$ 3,562,556	\$ 1,426,248

14. Related party transactions

Included in accounts payable and accrued liabilities was a balance of \$2,552 owed to the Company's Chief Executive Officer (December 31, 2021 - \$4,692) and \$9,417 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 and six months ended June 30, 2022 the Company recognized \$75,000 and \$155,000 respectively (three-and six-months ended June 30, 2021, the Company recorded \$62,500 and \$125,000, respectively) related to key management personnel salaries and benefits. The Company also recognized for the three months ended June 30 2022 and 2021 \$98,760 and \$33,933, respectively; for the six months ended June 30, 2022 and 2021, \$196,434 and \$399,630 respectively, in share-based compensation.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

15. 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.

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 \$82,618 in cash at June 30, 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.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

15. Fair values of financial instruments (continued)

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	495,000	-	-	495,000
Accounts payable and accrued liabilities	3,756,452	-	-	3,756,452
Notes payable	171,107	14,259	-	185,365
Government loans	259,248	40,000	-	299,248
Lease obligations	6,779	6,779	20,338	33,896
As at June 30, 2022	4,688,586	61,038	20,338	4,769,962

(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 8 and 18) besides the factoring arrangement (Note 18). 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 June 30, 2022 was \$2,763 (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+
June 30, 2022	59.8%	24.3%	4.90%	11.0%

As at June 30, 2022, 4 customers (June 30, 2021 – 4 customers) comprised of 90% (June 30, 2021 – 85%) of trade receivables. 5 customers represented 93% of revenue for the six months ended June 30, 2022 (7 customers represented 94% for the six months ended June 30, 2021).

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

16. 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.

17. 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.

18. 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 \$53,692 (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 June 30, 2022, the credit facility balance is reflected as a receivable of \$13,086 (US \$10,155). The factored amount is considered a receivable with the financed amount recorded as a liability as the credit risk is retained by the Company and accordingly the ECL calculation is on the gross receivable including the factored balances.

ELEMENT NUTRITIONAL SCIENCES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements
(expressed in Canadian dollars, unless indicated otherwise)
For the three and six months ended June 30, 2022 and 2021

19. Subsequent events

- a) On August 10, 2022 521,600 warrants were exercised at an exercise price of \$0.15 per common share for a total amount of \$78,240. The Company issued 521,600 common shares.