# NEXE INNOVATIONS INC.

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### For the three months ended August 31, 2023 and 2022

(Expressed in Canadian Dollars)

(Unaudited)

## Notice of no Auditor Review of condensed interim financial statements

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

The accompanying unaudited condensed interim financial statements of the Nexe Innovations Inc, (the "Company"), have been prepared by and are the responsibility of the Company's management.

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

# NEXE INNOVATIONS INC.

Condensed Interim Consolidated Statements of Financial Position
As at August 31, 2023 and May 31, 2023
(Expressed in Canadian Dollars)

| | Notes | August 31, 2023 | May 31, 2023 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 3 | $ **12,702,772** | $ 15,609,672 |
| Term deposits | 4 | **40,000** | 40,000 |
| Trade and other receivables | 5 | **2,164,233** | 2,362,410 |
| Inventory | 6 | **687,285** | 790,600 |
| Prepaid expenses and deposits | 7 | **4,349,636** | 5,562,575 |
| Assets held for sale | 8 | **1,851,652** | 1,851,652 |
| **Total current assets** | | $ **21,795,578** | $ 26,216,909 |
| **Non-current assets** | | | |
| Property, plant, and equipment | 9 | **19,042,908** | 17,062,403 |
| Intangible assets | 11 | **78,980** | 78,980 |
| **Total non-current assets** | | $ **19,121,888** | $ 17,141,383 |
| **TOTAL ASSETS** | | $ **40,917,466** | $ 43,358,292 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | $ **2,304,776** | $ 2,863,339 |
| Deferred revenue | | **-** | 14,156 |
| Due to related parties | 16 | **-** | 5,000 |
| Government loan payable | 9, 12 | **336,615** | 319,453 |
| **Total current liabilities** | | $ **2,641,391** | $ 3,201,948 |
| **Non-current liabilities** | | | |
| Government loan payable | 9, 12 | $ **575,070** | $ 665,956 |
| **Total non-current liabilities** | | $ **575,070** | $ 665,956 |
| **Total liabilities** | | $ **3,216,461** | $ 3,867,904 |
| **Shareholders' equity** | | | |
| Share capital | 14 | $ **66,189,968** | $ 66,189,968 |
| Share option reserve | 15 | **2,390,197** | 2,139,225 |
| Contributed surplus | 15 | **8,706,752** | 8,706,752 |
| Deficit | | **(39,585,912)** | (37,545,557) |
| **Total equity** | | $ **37,701,005** | $ 39,490,388 |
| **Total liabilities and shareholders' equity** | | $ **40,917,466** | $ 43,358,292 |

Nature of operations (note 1)

Approved and authorized for issue by the Board of Directors on October 30, 2023:

| | |
|---|---|
| *"Darren Footz"* | *"Killian Ruby"* |
| Director | Director |

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

# NEXE INNOVATIONS INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the Three Months Ended August 31, 2023 and 2022
(Expressed in Canadian Dollars; Unaudited)

| | Notes | **Three months ended August 31, 2023** | Three months ended August 31, 2022 |
|---|---|---|---|
| **Revenue** | | **$ 87,702** | $ 26,862 |
| **Cost of goods sold** | 18 | **188,087** | 157,103 |
| **Gross loss** | | **$ (100,385)** | $ (130,241) |
| **Operating expenses** | | | |
| Selling, General and Administrative | 16, 17 | **$ 1,065,030** | $ 1,301,062 |
| Depreciation | 6, 9, 10, 18 | **391,852** | 213,406 |
| Interest and accretion | 10, 12 | **51,277** | 69,762 |
| Research and development | | **310,375** | 100,503 |
| Share-based compensation | 16 | **250,972** | 192,315 |
| **Total operating expenses** | | **$ 2,069,506** | $ 1,877,048 |
| **Operating loss before other items** | | **$ 2,169,891** | $ 2,007,289 |
| **Other items** | | | |
| Gain on sale of assets | | **$ (5,828)** | $ - |
| Interest income | | **(133,564)** | (98,359) |
| Foreign exchange loss (gain) | | **4,367** | 298 |
| Inventory write-down | 7 | **5,219** | 40,632 |
| **Loss and comprehensive loss** | | **$ 2,040,355** | $ 1,949,860 |

| | | | |
|---|---|---|---|
| **Basic and diluted loss per share** | | **$ 0.02** | $ 0.02 |
| **Basic and diluted Weighted average number of shares outstanding** | | **97,293,297** | 96,885,999 |

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

## NEXE INNOVATIONS INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the Three Months Ended August 31, 2023 and 2022
(Expressed in Canadian Dollars; Unaudited)

| | Number of Common Shares | Common Share Capital | Share Option Reserve | Contributed Surplus | Accumulated Deficit | Total Equity |
|---|---|---|---|---|---|---|
| **Balance – May 31, 2022** | **96,857,583** | **$ 66,881,736** | **$ 1,425,932** | **$ 7,892,984** | **$ (31,408,492)** | **$ 44,792,160** |
| Shares issued for services | 435,714 | 122,000 | - | - | - | 122,000 |
| Stock-based compensation | - | - | 192,315 | - | - | 192,315 |
| Net loss for the three months ended | - | - | - | - | (1,949,860) | (1,949,860) |
| **Balance – August 31, 2022** | **97,293,297** | **$ 67,003,736** | **$ 1,618,247** | **$ 7,892,984** | **$ (33,358,352)** | **$ 43,156,615** |
| Revaluation of warrants | - | $ (813,768) | $ - | $ 813,768 | $ - | $ - |
| Share-based compensation | - | - | 520,978 | - | - | 520,978 |
| Net loss for the nine months ended | - | - | - | - | (4,187,205) | (4,187,205) |
| **Balance – May 31, 2023** | **97,293,297** | **$ 66,189,968** | **$ 2,139,225** | **$ 8,706,752** | **$ (37,545,557)** | **$ 39,490,388** |
| Share-based compensation | - | - | 250,972 | - | - | 250,972 |
| Net loss for the period ended | - | - | - | - | (2,040,355) | (2,040,355) |
| **Balance – August 31, 2023** | **97,293,297** | **$ 66,189,968** | **$ 2,390,197** | **$ 8,706,752** | **$ (39,585,912)** | **$ 37,701,005** |

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

# NEXE INNOVATIONS INC.

Condensed Interim Consolidated Statements of Cashflows
For the three months ended August 31, 2023 and 2022
(Expressed in Canadian Dollars)

| | Notes | | August 31, 2023 | | August 31, 2022 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Net loss for the period | | **$** | **(2,040,355)** | $ | (1,949,860) |
| Items not affecting cash: | | | | | |
| Depreciation | 9, 10, 18 | | **452,110** | | 213,406 |
| Gain on sale of assets | | | **(5,828)** | | - |
| Inventory write-down | | | **5,219** | | 40,632 |
| Interest and accretion | | | **51,277** | | 69,762 |
| Share for services and consulting fees | | | **-** | | 122,000 |
| Share-based compensation | | | **250,972** | | 192,315 |
| | | **$** | **(1,286,605)** | $ | (1,311,745) |
| **Change in non-cash working capital balances** | | | | | |
| Decrease (increase) in trade and other receivables | | **$** | **198,177** | $ | (149,330) |
| Decrease in inventory | | | **98,096** | | 87,701 |
| Decrease in prepaid expenses and supplies | | | **1,212,939** | | 208,235 |
| Decrease in trade and other payables | | | **(558,563)** | | (342,305) |
| Decrease in due to related parties | | | **(5,000)** | | (3,663) |
| Decrease in deferred revenue | | | **(14,156)** | | (2,045) |
| **Net cash used in operating activities** | | **$** | **(355,112)** | $ | (1,513,152) |
| | | | | | |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant, and equipment | | **$** | **(2,484,787)** | $ | (864,975) |
| Proceeds from sale of assets | | | **58,000** | | - |
| Proceeds from (Investment in) GICs | | | **-** | | (44,693) |
| Change in non-current prepaid expenses | | | **-** | | (745,544) |
| **Net cash used in investing activities** | | **$** | **(2,426,787)** | $ | (1,655,212) |
| | | | | | |
| **Cash flows from financial activities** | | | | | |
| Payments on lease liabilities | | **$** | **-** | $ | (37,500) |
| Repayment of government loan | | | **(125,001)** | | (125,001) |
| **Net cash used in financing activities** | | **$** | **(125,001)** | $ | (162,501) |
| Net change out cash during the period | | **$** | **(2,906,900)** | $ | (3,330,865) |
| Cash and cash equivalents – beginning of the period | | | **15,609,672** | | 15,507,163 |
| **Cash and cash equivalents – end of the period** | | **$** | **12,702,772** | $ | 12,176,298 |

(The accompanying notes are an integral part of these condensed interim consolidated financial statements)

## 1. NATURE OF OPERATIONS

NEXE Innovations Inc. is a leader in plant-based compostable technology and advanced materials manufacturing based in British Columbia, Canada. The Company has developed patented, fully compostable, plant-based, single-serve coffee pods for use in leading single-serve coffee machines.

NEXE Innovations Inc., formerly Whatcom Capital Corp. ("Whatcom"), was incorporated pursuant to the Business Corporations Act (British Columbia) on September 19, 2019. Whatcom subsequently completed an initial public offering as a Capital Pool Company and listed its common shares on the TSX Venture Exchange (the "Exchange") on June 4, 2020. On December 15, 2020, Whatcom completed its qualifying transaction (the "Transaction") with Nexe Innovations Inc. ("Privco"). The Company's registered and records office is located at #1200 – 750 West Pender Street, Vancouver, British Columbia V6C 2T8 and its head office is located at #109 – 19353 22nd Avenue, Surrey, British Columbia V3Z 3S6.

**Operations**

These condensed interim consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has predominately experienced operating losses and negative operating cash flows; operations of the Company having been primarily funded by the issuance of share capital. The Company expects to incur further losses in the development of its business. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments to the carrying values of assets and liabilities would be necessary.

**COVID-19 Pandemic**

COVID-19 has interrupted the movement of people and goods throughout the world, as well as affecting the profitability and long-term viability of many entities. As a result of the pandemic, the Company has experienced supply chain disruptions, particularly with machinery, human resource constraints, deterioration of consumer demand and market volatility. Although global market conditions may have affected market conditions and consumer spending patterns, the Company remains well placed to grow revenues through product innovations. The Company has reviewed its exposure from other emerging business risks but has not identified any other risks that could significantly impact the estimates used in the determination of plant and equipment, lease liability, and intangible assets that may have a significant impact on the Company's financial performance.

## 2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

Statement of compliance

The Company prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting (IAS 34).

These condensed interim consolidated financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements for the year ended May 31, 2023, as some disclosure from the annual consolidated financial statements have been condensed or omitted. The Company uses the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended May 31, 2023.

(b) Principles of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, NEXE Technology Corp., G-Pak Holdings Ltd. and Xoma Operations Inc. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are included in the condensed interim consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company balances and transactions between the Company and its subsidiaries have been eliminated in preparing the condensed interim consolidated financial statements.

All significant inter-company balances and transactions between the Company and its subsidiaries have been eliminated in preparing the condensed interim consolidated financial statements.

(c) Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at their fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

(d) Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional and reporting currency.

(e) Accounting standards issued but not yet effective

Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's condensed interim consolidated financial statements.

(Expressed in Canadian Dollars)

## 3. CASH AND CASH EQUIVALENTS

Included within cash and cash equivalents is $12,702,772 (May 31, 2023: $15,609,672) are deposits with Canadian financial institutions.

## 4. TERM DEPOSITS

The term deposits are short-term GICs of $40,000 (May 31, 2023: $40,000) held with a Canadian bank that revolve until withdrawn, and act as collateral for the Company's corporate credit cards.

## 5. TRADE AND OTHER RECEIVABLES

A breakdown of trade and other receivables follows:

| Trade and other receivables | August 31, 2023 | May 31, 2023 |
|---|---|---|
| Trade receivable | $ 117,867 | $ 342 |
| GST receivable | 2,046,366 | 1,948,909 |
| Accrued interest | - | 413,159 |
| **Total trade and other receivables** | $ 2,164,233 | $ 2,362,410 |

Aging of trade and other receivables follows:

| Aging of trade and other receivables | August 31, 2023 | May 31, 2023 |
|---|---|---|
| Current | $ 117,867 | $ 413,501 |
| **Total trade and other receivables** | $ 117,867 | $ 413,501 |

## 6. INVENTORY

| Inventory | August 31, 2023 | May 31, 2023 |
|---|---|---|
| Raw material | $ 685,664 | $ 785,286 |
| Finished goods | 1,621 | 5,314 |
| **Total inventory** | $ 687,285 | $ 790,600 |

Cost of inventories recognized as an expense during the three months ended August 31, 2023 and August 31, 2022 amounted to $53,858 and $39,008 respectively.

Prior to the net realizable value adjustment, the finished goods inventory cost includes depreciation of $2,148 and $5,160 for August 31, 2023 and August 31, 2022 respectively. The carrying amount of finished inventory recorded at net realizable value at August 31, 2023 and May 31, 2023 was $1,621 and $5,314 respectively, with the remaining inventory recorded at cost.

(Expressed in Canadian Dollars)

## 7. PREPAID EXPENSES AND SUPPLIES

A breakdown of prepaid expenses follows:

| Prepaid expenses and deposits | August 31, 2023 | May 31, 2023 |
|---|---|---|
| Deposits, current | **$ 4,349,636** | $ 5,562,575 |
| **Total prepaid expenses and supplies, current and long term** | **$ 4,349,636** | $ 5,562,575 |

Prepaid expenses primarily included deposits for the procurement of manufacturing equipment for the research and development of single-serve coffee pods.

## 8. ASSETS HELD FOR SALE

During the year ended May 31, 2023, the Company moved the majority of the assets from the manufacturing facility in Surrey, BC to the new manufacturing facility in Windsor, ON. As a result, the owned property at Surrey, BC is listed for sale in the market. A breakdown of property for sale in as at May 31, 2023 follows:

| Assets held for sale | Cost | Accumulated Depreciation | NBV |
|---|---|---|---|
| Property | $ 2,025,185 | $ 555,679 | $ 1,469,506 |
| Building Improvements | 67,499 | 26,623 | 40,876 |
| Land | 341,270 | - | 341,270 |
| **Totals** | **$ 2,433,954** | **$** 582,302 | **$ 1,851,652** |

(Expressed in Canadian Dollars)

## 9. PROPERTY, PLANT AND EQUIPMENT

A breakdown of property, plant and equipment as at August 31, 2023, and as at May 31, 2023, follows:

| Property, plant, and equipment | Computer Equip. | Furniture & Equip. | Machinery | Building Improv. | Manuf. Facility | Land | Vehicles | Gov. Loan Benefit[1] | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **Net book value May 31, 2023** | **9,777** | **294,296** | **9,915,953** | **3,613,314** | **2,679,782** | **1,241,373** | **34,816** | **(726,908)** | **17,062,403** |
| **Consisting of:** | | | | | | | | | |
| Cost | 46,553 | 928,263 | 12,226,266 | 3,815,402 | 3,192,102 | 1,241,373 | 56,397 | (1,409,113) | 20,097,243 |
| Accumulated depreciation | (35,867) | (573,898) | (1,406,602) | (177,060) | (214,266) | - | (21,235) | 682,205 | 1,746,723 |
| Impairment | (909) | (60,069) | (903,711) | (25,028) | (298,054) | - | (346) | - | (1,288,117) |
| **Net book value May 31, 2023** | **9,777** | **294,296** | **9,915,953** | **3,613,314** | **2,679,782** | **1,241,373** | **34,816** | **(726,908)** | **17,062,403** |
| Additions | - | - | 2,336,886 | 147,901 | - | - | - | - | 2,484,787 |
| Deletions | - | - | (52,172) | - | - | - | - | - | (52,172) |
| Depreciation | (1,477) | (17,815) | (371,611) | (55,123) | (40,119) | - | (2,652) | 36,687 | (452,110) |
| **Net book value August 31, 2023** | **8,300** | **276,481** | **11,829,056** | **3,706,092** | **2,639,663** | **1,241,373** | **32,164** | **(690,221)** | **19,042,908** |
| **Consisting of:** | | | | | | | | | |
| Cost | 46,553 | 928,263 | 14,510,980 | 3,963,303 | 3,192,102 | 1,241,373 | 56,397 | (1,409,113) | 22,529,858 |
| Accumulated depreciation | (37,344) | (591,713) | (1,778,213) | (232,183) | (254,385) | - | (23,887) | 718,892 | (2,198,833) |
| Impairment | (909) | (60,069) | (903,711) | (25,028) | (298,054) | - | (346) | - | (1,288,117) |
| **Net book value August 31, 2023** | **8,300** | **276,481** | **11,829,056** | **3,706,092** | **2,639,663** | **1,241,373** | **32,164** | **(690,221)** | **19,042,908** |
| **Total cost of assets not available for use (Included in totals above)[2]** | **-** | **-** | **1,228,786** | **69,997** | **-** | **-** | **-** | **-** | **1,298,783** |

(1) The benefit of the loans from government at a below-market interest rate is measured and recognized as the difference between the initial carrying value of the loans determined using the effective interest method and the proceeds received. The benefit amount is amortized in the profit and loss over the same period as the useful life of the machinery.

(2) No depreciation is calculated on assets not available for use.

(Expressed in Canadian Dollars)

## 10. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

### Right-of-use assets

The Company leases a warehouse building. A breakdown of the right-of-use assets follows:

| Right-of-use assets | August 31, 2023 | May 31, 2023 |
|---|---|---|
| **Cost** | | |
| Opening balance | $ - | $ 696,846 |
| Termination of lease | - | (696,846) |
| **Balance – end of the period** | $ - | $ - |
| **Cumulative depreciation** | | |
| Opening balance | $ - | $ (182,779) |
| Depreciation | - | (137,084) |
| Termination of lease | - | 319,963 |
| **Balance – end of period** | $ - | $ - |
| **Net book value – end of the period** | $ - | $ - |

### Lease liabilities

A continuity schedule of the lease liability follows:

| Lease liabilities | August 31, 2023 | May 31, 2023 |
|---|---|---|
| **Lease liability – Beginning of the period** | $ - | $ 525,614 |
| Add Interest expense | - | 16,971 |
| Less Lease payments | - | (150,000) |
| Termination of lease | - | (392,585) |
| **Lease liability – Ending of the period** | $ - | $ - |

The current portion and long-term portion of the lease liability of the warehouse building are $nil for August 31, 2023 and May 31, 2023.

## 11. INTANGIBLE ASSETS

A continuity schedule for patents follows:

| Intangible assets | August 31, 2023 | May 31, 2023 |
|---|---|---|
| **Patents** | $ **78,980** | $ 78,980 |

## 12. GOVERNMENT LOAN

The Company received $2,500,000 of loans from Western Economic Diversification Canada and is required to make monthly repayments of $41,667, that were to commence August 1, 2020; however, an extension for repayment was granted to January 1, 2021, and maturity was extended to December 1, 2025. The loan was considered as an interest free loan and the difference between the fair value of the loan and the principal was credited against property, plant and equipment.

(Expressed in Canadian Dollars)

## 12. GOVERNMENT LOAN (continued)

A continuity schedule follows:

| Government loan | | August 31, 2023 | | May 31, 2023 |
|---|---|---|---|---|
| **Government loan – Beginning balance** | **$** | **985,409** | $ | 1,244,925 |
| Accretion | | 51,277 | | 240,488 |
| Repayment | | (125,001) | | (500,004) |
| **Government loan – Ending balance** | **$** | **911,685** | $ | 985,409 |

As at August 31, 2023, the current portion of the loan repayable was $336,615 (May 31, 2023: $319,453) and the non-current amount was $575,070 (May 31, 2023: $665,956), both are recorded in the condensed interim consolidated statements of financial position.

## 13. GOVERNMENT GRANTS

On April 21, 2020, the Company signed an agreement with the Department of Natural Resources, Innovative Solutions Canada to commence a project to develop a fully compostable coffee pod that meets the required dimensions required for Nespresso coffee makers using plant-based polymers and, or wood fibre composites, in return for the Company to receive a $1,000,000 grant. Payments were made to the Company in four equal payments of $250,000 – June, September, and October 2020 and January 2021.

October 12, 2022, the Department of Natural Resources, Innovative Solutions Canada confirmed the final report submitted by NEXE Innovations Inc., as required by the agreement between NEXE and the Department of Natural Resources, Innovative Solutions Canada, has been accepted and the project is now complete with no future requirements by NEXE to Natural Resources, Innovative Solutions Canada. Upon receipt of confirmation from the Department of NEXE's compliance with the agreement, NEXE recognized the previously deferred grant as other income in the condensed interim consolidated statements of loss and comprehensive loss.

## 14. SHARE CAPITAL

**Authorized:**

Common Shares: unlimited without par value

**Issued and outstanding:**

As at August 31, 2023, the Company had 97,293,297 issued and outstanding (May 31, 2023: 97,293,297) common shares. During the three months ended August 31, 2023, the Company issued nil common shares from the exercise of warrants and nil common shares from the exercise of options. During the three months ended August 31, 2022, a total of 435,714 common shares were issued at a price of $0.28 per share in exchange for services provided.

In connection with the reverse takeover transaction with Whatcom during the year ended May 31, 2021, the Company entered into the Form 5D Escrow Agreement dated December 10, 2020 whereby 18,182,004 common shares were held, and released over time. Prior to completing the reverse takeover transaction, Whatcom entered into a CPC Escrow Agreement dated November 13, 2019 whereby 1,000,000 common shares were held and released over time. As of August 31, 2023, common shares in escrow are 150,000 (August 31, 2022: 450,000) (CPC Escrow Agreement) and 2,738,839 (August 31, 2022: 8,216,517) (Form 5D Escrow Agreement).

(Expressed in Canadian Dollars)

## 15. WARRANTS AND SHARE OPTIONS

### Warrants

Continuity schedule of the Company's share purchase warrants issued and outstanding for the period ended August 31, 2023, and May 31, 2023, was as follows:

| Warrants | Weighted average exercise price | Number of warrants |
|---|---|---|
| **Outstanding – May 31, 2022** | **$ 2.17** | **11,528,854** |
| Forfeited | (0.35) | (660,000) |
| Expired | (0.25) | (8,642) |
| Expired | (1.10) | (1,182,712) |
| Expired | (2.00) | (952,500) |
| **Outstanding – May 31, 2023** | **$ 0.65** | **8,725,000** |
| **Outstanding – August 31, 2023** | **$ 0.65** | **8,725,000** |

As of August 31, 2023, the following warrants were outstanding, and the weighted average remaining life of warrants outstanding was 0.62 years (May 31, 2023: 0.87 years).

| **Warrants** | **August 31, 2023** | | May 31, 2023 | |
|---|---|---|---|---|
| **Expiry date** | **Exercise price ($)** | **Number of warrants outstanding** | **Exercise price ($)** | Number of warrants outstanding |
| April 9, 2024[1] | 0.65 | **8,625,000** | 0.65 | 8,625,000 |
| June 1, 2025 | 0.35 | **100,000** | 0.35 | 760,000 |
| **Weighted average price / Quantity outstanding** | **$0.65** | **8,725,000** | **$0.65** | **8,725,000** |

(1) On April 6, 2023, pursuant to an extraordinary resolution in writing pursuant to Sections 7.10(g) and 7.14 of the warrant indenture between the Corporation and TSX Trust Company dated April 9, 2021 (the "Original Indenture"), the holders of not less than 66 2/3% of the outstanding common share purchase warrants of the Corporation (the "Warrants") resolved to amend the Original Indenture and the warrant certificates issued thereunder such that the Exercise Price is reduced from $2.50 to $0.65, the expiry date of the Warrants is extended from April 9, 2023 to April 9, 2024, and the expiry date is accelerated if for any ten consecutive trading days following the repricing the closing price of the Company's common shares exceeds $0.78.

### Options

Continuity schedule of the Company's stock options granted and outstanding for the period ended August 31, 2023, and May 31, 2023, was as follows:

(Expressed in Canadian Dollars)

## 15. WARRANTS AND SHARE OPTIONS (continued)

| Options | Weighted average price | Number of Options |
|---|---|---|
| **Outstanding – May 31, 2022** | **$ 0.610** | **6,969,047** |
| Expired | (0.530) | (10,000) |
| Expired | (2.000) | (250,000) |
| Forfeited | (0.495) | (205,000) |
| Forfeited | (0.650) | (413,188) |
| **Outstanding – May 31, 2023** | **$ 0.559** | **6,090,859** |
| **Issued** | **0.400** | **1,865,000** |
| Forfeited | (0.495) | (30,000) |
| **Outstanding – August 31, 2023** | **$ 0.522** | **7,925,859** |

As at August 31, 2023 the following stock options were outstanding and exercisable with a weighted average remaining life of 2.91 years (May 31, 2023: 2.61 years).

| **Options** | | **August 31, 2023** | | May 31, 2023 | |
|---|---|---|---|---|---|
| **Exercise price ($)** | **Expiry date** | **Number of options outstanding** | **Number of options vested and exercisable** | Number of options outstanding | Number of options vested and exercisable |
| 0.53 | June 1, 2024 | 750,000 | 750,000 | 750,000 | 734,340 |
| 0.65 | October 10, 2024 | 500,000 | 500,000 | 500,000 | 447,915 |
| 0.65 | February 4, 2025 | 600,000 | 562,500 | 600,000 | 487,500 |
| 0.65 | June 1, 2025 | 500,000 | 427,024 | 500,000 | 364,552 |
| 0.65 | July 1, 2025 | 50,000 | 41,667 | 50,000 | 35,417 |
| 0.28 | October 2, 2025 | 355,859 | 355,859 | 355,859 | 355,859 |
| 0.80 | December 15, 2025 | 600,000 | 437,523 | 600,000 | 362,517 |
| 0.495 | March 17, 2027 | 2,705,000 | 2,705,000 | 2,735,000 | 1,810,001 |
| 0.40 | June 2, 2028 | 1,865,000 | - | - | - |
| **Total** | | **7,925,859** | **5,779,593** | 6,090,859 | 4,598,101 |

(Expressed in Canadian Dollars)

## 15. WARRANTS AND STOCK OPTIONS (continued)

During the three-month period ended August 31, 2023, 1,865,000 options were granted. The following assumptions were used for the Black-Scholes valuation of stock options granted during the prior period:

| Warrants and Stock Options | August 31, 2023 | May 31, 2023 |
|---|---|---|
| Risk-free interest rate | 4.44% | 3.58% |
| Expected life of options | 1 year | 1 year |
| Share price | $0.42 | $0.435 |
| Annualized volatility | 85% | 85% |
| Dividend rate | 0.00% | 0.00% |
| **Valuation based on assumptions:** | | |
| Fair value per option granted | $0.28 | $0.29 |

## 16. RELATED PARTY TRANSACTIONS

The Company had the following related party transactions not otherwise disclosed in these condensed interim consolidated financial statements:

As at August 31, 2023, the Company had $nil (May 31, 2023: $5,000) due to key management personnel regarding employment and consulting agreement commitments which are included in due to related parties.

*Key management compensation*

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consisted of members of the Company's Board of Directors and corporate officers.

| Key management compensation | **Three months ended August 31, 2023** | Three months ended August 31, 2022 |
|---|---|---|
| Salary, benefits, management, and consulting fees (1) | **$ 350,810** | $ 159,484 |
| Share based payments to directors and officers of the Company | **147,048** | 90,335 |
| **Total** | **$ 761,266** | $ 249,819 |

(1) For the three months ended August 31, 2023 and August 31, 2022, included are the following amounts: pursuant to the terms of the employment agreements between the Company and the executives, are milestone payments in the amount of $200,000 in aggregate (August 31, 2022: $nil).

(Expressed in Canadian Dollars)

## 17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

A breakdown of selling, general and administrative expenses follow:

| **Selling, general and administrative expenses** | **Note** | **Three months ended August 31, 2023** | Three months ended August 31, 2022 |
|---|---|---|---|
| Administrative expenses | | **$ 174,279** | $ 259,568 |
| Advertising, marketing, and other promotional expenses | | **86,796** | 148,837 |
| Consulting fees | 16 | **149,680** | 278,225 |
| Legal and professional fees | | **50,128** | 82,790 |
| Management fees | 16 | **269,250** | 75,250 |
| Salaries and benefits | 16 | **334,897** | 456,392 |
| **Total selling, general and administrative** | | **$ 1,065,030** | $ 1,301,062 |

## 18. COST OF GOOD SOLD

| **Cost of goods sold** | **Three months ended August 31, 2023** | Three months ended August 31, 2022 |
|---|---|---|
| Direct material, direct labor, and direct overhead(1) | **$ 89,037** | $ 102,492 |
| Indirect fixed factory overhead(2) | **40,940** | 37,274 |
| Depreciation | **58,110** | 17,337 |
| **Total** | **$ 188,087** | $ 157,103 |

(1) Direct cost of product includes direct material, direct labour and inbound freight.

(2) Indirect fixed factory overhead includes allocated costs such as utilities, insurance, maintenance, and property taxes.

## 19. FINANCIAL INSTRUMENTS and RISK MANAGEMENT

**Fair value of financial instruments**

*Fair value*

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value in the fair value hierarchy.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.

Level 3 – Inputs that are not based on observable market data. The Company has no financial instruments classified in Level 3.

In evaluating fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and different valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

The following tables present the carrying amounts and fair values of the Company's financial assets and liabilities, including their levels within the fair value hierarchy. Fair value information for financial assets and financial liabilities not measured at fair value is not presented if the carrying amount is a reasonable approximation of fair value.

(Expressed in Canadian Dollars)

## 19. FINANCIAL INSTRUMENTS and RISK MANAGEMENT (continues)

| August 31, 2023 | Fair value through profit and loss | Amortized cost | Fair value Level 1 | Fair value Level 2 | Fair value Level 3 | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | $ - | $ 12,702,772 | 12,702,772 | $ - | $ - | $ 12,702,772 |
| Term deposits | - | 40,000 | 40,000 | - | - | 40,000 |
| Trade and other receivables | - | 117,867 | - | 117,867 | - | 117,867 |
| **Total Financial assets** | **$ -** | **$ 12,860,639** | **$ 12,742,772** | **$ 117,867** | **$ -** | **$ 12,860,639** |
| **Financial Liabilities** | | | | | | |
| Trade and other payables | $ - | $ 2,304,776 | $ - | 2,304,776 | $ - | $ 2,304,776 |
| Government loan payable | - | 911,685 | - | 911,685 | - | 911,685 |
| **Total Financial Liabilities** | **$ -** | **$ 3,216,461** | **$ -** | **$ 3,216,461** | **$ -** | **$ 3,216,461** |

| May 31, 2023 | Fair value through profit and loss | Amortized cost | Fair Value Level 1 | Fair Value Level 2 | Fair Value Level 3 | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | $ - | $ 15,609,672 | $ 15,609,672 | $ - | $ - | $ 15,609,672 |
| Term deposits | - | 40,000 | 40,000 | - | - | 40,000 |
| Trade and other receivables | - | 413,501 | - | 413,501 | - | 413,501 |
| **Total Financial assets** | **$ -** | **$ 16,063,173** | **$ 15,649,672** | **413,501** | **$ -** | **$ 16,063,173** |
| **Financial Liabilities** | | | | | | |
| Trade and other payables | $ - | $ 2,863,339 | $ - | $ 2,863,339 | $ - | $ 2,863,339 |
| Due to related parties | - | 5,000 | - | 5,000 | - | 5,000 |
| Government loan payable | - | 985,409 | - | 985,409 | - | 985,409 |
| **Total Financial Liabilities** | **$ -** | **$ 3,853,748** | **$ -** | **$ 3,853,748** | **$ -** | **$ 3,853,748** |

### Financial risk management

The risks associated with financial instruments and the policies on how to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(Expressed in Canadian Dollars)

## 19. FINANCIAL INSTRUMENTS and RISK MANAGEMENT (continues)

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash and cash equivalents, term deposits, investments in GICs, and trade and other receivables are subject to credit risk for a maximum of the amount shown on these condensed interim consolidated statements of financial position. The Company limits its exposure to credit risk on cash and cash equivalents by depositing only with reputable financial institutions and limits its exposure to credit risk on trade and other receivables and term deposits and investments in GICs by only working with large and well-funded organizations. The carrying amount of financial assets represents the maximum credit exposure. Management believes that the Company is subject to minimal credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The purpose of liquidity risk management is to maintain a sufficient amount of cash and cash equivalents and term deposits and investment in GICs to meet its liquidity requirements at any point in time. The Company uses cash to settle its financial obligations, as they become due, with trade payables coming due on standard commercial terms. The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. It has sufficient cash and cash equivalents to meet the obligations in the following table below:

| **August 31, 2023** | **Less than 1 year** | **1 to 3 years** | **4 to 5 years** | **Over 5 years Total** |
|---|---|---|---|---|
| Trade and other payables | $ 2,304,776 | $ - | $ - | $ 2,304,776 |
| Gov't loan payable | 336.615 | 575,070 | - | 911,685 |
| | **$ 2,641,391** | **$ 575,070** | **$ -** | **$ 3,216,461** |

| **May 31, 2023** | **Less than 1 year** | **1 – 3 years** | **4 to 5 years** | **Over 5 years Total** |
|---|---|---|---|---|
| Trade and other payables | $ 2,863,339 | $ - | $ - | $ 2,863,339 |
| Gov't loan payable | 319,453 | 665,956 | - | 985,409 |
| | **$ 3,187,792** | **$ 665,956** | **$ -** | **$ 3,853,748** |

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is only subject to interest rate risk on its cash and term deposits and investments in GICs in the bank and there is unlikely to be a material impact on net income (loss) as the bank deposits are short term.

Foreign Exchange Rate Risk

Foreign exchange risk is the risk that the Company's financial instruments will fluctuate in value as a result of movements in foreign exchange rates. The Company is not exposed to any significant foreign exchange rate risk.

(Expressed in Canadian Dollars)

## 20. SEGMENT DISCLOSURE

The Company operates in one reporting segment. All of the Company's assets are located in Canada

## 21. CAPITAL RISK MANAGEMENT

The Company's primary objective when managing capital is to maintain sufficient resources and raise funding to support current and long-term operating needs. The ability to continue as a going concern is essential to the Company's goal of providing returns to shareholders and other stakeholders. The capital structure of the Company consists of shareholders' equity. The Company manages its capital structure and makes adjustments, based on the level of funds available to the Company to manage its operations and in light of economic conditions. The Company balances its overall capital through new share issuances or by undertaking other activities as deemed appropriate in the circumstances. The Company is not subject to externally imposed capital requirements. There have been no significant changes in the Company's approach to capital management during the year. These objectives and strategies are reviewed on a continuous basis.

## 22. COMMITMENTS

The Company has committed to procuring manufacturing and production equipment according to the information below. The Company used approximate exchange rates against the Canadian dollar of 1.4678 (EUR) and 1.3543 (USD)

| | | Commitments | | Payments | | Outstanding |
|---|---|---|---|---|---|---|
| | Currency | Stated in F/X | CAD($) Equivalent | Stated in F/X | CAD($) Equivalent | CAD($) Equivalent |
| **Commitments as at August 31, 2023** | | | | | | |
| | EUR | 5,481,595 | 8,045,995 | 4,131,731 | 6,064,637 | 1,981,358 |
| | USD | 1,033,967 | 1,400,259 | 634,384 | 859,121 | 541,138 |
| | CAD | 710,829 | 710,829 | 602,061 | 602,061 | 108,768 |
| **Total commitments as at August 31, 2023** | | | **10,157,083** | | **7,525,819** | **2,631,264** |
| **Additional commitments, payments, and balances subsequent to August 31, 2023** | | | | | | |
| | EUR | 9,280 | 13,621 | - | - | 13,621 |
| | USD | - | - | - | - | - |
| | CAD | 68,235 | 68,235 | - | - | 68,235 |
| **Total additional commitments and payments** | | | **81,856** | | **-** | **81,856** |
| **Total commitments as of filing date** | | | **10,238,939** | | **7,525,819** | **2,713,120** |

The bulk of the equipment (coffee capsule dosing and sealing machines) is from a European manufacturer and the Company is working towards an exclusive agreement for long-lead equipment with expected delivery within the next six months.

## 23. CONTINGENT LIABILITIES

On January 27, 2023, Markman Inc. ("Markman") initiated a claim in the Ontario Superior Court of Justice against Nexe innovations Inc. and Nexe Technology Corp claiming damages of $300,000 for breach of contract and alleges the defendants failed to pay the invoices issued in relation thereto. Nexe Innovations Inc. and Nexe Technology Corp. have defended the claim on the basis that the robotic cells produced by Markman Inc. were seriously deficient and never functioned properly. Nexe Innovations Inc. and Nexe Technology Corp. have counterclaimed for the damages and loss caused by Markman's negligence, misrepresentation, and unjust enrichment and / or breach of contract. As at August 31, 2023, the likelihood and amount of potential loss cannot be reasonably estimated at this time, and therefore no provision has been recognized.