



NEXE INNOVATIONS INC.

(Formerly Whatcom Capital Corp.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended August 31, 2021 and 2020

(Expressed in Canadian Dollars)

(Unaudited)

NEXE INNOVATIONS INC.

Condensed Interim Consolidated Statements of Financial Position

As at August 31, 2021

(Expressed in Canadian Dollars; Unaudited)

	Note		August 31, 2021		May 31, 2021
ASSETS					
Current Assets					
Cash and cash equivalents	3	\$	45,506,908	\$	50,526,731
Term deposits			40,000		40,000
Other receivables	4		708,702		603,385
Prepaid expenses and supplies	5		3,898,859		2,199,738
Total current assets		\$	50,154,469	\$	53,369,854
Non-current assets					
Prepaid expenses		\$	129,185	\$	133,492
Plant and equipment	6		3,623,097		3,442,123
Right-of-use assets	7		616,880		651,151
Intangible assets	8		78,980		78,980
Total non-current assets		\$	4,448,142	\$	4,305,746
Total assets		\$	54,602,611	\$	57,675,600
LIABILITIES					
Current Liabilities					
Trade and other payables		\$	979,597	\$	1,516,954
Bank overdraft			-		804,611
Deferred Government grant liability			1,000,000		1,000,000
Due to related parties	12		57,049		18,586
Current portion of lease liability	7		65,927		27,929
Current portion of Government loan payable	9		222,395		500,004
Total current liabilities		\$	2,324,968	\$	3,868,084
Non-current liabilities					
Lease liability	7	\$	481,824	\$	514,719
Government loan payable	9		1,184,982		956,224
Total non-current liabilities		\$	1,666,806	\$	1,470,943
Total liabilities		\$	3,991,774	\$	5,339,027
Shareholders' equity					
Share capital	10	\$	66,810,724	\$	66,677,433
Share option reserve	11		992,663		819,819
Contributed surplus	11		7,892,984		7,907,900
Deficit			(25,085,534)		(23,068,579)
Total equity		\$	50,610,837	\$	52,336,573
Total liabilities and shareholders' equity		\$	54,602,611	\$	57,675,600

Nature of operations (note 1)

Subsequent event (note 16)

Approved and authorized for issue by the Board of Directors on November 1, 2021:

"Darren Footz"

Director

"Killian Ruby"

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, 2021 and 2020
(Expressed in Canadian Dollars; Unaudited)

	Note	Three months ended August 31, 2021	Three months ended August 31, 2020
Operating expenses			
Administrative		\$ 307,672	\$ 48,079
Advertising and marketing		222,256	55,210
Advisory fees		1,336	139,715
Consulting fees		151,859	27,263
Depreciation	6, 7	114,646	52,371
Interest	9	76,150	116,139
Management fees	12	84,000	52,000
Market and investor relations		90,740	56,509
Professional fees		211,140	78,450
Research and development		89,371	21,538
Salaries and benefits	12	414,767	50,583
Share-based compensation	11	193,424	82,614
Transfer agent and filing fees		17,372	-
Travel and promotion		23,985	10,932
Total operating expenses		\$ 1,998,718	\$ 791,403
Operating loss before other items		\$ 1,998,718	\$ 791,403
Other items			
Foreign exchange loss/(gain)		\$ 37,325	\$ (5,901)
Interest income		(19,088)	(2,199)
Total other items		\$ 18,237	\$ (8,100)
Loss and other comprehensive loss		\$ 2,016,955	\$ 783,303
Basic and diluted loss per share		\$ 0.02	\$ 0.04
Weighted average shares outstanding		96,683,470	18,182,004

(The accompanying notes are an integral part to 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, 2021 and 2020 (Expressed in Canadian Dollars; Unaudited)

	Number of Common Shares	Common Share Capital	Number of Preferred Shares	Preferred Share Capital	Share Option Reserve	Contributed Surplus	Accumulated Deficit	Total Equity
Balance – May 31, 2020	18,182,004	\$ 23,715	22,791,251	\$ 11,117,850	\$ 836,639	\$ 411,678	\$ (5,889,591)	\$ 6,500,291
Shares issued from financings, net of cost	-	-	230,385	121,620	-	28,131	-	149,751
Share-based compensation	-	-	-	-	82,614	-	-	82,614
Net loss for the period ended August 31, 2020	-	-	-	-	-	-	(783,303)	(783,303)
Balance – August 31, 2020	18,182,004	\$ 23,715	23,021,636	\$ 11,239,470	\$ 919,253	\$ 439,809	\$ (6,672,894)	\$ 5,949,353
Shares issued from financings, net of cost	35,175,703	\$ 36,233,603	749,842	\$ 469,937	-	\$ 9,133,959	-	\$ 45,837,499
Shares issued as fees from financings	93,750	75,000	-	-	-	-	-	75,000
Shares issued on conversion of preferred shares	25,855,396	12,116,542	(24,397,839)	(12,116,542)	-	-	-	-
Shares issued on exercise of warrants	12,027,420	15,327,018	-	-	-	(4,736,876)	-	10,590,142
Shares issued to former Whatcom shareholders on RTO	4,000,000	3,200,000	-	-	-	-	-	3,200,000
Shares issued for services	-	-	626,361	407,135	-	-	-	407,135
Shares issued on exercise of options	1,294,401	1,057,087	-	-	(651,964)	-	-	405,123
Share-based compensation	-	-	-	-	552,530	-	-	552,530
Fair value of underwriter warrants issued	-	(1,355,532)	-	-	-	1,355,532	-	-
Fair value of performance warrants issued	-	-	-	-	-	1,715,476	-	1,715,476
Net loss for the year ended May 31, 2021	-	-	-	-	-	-	(16,395,685)	(16,395,685)
Balance – May 31, 2021	96,628,674	\$ 66,677,433	-	\$ -	\$ 819,819	\$ 7,907,900	\$ (23,068,579)	\$ 52,336,573
Shares issued on exercise of warrants	50,000	64,916	-	-	-	(14,916)	-	50,000
Shares issued on exercise of options	34,300	42,875	-	-	(20,580)	-	-	22,295
Shares issued for services (performance milestone)	25,000	25,500	-	-	-	-	-	25,500
Share-based compensation	-	-	-	-	193,424	-	-	193,424
Net loss for the period ended August 31, 2021	-	-	-	-	-	-	(2,016,955)	(2,016,955)
Balance – August 31, 2021	96,737,974	\$ 66,810,724	-	\$ -	\$ 992,663	\$ 7,892,984	\$ (25,085,534)	\$ 50,610,837

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

NEXE INNOVATIONS INC.

Condensed Interim Consolidated Statements of Cash Flows For the Three Months Ended August 31, 2021 and 2020 (Expressed in Canadian Dollars; Unaudited)

		Three months ended August 31, 2021		Three months ended August 31, 2020
Cash flows from operating activities				
Net loss for the period	\$	(2,016,955)	\$	(783,303)
Items not affecting cash:				
Depreciation		114,646		52,371
Interest		76,150		116,139
Share-based compensation		193,424		82,614
	\$	(1,632,735)	\$	(532,179)
Change in non-cash working capital balances				
Decrease (increase) in other receivables	\$	(105,317)	\$	(2,034)
Decrease (increase) in prepaids expenses and supplies		(76,233)		(376,911)
Increase (decrease) in trade and other payables		(456,754)		294,923
Increase (decrease) in due to related parties		38,463		-
Net cash used in operating activities	\$	(2,232,576)	\$	(616,201)
Cash flows from investing activities				
Purchase of plant and equipment	\$	(261,349)	\$	(8,755)
Investment in intangible assets		-		(146,387)
Advances for capital goods		(1,618,581)		-
Net cash used in investing activities	\$	(1,879,930)	\$	(155,142)
Cash flows from financial activities				
Proceeds from exercise of options	\$	22,295	\$	-
Proceeds from issuance of share capital		-		149,751
Proceeds from government grant		-		250,000
Repayment of bank overdraft		(804,611)		-
Repayment of government loan		(125,001)		-
Net cash provided (used in) from financing activities	\$	(907,317)	\$	399,751
Net change in cash during the period		(5,019,823)		(371,592)
Cash and cash equivalents - beginning of period		50,526,731		3,311,463
Cash and cash equivalents - end of period	\$	45,506,908	\$	2,939,871

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

NEXE INNOVATIONS INC

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended August 31, 2021 and 2020
(Expressed in Canadian Dollars; Unaudited)

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 one of the only patented, fully compostable, plant-based, single-serve coffee pods for use in leading single-serve coffee machines.

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. Management has estimated that the Company has sufficient financing to complete current work plans with the closing of the recent financing. 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 condensed interim 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 condensed interim consolidated financial statements, then adjustments to the carrying values of assets and liabilities would be necessary.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments has already adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. The Company has established key guidelines and procedures related to security and access controls, health screening, isolation and quarantine, and facility infrastructure, maintenance, and cleaning, to ensure that its workplace practices are in line with local government recommendations and requirements, as well as compliant with the appropriate standards of safety, health, wellness and required workplace readiness. The Company continues to monitor key suppliers to prevent service disruptions or significant impacts in the delivery of services or goods from its suppliers.

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).

NEXE INNOVATIONS INC

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended August 31, 2021 and 2020
(Expressed in Canadian Dollars; Unaudited)

2. Significant Accounting Policies (continued)

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, 2021, 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, 2021. There are no IFRS or International Financial Reporting Interpretations Committee Interpretations that are not yet effective that would be expected to have a material impact on the Company's condensed interim consolidated financial statements.

(b) Basis 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.

(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 consolidated financial statements.

NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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(Expressed in Canadian Dollars)

3. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents of \$45,506,908 (May 31, 2021 - \$50,526,731) were short-term guaranteed investment certificates (GICs) for \$38,001,929 (May 31, 2021 - \$nil) that were invested with Canadian financial institutions.

4. OTHER RECEIVABLES

A breakdown of other receivables for the three months ended August 31, 2021, and the year ended May 31, 2021, follows:

	August 31, 2021	May 31, 2021
GST receivable	\$ 698,740	\$ 603,385
Accrued interest	9,962	-
Total other receivables	\$ 708,702	\$ 603,385

5. PREPAID EXPENSES AND SUPPLIES

A breakdown of prepaid expenses and supplies for the three months ended August 31, 2021, and the year ended May 31, 2021, follows:

	August 31, 2021	May 31, 2021
Prepaid expenses	\$ 3,501,083	\$ 1,563,376
Deposits	-	314,819
Supplies	397,776	321,543
Total prepaid expenses and supplies	\$ 3,898,859	\$ 2,199,738

Prepaid expenses primarily included commitments for the procurement of manufacturing equipment. Supplies were comprised of raw materials for the manufacturing process for single-serve coffee pods.

NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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6. PLANT AND EQUIPMENT

A breakdown of plant and equipment for the three months ended August 31, 2021, and the year ended May 31, 2021, follows:

	Computer Equipment	Furniture and Equipment	Machinery	Building Improvement	Manufacturing Facility	Land	Government Loan Benefit	Total
Net book value – May 31, 2021	\$ 6,201	\$ 469,001	\$ 2,021,023	\$ 135,658	\$ 1,489,367	\$ 341,270	\$ (1,020,397)	\$ 3,442,123
Additions	15,554	-	187,846	57,949	-	-	-	261,349
Depreciation	(3,095)	(26,326)	(61,418)	(5,323)	(20,901)	-	36,688	(80,375)
Net book value – August 31, 2021	\$ 18,660	\$ 442,675	\$ 2,147,451	\$ 188,284	\$ 1,468,466	\$ 341,270	\$ (983,709)	\$ 3,623,097
Consisting of:								
Cost	\$ 30,103	\$ 907,732	\$ 2,960,614	\$ 228,425	\$ 2,025,185	\$ 341,270	\$ (1,409,113)	\$ 5,084,216
Accumulated depreciation	(10,683)	(407,538)	(565,304)	(23,504)	(374,062)	-	425,404	(955,687)
Impairment	(760)	(57,519)	(247,859)	(16,637)	(182,657)	-	-	(505,432)
Net book value – August 31, 2021	\$ 18,660	\$ 442,675	\$ 2,147,451	\$ 188,284	\$ 1,468,466	\$ 341,270	\$ (983,709)	\$ 3,623,097

7. RIGHT-OF-USE ASSETS

The Company leases a warehouse building. A breakdown of the right-of-use assets for the three months ended August 31, 2021, and the year ended May 31, 2021, follows:

	August 31, 2021	May 31, 2021
Cost or deemed cost		
Opening balance	\$ 696,846	\$ -
Additions	-	696,846
Balance – August 31, 2021	\$ 696,846	\$ 696,846
Cumulative depreciation		
Opening balance	\$ (45,695)	\$ -
Depreciation	(34,271)	(45,695)
Balance – August 31, 2021	(79,966)	(45,695)
Net book value – August 31, 2021	\$ 616,880	\$ 651,151

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Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended August 31, 2021 and 2020
(Expressed in Canadian Dollars)

7. Right-of-Use Assets (continued)

Lease liabilities

A continuity schedule for the three months ended August 31, 2021, and the year ended May 31, 2021, follows:

Lease liability - May 31, 2020	\$	-
Additions		696,846
Payments		(160,929)
Interest expense		6,730
Lease liability - May 31, 2021	\$	542,647
Interest expense		5,104
Lease liability – August 31, 2021	\$	547,751

As of August 31, 2021, the current lease liability of the warehouse building is \$65,927 (May 31, 2021 - \$27,929) and the non-current lease liability is \$481,824 (May 31, 2021 - \$514,719).

8. INTANGIBLE ASSETS

A continuity schedule for patents for the three months ended August 31, 2021, and the year ended May 31, 2021, follows:

Patents - May 31, 2020	\$	78,980
Additions		-
Patents - May 31, and August 31, 2021	\$	78,980

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Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended August 31, 2021 and 2020
(Expressed in Canadian Dollars)

9. 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 plant and equipment.

A continuity schedule for the three months ended August 31, 2021, and the year ended May 31, 2021, follows:

Government loan – May 31, 2020	\$	1,462,548
Accretion		289,601
Repayment		(208,385)
Gain on modification		(87,536)
Government loan – May 31, 2021	\$	1,456,228
Accretion		76,150
Repayment		(125,001)
Government loan – August 31, 2021	\$	1,407,377

As at August 31, 2021, the current portion of the loan repayable was \$222,395 (May 31, 2021 - \$500,004) and the non-current amount was \$1,184,982 (May 31, 2021 - 956,224), both recorded in the condensed interim consolidated statements of financial position.

10. SHARE CAPITAL

Authorized:

Common Shares: unlimited without par value

Issued and outstanding:

As at August 31, 2021, the Company had 96,737,974 issued and outstanding (May 31, 2021 - 96,628,674) common shares.

During the three months ended August 31, 2021, the Company issued 50,000 common shares from the exercise of warrants for proceeds of \$50,000, and 34,300 common shares from the exercise of options for proceeds of \$22,295. In addition, the Company issued 25,000 common shares at a deemed market price of \$1.02 to a former employee of the Company, who met a performance related milestone in accordance with an employment agreement as a Shares for Services transaction, as defined in the policies of the TSX Venture Exchange. The shares are subject to a four-month hold period from the date of issue and the share issuance was part of a final settlement.

NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended August 31, 2021 and 2020
(Expressed in Canadian Dollars)

11. WARRANTS AND STOCK OPTIONS

Warrants

Continuity schedule of the Company's share purchase warrants issued and outstanding for the three months ended August 31, 2021, and the year ended May 31, 2021, was as follows:

	August 31, 2021		May 31, 2021	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, May 31, 2021	18,565,976	\$ 1.71	7,311,425	\$ 1.10
Issued	-	-	23,301,971	1.47
Exercised	(50,000)	1.00	(12,027,420)	0.88
Cancelled	-	-	(20,000)	1.10
Outstanding, August 31, 2021	18,515,976	\$ 1.71	18,565,976	\$ 1.71

As at August 31, 2021, the following warrants were outstanding, and the weighted average remaining life of warrants outstanding was 0.6 years (May 31, 2021 – 0.8 years).

		August 31, 2021	May 31, 2021
Exercise price	Expiry date	Number of warrants outstanding	Number of warrants outstanding
\$ 0.25	June 2, 2022	25,851	25,851
\$ 0.35	June 1, 2025	760,000	760,000
\$ 0.65	From December 9 to 18, 2021	7,036	7,036
\$ 0.80	December 15, 2021	293,938	293,938
\$ 1.00	From December 8 to 15, 2021	2,915,064	2,965,064
\$ 1.10	From October 21, 2021 to December 18, 2022	4,936,587	4,936,587
\$ 2.00	April 9, 2023	952,500	952,500
\$ 2.50	April 9, 2023	8,625,000	8,625,000
\$ 1.71		18,515,976	18,565,976

NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended August 31, 2021 and 2020
(Expressed in Canadian Dollars)

11. Warrants and Stock options (continued)

Options

Continuity schedule of the Company's stock options granted and outstanding for the three months ended August 31, 2021, and the year ended May 31, 2021, was as follows:

	August 31, 2021		May 31, 2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, May 31, 2021	4,259,619	\$ 0.61	4,294,020	\$ 0.51
Granted	250,000	2.00	1,510,000	0.67
Exercised	(34,300)	0.65	(1,294,401)	0.31
Forfeited/cancelled	-	-	(250,000)	0.65
Outstanding, August 31, 2021	4,475,319	\$ 0.69	4,259,619	\$ 0.61

As at August 31, 2021, the following stock options were outstanding and exercisable with an average remaining life of 2.55 years (May 31, 2021 - 2.68 years):

		August 31, 2021		May 31, 2021	
Exercise price	Expiry date	Number of options outstanding	Number of options vested and exercisable	Number of options outstanding	Number of options vested and exercisable
\$ 0.28	October 2, 2025	355,859	355,859	355,859	355,859
\$ 0.53	From March 11, 2022 to June 1, 2024	1,183,760	840,010	1,183,760	793,135
\$ 0.65	From October 10, 2024 to July 1, 2025	2,085,700	890,591	2,120,000	479,892
\$ 0.80	December 15, 2025	600,000	-	600,000	-
\$ 2.00	May 6, 2023	250,000	250,000	-	-
\$ 0.69		4,475,319	2,336,460	4,259,619	1,628,886

The following assumptions were used for the Black-Scholes valuation of stock options granted during the three months ended August 31, 2021, and the year ended May 31, 2021:

	August 31, 2021	May 31, 2021
Risk-free interest rate	0.37% to 0.45%	0.37% to 0.45%
Expected life of options	5 years	5 years
Share price	\$0.65 - \$1.06	\$0.65 - \$0.80
Annualized volatility	100% - 105%	100% - 105%
Dividend rate	0.00%	0.00%

Valuation based on assumptions:

Fair value per option granted	\$0.32 to \$0.41	\$0.32 to \$0.40
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NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended August 31, 2021 and 2020
(Expressed in Canadian Dollars)

12. 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, 2021, the Company had \$57,049 (May 31, 2021 - \$18,586) due to key management personnel regarding employment and consulting agreement commitments which were included in due to related parties.

Key management compensation

Key management personnel included 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.

For the period ended August 31, 2021, key management compensation included salaries and benefits, and management fees, paid to key management personnel of \$235,906 (2020 - \$123,181) and share-based compensation of \$86,618 (2020 - \$34,434).

13. 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.

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Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended August 31, 2021 and 2020
(Expressed in Canadian Dollars)

13. Financial Instruments and Risk Management (continued)

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.

August 31, 2021	Fair value through profit and loss	Amortized cost	Fair Value			Total
			Level 1	Level 2	Level 3	
Financial assets						
Cash and cash equivalents	\$ -	\$ 45,506,908	\$ 45,506,908	\$ -	\$ -	\$ 45,506,908
Term deposits	-	40,000	40,000	-	-	40,000
Other receivables (accrued interest)	-	9,962	-	9,962	-	9,962
	\$ -	\$ 45,556,870	\$ 45,546,908	\$ 9,962	\$ -	\$ 45,556,870
Financial Liabilities						
Trade and other payables	-	979,597	979,597	-	-	979,597
Deferred Government grant liability	-	1,000,000	-	1,000,000	-	1,000,000
Due to related parties	-	57,049	57,049	-	-	57,049
Government loan payable	-	1,407,377	-	1,407,377	-	1,407,377
	\$ -	\$ 3,444,023	\$ 1,036,646	\$ 2,407,377	\$ -	\$ 3,444,023

May 31, 2021	Fair value through profit and loss	Amortized cost	Fair value			Total
			Level 1	Level 2	Level 3	
Financial assets						
Cash and cash equivalents	\$ -	\$ 50,526,731	\$ 50,526,731	\$ -	\$ -	\$ 50,526,731
Term deposits	-	40,000	40,000	-	-	40,000
	\$ -	\$ 50,566,731	\$ 50,566,731	\$ -	\$ -	\$ 50,566,731
Financial Liabilities						
Trade and other payables	-	1,516,954	1,516,954	-	-	1,516,954
Deferred Government grant liability	-	1,000,000	-	1,000,000	-	1,000,000
Due to related parties	-	18,586	18,586	-	-	18,586
Government loan payable	-	1,456,228	-	1,456,228	-	1,456,228
	\$ -	\$ 3,991,768	\$ 1,535,540	\$ 2,456,228	\$ -	\$ 3,991,768

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.

NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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13. Financial Instruments and Risk Management (continued)

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, and other receivables, and due from related parties are subject to credit risk for a maximum of the amount shown on the 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 other receivables 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 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.

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 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.

14. 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.

NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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15. COMMITMENTS

The Company has committed to procuring manufacturing and production equipment that totaled €6,818,000, US\$530,110, and \$627,194, respectively, of which payments of €1,217,000, US\$116,875, and \$332,321, respectively, were made, with the remaining balances owed of €5,601,000, US\$413,235, and \$294,874, respectively, totaling approximately \$8.9 million as at August 31, 2021. Certain equipment is expected to be delivered in calendar Q4 2021 with remaining payments due on delivery. 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 over the next 24 months.

Subsequent to August 31, 2021, the Company committed to purchasing a prototype dosing and sealing machine for €97,690, coffee capsule packaging and molding machines for US\$2,356,285, respectively, of which a payment of €39,076 was made, leaving balances owing of €58,614, and US\$2,356,285, respectively, and totaling approximately \$3.0 million. The equipment is expected to be delivered in calendar Q4 2021. Furthermore, the Company paid €271,500 and US\$225,063, respectively, towards prior purchase commitments, with remaining balances owing of €5,329,500, US\$188,172, and \$294,874, respectively, totaling about \$8.2 million.

The Company has entered into an agreement for leased premises commencing February 1, 2021 and ending on February 28, 2026. Lease payments for the first month were \$11,476 and each subsequent monthly lease payment is \$13,125 for the remainder of the lease term.

16. SUBSEQUENT EVENT

On October 25, 2021, 461,460 warrants, at an exercise price of \$1.10, expired unexercised, and on October 21, 2021, 285,000 warrants, at an exercise price of \$1.10, expired unexercised.