



NEXE INNOVATIONS INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six months Ended November 30, 2021 and 2020

(Expressed in Canadian Dollars)

(Unaudited)

NEXE INNOVATIONS INC.

Condensed Interim Consolidated Statements of Financial Position

As at November 30, 2021 and May 31, 2021

(Expressed in Canadian Dollars; Unaudited)

		November 30, 2021		May 31, 2021
ASSETS				
Current Assets				
Cash and cash equivalents	3	\$ 5,368,707		\$ 50,526,731
Term deposits		40,000		40,000
Investment in GICs	4	35,717,501		-
Other receivables	5	924,817		603,385
Prepaid expenses and supplies	6	5,138,304		2,199,738
Total current assets		\$ 47,189,329		\$ 53,369,854
Non-current assets				
Prepaid expenses	6	\$ 990,401		\$ 133,492
Investment in GICs	4	250,584		-
Plant and equipment	7	3,583,369		3,442,123
Right-of-use assets	8	582,609		651,151
Intangible assets	9	78,980		78,980
Total non-current assets		\$ 5,485,943		\$ 4,305,746
TOTAL ASSETS		\$ 52,675,272		\$ 57,675,600
LIABILITIES				
Current Liabilities				
Trade and other payables		\$ 1,029,651		\$ 1,516,954
Bank overdraft		-		804,611
Deferred Government grant liability		1,000,000		1,000,000
Due to related parties	13	19,247		18,586
Current portion of lease liability	8	104,281		27,929
Current portion of Government loan payable	10	234,105		500,004
Total current liabilities		\$ 2,387,284		\$ 3,868,084
Non-current liabilities				
Lease liability	8	\$ 448,620		\$ 514,719
Government loan payable	10	1,121,866		956,224
Total non-current liabilities		\$ 1,570,486		\$ 1,470,943
Total liabilities		\$ 3,957,770		\$ 5,339,027
Shareholders' equity				
Share capital	11	\$ 66,875,542		\$ 66,677,433
Share option reserve	12	1,095,166		819,819
Contributed surplus	12	7,892,984		7,907,900
Deficit		(27,146,190)		(23,068,579)
Total equity		\$ 48,717,502		\$ 52,336,573
Total liabilities and shareholders' equity		\$ 52,675,272		\$ 57,675,600

Nature of operations (note 1)

Subsequent events (note 17)

Approved and authorized for issue by the Board of Directors on January 31, 2022:

"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 and Six months Ended November 30, 2021 and 2020
(Expressed in Canadian Dollars; Unaudited)

	Note	Three months ended Nov 30, 2021	Three months ended Nov 30, 2020	Six months ended Nov 30, 2021	Six months ended Nov 30, 2020
Operating expenses					
Administrative		\$ 147,026	\$ 41,200	\$ 444,445	\$ 89,278
Advertising and production marketing		323,601	153,605	545,857	208,815
Advisory fees		3,326	6,793	4,662	146,508
Consulting fees		240,039	7,544	391,898	34,807
Depreciation	7, 8	148,421	40,214	263,067	92,585
Interest and accretion	8, 10	73,595	76,256	159,998	192,395
Management fees	13	77,500	474,524	161,500	526,524
Marketing and investor relations		7,209	39,666	97,949	96,175
Professional fees		296,758	44,897	507,898	123,347
Research and development		267,857	25,849	357,228	47,387
Salaries and benefits	13	375,813	61,608	790,580	112,192
Share-based compensation	12, 13	102,503	82,615	295,927	165,229
Transfer agent and filing fees		14,915	-	32,287	-
Travel and promotion		47,986	18,110	71,971	29,042
Total operating expenses		\$ 2,126,549	\$ 1,072,881	\$ 4,125,267	\$ 1,864,284
Operating loss before other items		\$ 2,126,549	\$ 1,072,881	\$ 4,125,267	\$ 1,864,284
Other items					
Foreign exchange loss (gain)		(22,213)	5,923	15,112	22
Interest income		(43,680)	2,108	(62,768)	(91)
Total other items		\$ (65,893)	\$ 8,031	\$ (47,656)	\$ (69)
Loss and comprehensive loss		\$ 2,060,656	\$ 1,080,912	\$ 4,077,611	\$ 1,864,215
Basic and diluted loss per share					
		\$ 0.02	\$ 0.06	\$ 0.04	\$ 0.10
Weighted average shares outstanding		96,768,923	18,182,004	96,725,963	18,182,004

(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 Six Months Ended November 30, 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	\$ (5,889,297)	\$ 6,500,585
Shares issued for private placement, net of cost	-	\$ -	856,744	\$ 452,274	\$ -	\$ 104,609	\$ -	\$ 556,883
Subscription receipts received	-	-	-	788,803	-	-	-	788,803
Share-based compensation	-	-	-	-	165,229	-	-	165,229
Net loss for the period ended November 30, 2020	-	-	-	-	-	-	(1,864,215)	(1,864,215)
Balance – November 30, 2020	18,182,004	\$ 23,715	23,647,995	\$ 12,358,927	\$ 1,001,868	\$ 516,287	\$ (7,753,512)	\$ 6,147,285
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	149,720	129,734	-	-	-	(14,916)	-	114,818
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	-	-	-	-	295,927	-	-	295,927
Net loss for the period ended November 30, 2021	-	-	-	-	-	-	(4,077,611)	(4,077,611)
Balance – November 30, 2021	96,837,694	\$ 66,875,542	-	\$ -	\$ 1,095,166	\$ 7,892,984	\$ (27,146,190)	\$ 48,717,502

(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 Six Months Ended November 30, 2021 and 2020
(Expressed in Canadian Dollars; Unaudited)

	November 30, 2021	November 30, 2020
Cash flows from operating activities		
Net loss for the period	\$ (4,077,611)	\$ (1,864,215)
Items not affecting cash:		
Depreciation	263,067	92,797
Interest	159,998	192,851
Share-based compensation	295,927	165,229
	\$ (3,358,619)	\$ (1,413,338)
Change in non-cash working capital balances		
Decrease (increase) in other receivables	\$ (321,432)	\$ (74,150)
Decrease (increase) in prepaids expenses and supplies	(206,117)	(316,224)
Increase (decrease) in trade and other payables	(461,803)	240,315
Increase (decrease) in due to related parties	661	-
	\$ (4,347,310)	\$ (1,563,397)
Cash flows from investing activities		
Purchase of plant and equipment	\$ (335,771)	\$ (48,886)
Investment in GICs	(35,968,085)	-
Investment in intangible assets	-	(305,190)
Decrease (increase) in non-current prepaid expenses	(3,589,358)	-
	\$ (39,893,214)	\$ (354,076)
Cash flows from financial activities		
Proceeds from exercise of warrants (Subscriptions in 2020)	\$ 114,818	\$ 788,803
Proceeds from exercise of options	22,295	-
Proceeds from issuance of share capital	-	556,883
Proceeds from government grant	-	750,000
Repayment of bank overdraft	(804,611)	-
Repayment of government loan	(250,002)	-
	\$ (917,500)	\$ 2,095,686
Net cash provided (used in) from financing activities	\$ (917,500)	\$ 2,095,686
Net change in cash during the period	(45,158,024)	178,213
Cash and cash equivalents – beginning of period	50,526,731	3,311,463
Cash and cash equivalents – end of period	\$ 5,368,707	\$ 3,489,676

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

NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended November 30, 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 financings in fiscal 2021. 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.

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

NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended November 30, 2021 and 2020
(Expressed in Canadian Dollars; Unaudited)

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, 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. (formerly Gcup 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.

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

NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended November 30, 2021 and 2020
(Expressed in Canadian Dollars; Unaudited)

3. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents of \$5,368,707 (May 31, 2021 - \$50,526,731) are deposits with Canadian financial institutions.

4. INVESTMENTS IN GICs

The Company holds short-term and long-term GICs with various Canadian financial institutions. Short-term Investments equaled \$35,717,501 of which \$33,012,778 matures in August 2022 and \$2,704,723 matures in October 2022. Long-term Investments in GICs equaled \$250,584 maturing January 2023.

5. OTHER RECEIVABLES

A breakdown of other receivables as at November 30, 2021, and as at May 31, 2021, follows:

Other receivables	November 30, 2021	May 31, 2021
GST receivable	\$ 890,894	\$ 603,385
Accrued interest	33,923	-
Total other receivables	\$ 924,817	\$ 603,385

6. PREPAID EXPENSES AND SUPPLIES

A breakdown of prepaid expenses and supplies as at November 30, 2021, and the as at May 31, 2021, follows:

Prepaid expenses and supplies	November 30, 2021	May 31, 2021
Prepaid expenses	\$ 4,610,645	\$ 1,563,376
Deposits	-	314,819
Supplies	527,659	321,543
Total prepaid expenses and supplies	\$ 5,138,304	\$ 2,199,738

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

Long-term prepaid expenses of \$887,053 (May 2021 - \$0) are related to procurement of manufacturing equipment. Long-term prepaid expenses of \$103,348 (May 2021 - \$133,492) relates to prepayments on long term contracts.

7. PLANT AND EQUIPMENT

A breakdown of plant and equipment as at November 30, 2021, and as at May 31, 2021, follows:

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

NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended November 30, 2021 and 2020
(Expressed in Canadian Dollars; Unaudited)

7. Plant and Equipment (continued)

	Computer Equipment	Furniture & Equipment	Machinery	Building Improv.	Manufacturing Facility	Land	Government Loan Benefit ⁽¹⁾	Total
Net book value May 31, 2021	\$ 6,201	\$ 469,001	\$ 2,021,024	\$ 135,658	\$ 1,489,367	\$ 341,270	\$ (1,020,398)	\$ 3,442,123
Consisting of:								
Cost	\$ 14,549	\$ 907,732	\$ 2,772,769	\$ 170,475	\$ 2,025,185	\$ 341,270	\$ (1,409,113)	\$ 4,822,867
Accumulated depreciation	(7,588)	(381,212)	(503,886)	(18,180)	(353,161)	-	388,715	(875,312)
Impairment	(760)	(57,519)	(247,859)	(16,637)	(182,657)	-	-	(505,432)
Net book value May 31, 2021	\$ 6,201	\$ 469,001	\$ 2,021,024	\$ 135,658	\$ 1,489,367	\$ 341,270	\$ (1,020,398)	\$ 3,442,123
Additions	17,020	6,129	197,173	115,449	-	-	-	335,771
Depreciation	(4,254)	(52,959)	(143,568)	(16,489)	(50,630)	-	73,375	(194,525)
Net book value November 30, 2021	\$ 18,967	\$ 422,171	\$ 2,074,629	\$ 234,618	\$ 1,438,737	\$ 341,270	\$ (947,023)	\$ 3,583,369
Consisting of:								
Cost	\$ 31,569	\$ 913,861	\$ 2,969,942	\$ 285,924	\$ 2,025,185	\$ 341,270	\$ (1,409,113)	\$ 5,158,638
Accumulated depreciation	(11,842)	(434,171)	(647,454)	(34,669)	(403,791)	-	462,090	(1,069,837)
Impairment	(760)	(57,519)	(247,859)	(16,637)	(182,657)	-	-	(505,432)
Net book value November 30, 2021	\$ 18,967	\$ 422,171	\$ 2,074,629	\$ 234,618	\$ 1,438,737	\$ 341,270	\$ (947,023)	\$ 3,583,369

(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 over the repayment period of the loans.

8. RIGHT-OF-USE ASSETS

The Company leases a warehouse building. A breakdown of the right-of-use assets as at November 30, 2021, and as at May 31, 2021, follows:

	November 30, 2021	May 31, 2021
Cost		
Opening balance	\$ 696,846	\$ -
Additions	-	696,846
Balance – end of period	\$ 696,846	\$ 696,846
Cumulative depreciation		
Opening balance	\$ (45,695)	\$ -
Depreciation	(68,542)	(45,695)
Balance – end of period	\$ (114,237)	\$ (45,695)
Net book value – end of period	\$ 582,609	\$ 651,151

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

NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended November 30, 2021 and 2020
(Expressed in Canadian Dollars; Unaudited)

8. Right of use (continued)

Lease liabilities

A continuity schedule as at November 30, 2021, and as at May 31, 2021, follows:

Lease liability - May 31, 2021	\$ 542,648
Interest expense	10,253
Lease liability - November 30, 2021	\$ 552,901

As of November 30, 2021, the current lease liability of the warehouse building is \$104,281 (May 31, 2021 - \$27,929) and the non-current lease liability is \$448,620 (May 31, 2021 - \$514,719).

9. INTANGIBLE ASSETS

A continuity schedule for patents as at November 30, 2021, and as at May 31, 2021, follows:

Patents - May 31, and November 30, 2021	\$ 78,980
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10. 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 as at November 30, 2021, and as at May 31, 2021, follows:

Government loan – May 31, 2021	\$ 1,456,228
Accretion	149,745
Repayment	(250,002)
Government loan – November 30, 2021	\$ 1,355,971

As at November 30, 2021, the current portion of the loan repayable was \$234,105 (May 31, 2021 - \$500,004) and the non-current amount was \$1,121,866 (May 31, 2021 - 956,224), both are recorded in the condensed interim consolidated statements of financial position.

11. SHARE CAPITAL

Authorized:

Common Shares: unlimited without par value

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

NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended November 30, 2021 and 2020
(Expressed in Canadian Dollars; Unaudited)

11. Share Capital (continued)

Issued and outstanding:

As at November 30, 2021, the Company had 96,837,694 issued and outstanding (May 31, 2021 - 96,628,674) common shares.

During the six months ended November 30, 2021, the Company issued 149,720 common shares from the exercise of warrants for proceeds of \$114,818 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.

12. WARRANTS AND STOCK OPTIONS

Warrants

Continuity schedule of the Company's share purchase warrants issued and outstanding for the six months ended November 30, 2021, and the year ended May 31, 2021, was as follows:

	November 30, 2021		May 31, 2021	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding – beginning of period	18,565,976	\$ 1.71	7,311,425	\$ 1.10
Issued	-	-	23,301,971	1.47
Exercised	(149,720)	(0.65)	(12,027,420)	(0.88)
Expired	(1,349,499)	(1.10)	(20,000)	(1.10)
Outstanding – end of period	17,066,757	\$ 1.80	18,565,976	\$ 1.71

As of November 30, 2021, the following warrants were outstanding, and the weighted average remaining life of warrants outstanding was 1.01 years (May 31, 2021 – 0.8 years).

Exercise price (\$)	Expiry date	November 30, 2021		May 31, 2021	
		Number of warrants outstanding	Number of warrants outstanding	Number of warrants outstanding	Number of warrants outstanding
0.65	From December 9 to 18, 2021	-	-	7,036	7,036
0.80	December 15, 2021	251,254	-	293,938	293,938
1.00	From December 8 to 15, 2021	2,915,064	-	2,965,064	2,965,064
0.25	June 2, 2022	25,851	-	25,851	25,851
1.10	From October 21, 2021 to December 18, 2022	3,537,088	-	4,936,587	4,936,587
2.00	April 9, 2023	952,500	-	952,500	952,500
2.50	April 9, 2023	8,625,000	-	8,625,000	8,625,000
0.35	June 1, 2025	760,000	-	760,000	760,000
		17,066,757	-	18,565,976	-

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NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended November 30, 2021 and 2020
(Expressed in Canadian Dollars; Unaudited)

12. Warrants and Stock Options (continued)

Options

Continuity schedule of the Company's stock options granted and outstanding for the six months ended November 30, 2021, and the year ended May 31, 2021, was as follows:

	November 30, 2021		May 31, 2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding – beginning of period	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 – end of period	4,475,319	\$ 0.68	4,259,619	\$ 0.61

As at November 30, 2021, the following stock options were outstanding and exercisable with a weighted average remaining life of 3.28 years (May 31, 2021 – 3.52 years).

		November 30, 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	-	-
		4,475,319	2,336,460	4,259,619	1,628,886

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NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended November 30, 2021 and 2020
(Expressed in Canadian Dollars; Unaudited)

12. Warrants and Stock Options (continue)

The following assumptions were used for the Black-Scholes valuation of stock options granted during the six months ended November 30, 2021, and the year ended May 31, 2021:

Warrants and Stock Options	November 30, 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

13. RELATED PARTY TRANSACTIONS

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

As at November 30, 2021, the Company had \$19,247 (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 three months ended November 30, 2021, key management compensation included salaries and benefits, and management fees, paid to key management personnel of \$250,158 (2020 - \$698,856) and share-based compensation of \$86,618 (2020 - \$34,434).

For the six months ended November 30, 2021, key management compensation included salaries and benefits, and management fees, paid to key management personnel of \$486,064 (2020 - \$822,037) and share-based compensation of \$173,237 (2020 - \$34,434).

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Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended November 30, 2021 and 2020
(Expressed in Canadian Dollars; Unaudited)

14. 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.

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	\$ -	\$ 3,991,768	\$ -	\$ 3,991,768

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

NEXE INNOVATIONS INC.

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14. Financial Instruments and Risk Management (continued)

November 30, 2021	Fair value through profit and loss	Amortized cost	Fair Value			Total
			Level 1	Level 2	Level 3	
Financial assets						
Cash and cash equivalents	\$ -	\$ 5,368,707	\$ 5,368,707	\$ -	\$ -	\$ 5,368,707
Term deposits	-	40,000	40,000	-	-	40,000
Investment in GICs	-	35,717,501	-	35,717,501	-	35,717,501
Other receivables	-	49,865	-	49,865	-	49,865
	\$ -	\$ 41,176,073	\$ 5,408,707	\$ 35,767,366	\$ -	\$ 41,176,073
Financial Liabilities						
Trade and other payables	-	1,029,651	-	1,029,651	-	1,029,651
Deferred Government grant liability	-	1,000,000	-	1,000,000	-	1,000,000
Due to related parties	-	19,247	-	19,247	-	19,247
Government loan payable	-	1,355,971	-	1,355,971	-	1,355,971
	\$ -	\$ 3,404,869	\$ -	\$ 3,404,869	\$ -	\$ 3,404,869

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.

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.

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14. Financial Instruments and Risk Management (continued)

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.

15. 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.

16. COMMITMENTS

The Company has committed to procuring manufacturing and production equipment that totaled €6,902,690, US\$3,104,385, and \$1,765,194, respectively, of which payments of €2,138,076, US\$638,855, and \$457,211, respectively, were made, with the remaining balances owed of €4,764,614, US\$2,465,530, and \$1,307,983, respectively, totaling approximately \$11.3 million as at November 30, 2021. Some equipment was delivered in calendar Q4 2021 and the remaining equipment is expected to be delivered in the next 24 months. 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 November 30, 2021, the Company committed to purchasing a base packaging machine and dosing system for US\$334,260, 135-ton Advantage Cooling Tower system for US\$73,030, Advantage Sentra water temperature controllers for US\$50,400, Whisper loaders for US\$16,998, Ford explorer truck for \$63,718, and two forklifts for \$61,599. Subsequent to November 30, 2021, the Company made payments of US\$613,560 and \$63,718. As of January 27, 2022 company had a total outstanding balance of approximately \$10.8 million related to all of their commitments.

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

NEXE INNOVATIONS INC.

Notes to the Condensed Interim Consolidated Financial Statements
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17. SUBSEQUENT EVENTS

Subsequent to November 30, 2021, a total of 4,834,499 warrants expired unexercised (248,574 @ \$0.80; 2,915,064 @ \$1.00; 1,670,861 @ \$1.10) and 2,680 warrants were exercised @ \$0.80.

On January 25, 2022 the Company completed the purchase agreement of a 54,000 square foot building in Windsor-Essex, Ontario by way of a payment to KSV Restructuring Inc., in its capacity as court-appointed receiver of JD Norman Canada, ULC, in the amount of \$4,350,000.

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