# NEXE INNOVATIONS INC.

## CONSOLIDATED FINANCIAL STATEMENTS

### Years Ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Audited)

# Independent Auditor’s Report

To the Shareholders of NEXE Innovations Inc.:

## Opinion

We have audited the Consolidated financial statements of NEXE Innovations Inc. (the "Company"), which comprise the consolidated statements of financial position as at May 31, 2022 and May 31, 2021, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at May 31, 2022 and May 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the Consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information

Management is responsible for the other information. The other information comprises Management’s Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated financial statements, including the disclosures, and whether the Consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Abhishek Kapoor.

Vancouver, British Columbia

MNP LLP

September 28, 2022

Chartered Professional Accountants

MNP LLP

## NEXE INNOVATIONS INC.

Consolidated Statements of Financial Position
As at May 31, 2022 and 2021
(Expressed in Canadian Dollars)

| | | | 2022 | | 2021 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 4 | $ | **15,507,163** | $ | 50,526,731 |
| Term deposits | 5 | | **40,000** | | 40,000 |
| Investment in GICs | 6 | | **12,955,307** | | - |
| Trade and other receivables | 7 | | **1,338,423** | | 603,385 |
| Inventory | 8 | | **929,667** | | - |
| Prepaid expenses and supplies | 9 | | **3,969,013** | | 2,199,738 |
| **Total current assets** | | $ | **34,739,573** | $ | 53,369,854 |
| **Non-current assets** | | | | | |
| Prepaid expenses | 9 | $ | **2,251,654** | $ | 133,492 |
| Property, plant, and equipment | 10 | | **11,585,484** | | 3,442,123 |
| Right-of-use assets | 11 | | **514,067** | | 651,151 |
| Intangible assets | 12 | | **78,980** | | 78,980 |
| **Total non-current assets** | | $ | **14,430,185** | $ | 4,305,746 |
| **TOTAL ASSETS** | | $ | **49,169,758** | $ | 57,675,600 |
| **LIABILITIES** | | | | | |
| **Current Liabilities** | | | | | |
| Trade and other payables | | $ | **1,574,108** | $ | 1,516,954 |
| Bank overdraft | | | **-** | | 804,611 |
| Deferred Government grant liability | 10, 14 | | **1,000,000** | | 1,000,000 |
| Deferred revenue | | | **2,045** | | - |
| Due to related parties | 17 | | **30,906** | | 18,586 |
| Current portion of lease liability | 11 | | **144,341** | | 27,929 |
| Current portion of Government loan payable | 13 | | **259,511** | | 500,004 |
| **Total current liabilities** | | $ | **3,010,911** | $ | 3,868,084 |
| **Non-current liabilities** | | | | | |
| Lease liability | 11 | $ | **381,273** | $ | 514,719 |
| Government loan payable | 13 | | **985,414** | | 956,224 |
| **Total non-current liabilities** | | $ | **1,366,687** | $ | 1,470,943 |
| **Total liabilities** | | $ | **4,377,598** | $ | 5,339,027 |
| **Shareholders' equity** | | | | | |
| Share capital | 15 | $ | **66,881,736** | $ | 66,677,433 |
| Share option reserve | 16 | | **1,425,932** | | 819,819 |
| Contributed surplus | 16 | | **7,892,984** | | 7,907,900 |
| Deficit | | | **(31,408,492)** | | (23,068,579) |
| **Total equity** | | $ | **44,792,160** | $ | 52,336,573 |
| **Total liabilities and shareholders' equity** | | $ | **49,169,758** | $ | 57,675,600 |

Nature of operations (note 1), Subsequent events (note 24)

Approved and authorized for issue by the Board of Directors on September 28, 2022:

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

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

## NEXE INNOVATIONS INC.

Consolidated Statements of Loss and Comprehensive Loss

For the Years Ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

| | Note | | 2022 | | 2021 |
|---|---|---|---|---|---|
| **Revenue** | | **$** | **26,986** | **$** | - |
| Cost of goods sold | | | 56,322 | | - |
| **Gross loss** | | **$** | **(29,336)** | **$** | - |
| **Operating expenses** | | | | | |
| Selling, General and Administrative | 18 | **$** | **6,201,982** | $ | 8,794,204 |
| Depreciation | 10, 11 | | **672,830** | | 253,331 |
| Interest and accretion | 11, 13 | | **309,167** | | 289,601 |
| Research and development | | | **336,460** | | 666,725 |
| Share-based compensation | 17 | | **626,693** | | 660,645 |
| Warrant-based compensation | | | **-** | | 1,715,475 |
| **Total operating expenses** | | **$** | **8,147,132** | $ | 12,379,981 |
| **Operating loss before other items** | | **$** | **8,176,468** | $ | 12,379,981 |
| **Other items** | | | | | |
| Foreign exchange loss (gain) | | **$** | **69,742** | **$** | (8,232) |
| Interest income | | | **(157,107)** | | (13,202) |
| Inventory write-down | | | **175,382** | | **-** |
| Impairment – intangibles | | | **-** | | 1,615,760 |
| Impairment – plant and equipment | | | **75,428** | | 505,432 |
| Listing Expense | 3 | | **-** | | 2,614,701 |
| **Total other items** | | **$** | **163,445** | $ | 4,714,459 |
| **Loss before discontinued operations** | | **$** | **8,339,913** | $ | 17,094,440 |
| Loss from discontinued operations | | | **-** | | 84,548 |
| **Loss and comprehensive loss** | | **$** | **8,339,913** | $ | 17,178,988 |
| | | | | | |
| **Basic and diluted loss per share** | | **$** | **0.09** | $ | 0.37 |
| **Weighted average shares outstanding** | | | **96,783,076** | | 46,496,414 |

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

**NEXE INNOVATIONS INC.**

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended May 31, 2022 and 2021

(Expressed in Canadian Dollars)

| | 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 for private placement, net of cost | 18,651,038 | 7,740,196 | 230,383 | 121,619 | - | 5,445,950 | - | 13,307,765 |
| Shares issued as fees of private placement | 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 from financings, net of costs | 16,524,665 | 28,493,407 | 749,844 | 469,938 | | 3,716,140 | - | 32,679,485 |
| 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 |
| Fair value of warrants issued | - | (1,355,532) | - | - | - | 1,355,532 | - | - |
| Fair value of performance warrants issued | - | - | - | - | - | 1,715,476 | - | 1,715,476 |
| Shares issued on exercise of options | 1,294,401 | 1,000,406 | - | - | (651,964) | - | - | 348,442 |
| Proceeds from exercise of options deposit | - | 56,681 | - | - | - | - | - | 56,681 |
| Stock-based compensation | - | - | - | - | 635,144 | - | - | 635,144 |
| Net loss for the year ended May 31, 2021 | - | - | - | - | - | - | (17,178,988) | (17,178,988) |
| **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 | 169,609 | 135,928 | - | - | - | (14,916) | - | 121,012 |
| 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 | - | - | - | - | 626,693 | - | - | 626,693 |
| Net loss for the year ended May 31, 2022 | - | - | - | - | - | - | (8,339,913) | (8,339,913) |
| **Balance – May 31, 2022** | **96,857,583** | **$ 66,881,736** | **-** | **$ -** | **$ 1,425,932** | **$ 7,892,984** | **$ (31,408,492)** | **$ 44,792,160** |

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

## NEXE INNOVATIONS INC.

Consolidated Statements of Cashflows
For the Years Ended May 31, 2022 and 2021
(Expressed in Canadian Dollars)

| | 2022 | 2021 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss for the year | **$ (8,339,913)** | $ (17,178,988) |
| Items not affecting cash: | | |
| Depreciation | **672,830** | 244,065 |
| Inventory write-down | **175,382** | - |
| Impairment – intangibles | - | 1,615,760 |
| Impairment – plant and equipment | **75,428** | 505,432 |
| Interest and accretion | **309,167** | 202,065 |
| Shares issued for consulting fees | **25,500** | 847,851 |
| Share-based compensation | **626,693** | 660,645 |
| Warrant-based compensation | - | 1,715,475 |
| Listing expense | - | 2,614,701 |
| | **$ (6,454,913)** | $ (8,772,994) |
| **Change in non-cash working capital balances** | | |
| Increase in trade and other receivables | **$ (735,038)** | $ (328,667) |
| Increase in inventory | **(1,105,049)** | - |
| Increase in prepaids expenses and supplies | **(1,769,275)** | (2,198,807) |
| Increase (decrease) in trade and other payables | **57,154** | 852,160 |
| Increase in due to related parties | **12,320** | 3,513 |
| Increase in deferred revenue | **2,045** | - |
| Decrease in due from to related parties | - | 32 |
| **Net cash used in operating activities** | **$ (9,992,756)** | $ (10,444,763) |
| | | |
| **Cash flows from investing activities** | | |
| Purchase of property, plant, and equipment | **$ (8,754,535)** | $ (1,615,322) |
| Investment in GICs | **(12,955,307)** | - |
| Purchase of term deposit | - | (26,000) |
| Increase in non-current prepaid expenses | **(2,118,162)** | 627,768 |
| **Net cash used in investing activities** | **$ (23,828,004)** | $ (1,013,554) |
| | | |
| **Cash flows from financial activities** | | |
| Payments on lease liabilities | **$ (37,500)** | $ (160,929) |
| Proceeds from exercise of warrants | **121,012** | 10,997,277 |
| Proceeds from exercise of options | **22,295** | 405,123 |
| Proceeds (repayment) of bank overdraft | **(804,611)** | 804,611 |
| Repayment of government loan | **(500,004)** | (208,335) |
| Proceeds from government grant | - | 1,000,000 |
| Proceeds from issuance of share capital | - | 45,255,551 |
| Proceeds from Whatcom Capital | - | 580,287 |
| **Net cash provided (used in) from financing activities** | **$ (1,198,808)** | $ 58,673,585 |
| Net change in cash during the year | **(35,019,568)** | 47,215,268 |
| Cash and cash equivalents – beginning of year | **50,526,731** | 3,311,463 |
| **Cash and cash equivalents – end of year** | **$ 15,507,163** | $ 50,526,731 |

(The accompanying notes are an integral part of these 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 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 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.

**Discontinued Operations**

In the prior year, the Company divested its 70% interest in Granville Island Packaging Ltd. ("GI") which was held by Scepter Industries Inc. Management concluded that the Company's focus had shifted, and the distribution arm was no longer required.

**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. While many jurisdictions have experienced improved an improved economic outlook in 2021, many jurisdictions and industries are still being affected significantly by the effects of COVID-19. This includes supply chain disruptions, changes in demand for goods and services as well as the uncertainty of future government imposed restrictions on operations. 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.

## 1. NATURE OF OPERATIONS (continued)

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

These consolidated financial statements, including comparatives have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

(b) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, located in BC, Canada, of 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 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 consolidated financial statements.

(c) Basis of measurement

These 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 consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

(d) Functional and presentation currency

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

*Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of the Company and its subsidiary at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in other than the functional currency are translated at the exchange rates in effect at the financial position date. The resulting exchange gains and losses are recognized in statements of loss and other comprehensive loss. Nonmonetary assets and liabilities denominated in other than the functional currency that are measured at fair value are translated to

the functional currency at the exchange rate at the date that the fair value is determined. Nonmonetary items that are measured in terms of historical cost in other than the functional currency are translated using the exchange rate at the date of transaction.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments and estimates and form assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for the periods reported. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and may change if new information becomes available. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

*Going concern*

The determination if the Company has the ability to continue as a going concern is dependent on its ability to achieve profitable operations. There is an assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Certain judgements are made by management when determining if and when the Company will achieve profitable operations.

The Company, currently, has not earned significant revenues and is considered to be in the development stage. The Company's operations are funded from equity financings as well as financial support from various federal government programs which are dependent upon many external factors. The Company believes that, based on forecasts and the ability to reduce expenditures if required, it will be able to continue as a going concern for the foreseeable future. While the Company has been successful in securing financings in the past there can be no assurance that it will be able to do so in the future, if required.

**Key sources of estimation uncertainty**

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statements of the financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

*Leases*

The Company exercises judgment when contracts are entered into that may give rise to a right-of-use asset that would be accounted for as a lease. Judgment is required in determining the appropriate lease term on a lease-by-lease basis. The Company considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option at inception and over the term of the lease, including investments in major leaseholds, operating performance, and changed circumstances. The periods covered by renewal or termination options are only included in the lease term if the Company is reasonably certain to exercise

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

that option. Changes in the economic environment may impact the assessment of the lease term and any changes in the estimate of lease terms may have a material impact on the Company's consolidated statements of financial position.

The critical assumptions and estimates used in determining the present value of future lease payments require the Company to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets. Management determines the incremental borrowing rate of each leased asset or portfolio of leased assets by incorporating the Company's creditworthiness, the security, term, and value of the underlying leased asset, and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

*Impairment of non-financial assets (property, plant and equipment, intangible assets, and right-of-use assets)*
Management is required to use judgment in determining the grouping of assets to identify their cash generating units ("CGUs") for the purposes of testing non-financial assets for impairment.

In determining the recoverable amount of the CGUs, various estimates are employed. The Company determines value-in-use by using estimates including projected future revenues, margins, costs, and capital investment consistent with strategic plans presented to the Board of Directors and key management. Discount rates are consistent with external industry information reflecting the risk associated with the Company and its cash flows.

*Inventory*
The Company determines the value of inventory based on an estimated net realizable value at the end of each reporting period. Management allocates costs, such as materials, labor attributable to goods in production and an allocation of overhead, to finished goods, and the nature of the costs for producing that particular good. Estimates are required in relation to forecasted sales volumes and finished good inventory balances. In situations where excess, slow moving inventory, and/or expired product is identified, the Company assesses its net realizable value and adjustment are recorded.

*Depreciation*
Property, plant, and equipment is depreciated based on the estimated useful life less their estimated residual value. Significant assumptions are involved in the determination of useful life and residual values and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions. Actual useful life and residual values may vary depending on a number of factors including internal technical evaluation, physical condition of the assets and experience with similar assets. Changes to these estimates may affect the carrying value of equipment, net loss, and comprehensive loss in future periods.

*Current and deferred taxes*
Accounting for income taxes is a complex process requiring management to interpret frequently changing laws and regulations and make judgments relating to the application of tax law, the estimated timing of temporary difference reversals, and the estimated realization of tax assets. The Company recognizes the deferred tax benefit related to deferred tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in the future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. In addition, all tax filings are subject to subsequent

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

government audits and potential reassessment. These interpretations, judgments and changes related to them impact current and deferred tax provisions, deferred tax assets and liabilities and results of operations.

*Share-based payments*
The Company has an incentive stock option plan for employees, consultants, directors, and officers. Services received and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. The fair value of share options is estimated by using the Black-Scholes valuation model on the date of stock option grant based on certain assumptions. Those assumptions are described in the note below and include, among others, expected volatility, expected life and number expected to vest.

*Warrant-based payments*
The Company has an incentive performance warrants plan for key employees, consultants and advisors and are granted when certain key milestones that are aligned with the financial and business success of the Company are achieved. The fair value of the performance warrants is estimated by using the Black-Scholes valuation model on the date the performance warrants are granted based on certain assumptions. Those assumptions are described in the note below and include, among others, expected volatility and expected life.

*Government loan payable*
The determination of fair value of the interest-free government loan is based on a number of assumptions, including contractual future cashflow and discount rate.

(f) Cash and cash equivalents
Cash and cash equivalents consist of cash, and highly liquid instruments that are readily convertible to cash with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, which are subject to insignificant risk of changes in value to be cash equivalents.

Investment in guaranteed investment certificates (“GICs”) are carried at fair value and GICs that have maturity less than three months are readily convertible to cash and are grouped under cash equivalents.

(g) Inventory
Inventory consists of raw materials and finished goods. These amounts are stated at the lower of cost and net realizable value. Costs are assigned to inventory quantities on hand at the end of the reporting period using the first in, first out basis. Cost comprises of material, labor and an appropriate proportion of fixed and variable overheads. Net realizable value is the estimated selling price in the ordinary course of the business less the estimated cost of completion and the estimated cost necessary to make the sale.

(h) Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Costs include the acquisition cost and any direct costs to bring the asset into productive use at its intended location.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Depreciation*

Depreciation is calculated on a declining balance and straight-line basis over the equipment's estimated useful lives. Depreciation methods and useful lives are reviewed at each reporting date and adjusted, if appropriate.

| CLASS | RATE |
|---|---|
| Computer equipment | 55% |
| Furniture and equipment | 20% |
| Manufacturing facility | 20 years |
| Machinery | 10 years |
| Software | 100% |
| Leasehold improvements | 5 years |
| Right-of-use | Straight-line |

Property, plant and equipment are written down to the net recoverable value when management determines there has been a change in circumstances which indicates its carrying amount may not be recoverable. Any gain or loss on disposal of an item of the property, plant and equipment is recognized in the statements of loss and comprehensive loss within the period of disposal. Government loan benefit related to assets is reduced from the carrying value of the asset being acquired and amortized over 10 years.

(i) Intangible assets

Intangible assets comprise patents of design and formulation of single-serve coffee pods. Patents are measured on initial recognition at cost. Following initial recognition, patents are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of patents are assessed at 20 years and will be amortized when commercial production commences.

Amortization is recorded over the period of expected future benefit and is recognized in the consolidated statement of loss and comprehensive loss. Intangible assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on disposal of the assets, determined as the difference between the net disposal proceeds and the carrying amount of the assets, is recognized in the statements of loss and other comprehensive loss.

Intellectual property is recorded at cost and amortization is recorded over the useful life of the asset. Intellectual property such as trade secrets or ideas are not recorded on the statements of financial position as they have no directly associated costs or clear value.

Trademarks, copyrights, and patents have associated costs and are capitalized as assets. In the event, that a realistic market price for certain forms of intellectual property is hard to determine, an industry expert must perform an in-depth valuation study to determine a reasonable market price for intellectual property.

(j) Financial instruments

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial assets**

Financial assets that are held for collection of contractual cash flows that represent solely payments of principal and interest are measured at amortized cost. This includes trade and other receivables. Financial assets are initially recognized at fair value plus transaction costs, adjusted for any expected credit loss. Subsequently, receivables are measured at amortized cost using the effective interest method adjusted for expected credit losses. For financial assets, the Company applies the simplified expected credit loss approach, which requires expected lifetime losses to be recognized from initial recognition of the trade receivables.

**Financial liabilities**

Financial liabilities include trade payables and other liabilities, bank indebtedness, due to related parties, deferred government grant liability, government loan payable, loans payable, bank loan payable and accrued interest are recorded at fair value on initial recognition. Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

(k) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated by reference to the higher of the value in use and fair value less costs to sell.

Fair value less costs to sell is defined as the estimated price that would be received on the sale of the asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other groups of assets.

An impairment loss is recognized if the carrying amount of an asset or group of assets exceeds the estimated recoverable amount. Impairment losses are recognized in the statements of loss and other comprehensive loss. When impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimated recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in statements of loss or other comprehensive loss.

(l) Provisions

Provisions for legal or constructive obligations are recognized when the Company has a present legal or constructive obligation that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Government loan payable

Government loans are recognized at their fair value where there is a reasonable assurance that the grants will be received, and the Company will comply with all attached conditions. 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 will be amortized over the repayment period of the loans.

(n) Share-based payments

The grant date fair value of share-based payment awards granted to employees, officers, directors, or consultants is recognized as share-based compensation expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

All equity-settled share-based payments are reflected in share option reserve in the event of options and other share issuances are reflected in contributed surplus, unless exercised. Upon exercise, shares are issued from treasury and the amount reflected in share option reserve or contributed surplus is credited to share capital, adjusted for any consideration paid.

(o) Share capital

The Company's common shares are classified as equity instruments. Incremental costs directly attributable to the issuance of common shares are shown in equity as a deduction from the proceeds of issuance.

Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value. The relative fair value of the share component is credited to share capital and the relative fair value of the warrant component is credited to reserves. Upon exercise of warrants, consideration paid by the warrant holder together with the amount previously recognized in reserves is recorded as an increase to share capital. Upon expiration of warrants, the amount applicable to warrants expired is recorded as an increase to share capital.

(p) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share is the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive.

(q) Income taxes

The Company follows the asset and liability method of accounting for income tax. Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statements of loss and other

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination, nor is it recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(r) Related party transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control; related parts may be individuals or corporate entities. A transaction is a related party transaction when there is a transfer of resources or obligations between related parties.

(s) Revenue

The Company earns revenue from the sale of compostable coffee pods to wholesale distributors or direct to consumers via its website.

The terms of each sale are FOB destination point and the Company satisfies its performance obligation at the point in time the goods are delivered to the customer's specified location and the Company recognizes revenue at that time.

From time to time, the Company may offer promotional items with the purchase of coffee pods. When that occurs, the Company allocates the total transaction price to the individual performance obligations based on the stand alone selling price for each performance obligation.

The contracts permit the customer to return the items purchased. In addition, certain contracts require the Company to provide stipulated volume rebates. In these cases, the Company determines revenue taking into consideration estimated returns and rebates.

The Company reviews its expected returns and volume rebates at each reporting date and updates its estimates accordingly. Such changes in estimates are accounted for in the same period as when the estimate change is made.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Deferred revenue

Deferred revenue relates to payments received on account for goods to be delivered in the future or deposits on products to be delivered.

(u) Leases

The Company assesses at inception of a contract, whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether the customer has the following through the period of use:

- The right to obtain substantially all of the economic benefits from use of the identified asset; and
- the right to direct the use of the identified asset.

Where the Company is a lessee in a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

At the lease commencement date, the Company recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. The cost of the right-of-use asset is comprised of the initial amount of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred by the Company, and an estimate of the costs to be incurred by the Company in dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Company measures all right-of-use assets by applying the cost model, whereby the right-of-use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The right-of-use assets are depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset. The estimated useful life of the right-of-use assets are determined on the same basis as those of plant and equipment. The determination of the depreciation period is dependent on whether the Company expects that the ownership of the underlying asset will transfer to the Company by the end of the lease term.

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined. The lease payments included in the measurement of the lease liability comprise of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be payable by the Company under a residual value guarantee. After the commencement date, the Company measures the lease liability at amortized cost using the effective interest method.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company remeasures the lease liability when there is a change in the lease term, a change in the Company's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. On remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the statements of loss and other comprehensive loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company determines its incremental borrowing rate by obtaining interest rates from external financing sources.

(v) Other comprehensive income (loss)
Other comprehensive income (loss) is the change in the Company's net assets that results from transactions, events, and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net income (loss) such as unrealized gains or losses on available-for-sale investments and translation gains or losses on translation of foreign operations to the presentation currency of the Company.

(w) Accounting standards issued but not yet effective
A number of new standards, and amendments to standards and interpretations are not yet effective for the year ended May 31, 2022 and have not been early adopted in preparing these consolidated financial statements. These new standards, and amendments to standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements. A summary of future IFRS amendments is as follows:

*Classification of Liabilities as Current or Non-current (Amendments to IAS1)*
On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. On July 15, 2020, the IASB issued an amendment to defer the effective date by one year. The amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional to classify such liability as a non-current liability. Instead, such a right must have substance and exist at the end of the reporting period.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

*Property, Plant and Equipment – Proceeds before Intended Use (Amendments of IAS 16)*
On May 14, 2020, the IASB issued Property, Plant and Equipment - proceeds before intended use (Amendments to IAS 16). The amendments clarify that proceeds from selling items before the related item of Plant and Equipment is available for use should be recognized in the statements of loss and other comprehensive loss, together with the cost of producing those items.

The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

*Annual Improvements to IFRS Standards – 2018 to 2020*
On May 14, 2020, the IASB issued Annual Improvements to IFRS Standards – 2018 to 2020 IFRS 9 Financial Instruments – Clarifies which fees are included for the purpose of performing the "10 percent test" for derecognition of financial liabilities.

(Expressed in Canadian Dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 16 Leases – Removes the illustration of payments from the lessor relating to leasehold improvements. The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted.

*Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*

(x) On August 27, 2020, the IASB finalized its response to the ongoing reform of inter-bank offered rates and other interest rate benchmarks by issuing a package of amendments to IFRS Standards.

## 3. REVERSE TAKEOVER TRANSACTION with WHATCOM CAPITAL CORP

Whatcom Capital Corp. ("Whatcom") 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").

In conjunction with closing of the Transaction, Whatcom completed a share consolidation on the basis of two and one-half pre-consolidation common shares of Whatcom which were exchanged for one post-consolidation common share of Whatcom (the "Consolidation"). Each holder of Privco common shares received one (1) post-Consolidation common share of Whatcom (a "Resulting Issuer Share") for each Privco common share held, each holder of Privco Class A Preferred Shares, Series A ("Series A Shares") received one (1) Resulting Issuer Share for each Series A Share held, each holder of Privco Class A Preferred Shares, Series A Preferred ("Series A Preferred Shares") received one (1) Resulting Issuer Share for each Series A Preferred Share held, and each holder of Privco Class A Preferred Shares, Series 1 ("Series 1 Shares") received one and one-half (1.5) Resulting Issuer Shares for each Series 1 Share held.

All outstanding convertible securities of Privco, including Privco share purchase warrants and Privco stock options were exchanged for or replaced with convertible securities of the Resulting Issuer based on a 1:1 ratio and on the same economic terms and conditions as previously issued. Upon completion of the Transaction, Privco became a wholly owned subsidiary of the Company, and the Company changed its name to "NEXE Innovations Inc.".

The Transaction was measured at the fair value of the shares that NEXE would have had to issue to shareholders of Whatcom to give shareholders of Whatcom the same percentage equity interest in the combined entity that results from the reverse takeover had it taken the legal form of NEXE acquiring Whatcom. The fair value of the common shares was determined to be $0.80 based on the concurrent NEXE Private Placement and was considered as a significant estimate and judgement.

A breakdown of the net assets acquired regarding Whatcom and the respective listing expense follows:

| **Net assets acquired** | **On December 15, 2020** |
|---|---|
| **Cash** | $ 580,287 |
| Other current assets | 10,012 |
| Accrued liabilities | (5,000) |
| **Net assets acquired** | **$ 585,299** |
| **Consideration** | |
| Fair value of 4,000,000 shares of NEXE at $0.80 per share | $ 3,200,000 |
| **Listing expense** | **$ 2,614,701** |

(Expressed in Canadian Dollars)

## 4. CASH AND CASH EQUIVALENTS

Included within cash and cash equivalents is $13,534,838 (2021: $Nil) are deposits with Canadian financial institutions.

## 5. TERM DEPOSITS

The term deposits are short-term GICs of $40,000 (2021: $40,000) held with a Canadian bank that revolve until withdrawn, and act as collateral for the Company's corporate credit cards.

## 6. INVESTMENTS IN GICs

The Company holds short-term GICs with various Canadian financial institutions in the amount of $12,955,307 (2021: $nil).

## 7. TRADE AND OTHER RECEIVABLES

A breakdown of trade and other receivables as at May 31, 2022, and 2021, follows:

| **Trade and other receivables** | | **2022** | | 2021 |
|---|---|---|---|---|
| Trade receivable | **$** | **15,989** | $ | - |
| GST receivable | | **1,243,769** | | 603,385 |
| Accrued interest | | **78,665** | | - |
| **Total trade and other receivables** | **$** | **1,338,423** | $ | 603,385 |

Aging of trade and other receivables follows:

| **Aging of trade and other receivables** | | **2022** | | 2021 |
|---|---|---|---|---|
| Current | **$** | **81,957** | $ | - |
| Past due 1 – 30 days | | **8,446** | | - |
| Past due 31 – 60 days | | **684** | | - |
| Past due over 60 days | | **1,247,123** | | 603,385 |
| **Total trade and other receivables** | **$** | **1,338,423** | $ | 603,385 |

## 8. INVENTORY

| **Inventory** | | **2022** | | 2021 |
|---|---|---|---|---|
| Raw material | **$** | **859,521** | $ | - |
| Finished goods | | **70,146** | | - |
| **Total inventory** | **$** | **929,667** | $ | - |

Cost of inventories recognized as an expense during the year ended May 31, 2022 amount to $14,043 (2021: $nil). During the year ended May 31, 2022, inventory was written down by $119,495 for obsolescence (2021: $nil). The carrying amount of inventory recorded at net realizable value at May 31, 2022 was $70,146 (2021: $nil) with the remaining inventory recorded at cost.

(Expressed in Canadian Dollars)

## 9. PREPAID EXPENSES AND SUPPLIES

A breakdown of prepaid expenses and supplies as at May 31, 2022, and as at May 31, 2021, follows:

| **Prepaid expenses and supplies** | | **2022** | | 2021 |
|---|---|---|---|---|
| Deposits, current | **$** | **3,969,013** | $ | 1,878,195 |
| Supplies | | **-** | | 321,543 |
| **Total prepaid expenses and supplies, current** | **$** | **3,969,013** | $ | 2,199,738 |
| Deposits, long term | | 2,251,654 | | 133,492 |
| **Total prepaid expenses and supplies, current and long term** | **$** | **6,220,667** | $ | 2,333,230 |

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

## 10. PROPERTY, PLANT AND EQUIPMENT

A breakdown of property, plant and equipment as at May 31, 2022, and as at May 31, 2021, follows:

| **Property, plant, and equipment** | **Computer Equipment** | **Furniture & Equip.** | **Machinery** | **Building Improv.** | **Manuf. Facility** | **Land** | **Vehicles** | **Gov. 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 | 30,726 | 7,215 | 3,109,357 | 1,117,365 | 3,192,102 | 1,241,373 | 56,397 | - | 8,754,535 |
| Depreciation | (15,364) | (106,026) | (364,296) | (34,722) | (155,919) | - | (6,165) | 146,746 | (535,746) |
| Impairment | (149) | (2,550) | (32,824) | (8,391) | (31,168) | - | (346) | - | (75,428) |
| **Net book value May 31, 2022** | **21,414** | **367,640** | **4,733,261** | **1,209,910** | **4,494,382** | **1,582,643** | **49,886** | **(873,652)** | **11,585,484** |
| **Consisting of:** | | | | | | | | | |
| Cost | 45,275 | 914,947 | 5,882,126 | 1,287,840 | 5,217,287 | 1,582,643 | 56,397 | (1,409,113) | 13,577,402 |
| Accumulated depreciation | (22,952) | (487,238) | (868,182) | (52,902) | (509,080) | - | (6,165) | 535,461 | (1,411,058) |
| Impairment | (909) | (60,069) | (280,683) | (25,028) | (213,825) | - | (346) | - | (580,860) |
| **Net book value May 31, 2022** | **21,414** | **367,640** | **4,733,261** | **1,209,910** | **4,494,382** | **1,582,643** | **49,886** | **(873,652)** | **11,585,484** |

(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.

During the year ended May 31, 2022, the Company acquired a 54,000 square foot manufacturing facility, including land, in Windsor, Ontario at a cost of $4,433,475, including acquisition costs.

(Expressed in Canadian Dollars)

## 11. RIGHT-OF-USE ASSETS

The Company leases a warehouse building. A breakdown of the right-of-use assets as at May 31, 2022, and as at May 31, 2021, follows:

| Right -of-use assets | | 2022 | | 2021 |
|---|---|---|---|---|
| **Cost** | | | | |
| Opening balance | $ | 696,846 | $ | - |
| Additions | | - | | 696,846 |
| **Balance – end of year** | $ | 696,846 | $ | 696,846 |
| **Cumulative depreciation** | | | | |
| Opening balance | $ | (45,695) | $ | - |
| Depreciation | | (137,084) | | (45,695) |
| **Balance – end of year** | $ | (182,779) | $ | (45,695) |
| **Net book value – end of year** | $ | 514,067 | $ | 651,151 |

### Lease liabilities

A continuity schedule as at May 31, 2022, and as at May 31, 2021, follows:

| Lease liabilities | | 2022 | | 2021 |
|---|---|---|---|---|
| **Lease liability – Beginning of the year** | $ | 542,648 | $ | - |
| Additions | | - | | 696,846 |
| Add Interest expense | | 20,466 | | 6,731 |
| Less Lease payments | | (37,500) | | (160,929) |
| **Lease liability – Ending of the year** | | 525,614 | $ | 542,648 |

As of May 31, 2022, the current lease liability of the warehouse building is $144,341 (2021: $27,929) and the non-current lease liability is $381,273 (2021: $514,719).

## 12. INTANGIBLE ASSETS

A continuity schedule for patents as at May 31, 2022, and as at May 31, 2021, follows:

| Intangible assets | | 2022 | | 2021 |
|---|---|---|---|---|
| **Patents** | $ | 78,980 | $ | 78,980 |

## 13. 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)

## 13. GOVERNMENT LOAN (continues)

A continuity schedule as at May 31, 2022 and as at May 31, 2021 follows:

| Government loan | 2022 | 2021 |
|---|---|---|
| **Government loan – Beginning balance** | **$ 1,456,228** | **$ 1,462,548** |
| Accretion | 288,701 | 289,601 |
| Repayment | (500,004) | (208,385) |
| Gain on modification | - | (87,536) |
| **Government loan – Ending balance** | **$ 1,244,925** | **$ 1,456,228** |

As at May 31, 2022, the current portion of the loan repayable was $259,511 (2021: $500,004) and the non-current amount was $985,414 (2021: 956,224), both are recorded in the consolidated statements of financial position.

## 14. 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.

The Company is expected to submit a detailed report to the Department of Natural Resources, Innovative Solutions Canada by May 31, 2022, outlining its activities and how they have contributed to the achievement of the objectives, benefits, and key performance measures of the project. Since the project continues to be a work-in-progress, the Company has recorded a deferred liability of $1,000,000 at May 31, 2022 (2021: $1,000,000).

## 15. SHARE CAPITAL

**Authorized:**

Common Shares: unlimited without par value

**Issued and outstanding:**

As at May 31, 2022, the Company had 96,857,583 issued and outstanding (2021: 96,628,674) common shares.

During the fiscal year ended May 31, 2022, the Company issued 169,609 common shares from the exercise of warrants for proceeds of $121,012 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.

(Expressed in Canadian Dollars)

## 15. SHARE CAPITAL (continues)

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 May 31, 2022, common shares in escrow are 600,000 (2021: 750,000)(CPC Escrow Agreement) and 10,955,356 (2021: 13,694,195) (Form 5D Escrow Agreement).

## 16. WARRANTS AND STOCK OPTIONS

### Warrants

Continuity schedule of the Company's share purchase warrants issued and outstanding for the fiscal years ended May 31, 2022, and May 31, 2021, was as follows:

| Warrants | | Weighted average exercise price | Number of warrants |
|---|---|---|---|
| **Outstanding – May 31, 2020** | **$** | **1.10** | **7,311,425** |
| Issued | | 1.47 | 23,301,971 |
| Exercised | | (0.88) | (12,027,420) |
| Expired | | (1.10) | (20,000) |
| **Outstanding – May 31, 2021** | **$** | **1.74** | **18,565,976** |
| Exercised | | (0.67) | (169,609) |
| Expired | | (1.05) | (6,867,513) |
| **Outstanding – May 31, 2022** | $ | **2.17** | **11,528,854** |

(Expressed in Canadian Dollars)

## 16. WARRANTS AND STOCK OPTIONS (continued)

As of May 31, 2022, the following warrants were outstanding, and the weighted average remaining life of warrants outstanding was 0.96 years (2021: 0.92 years).

| **Warrants** | | **2022** | | 2021 |
|---|---|---|---|---|
| **Expiry date** | **Exercise price ($)** | **Number of warrants outstanding** | **Exercise price ($)** | Number of warrants outstanding |
| May 31, 2021 | - | - | 1.10 | 187,866 |
| October 25, 2021 | - | - | 1.10 | 461,460 |
| November 5, 2021 | - | - | 1.10 | 719,814 |
| November 13, 2021 | - | - | 1.10 | 7,680 |
| November 27, 2021 | - | - | 1.10 | 144,923 |
| December 8, 2021 | - | - | 1.00 | 95,435 |
| December 9, 2021 | - | - | 0.65 | 1,694 |
| December 9, 2021 | - | - | 1.10 | 341,698 |
| December 13, 2021 | - | - | 1.10 | 76,912 |
| December 15, 2021 | - | - | 0.80 | 293,938 |
| December 15, 2021 | - | - | 1.00 | 2,869,629 |
| December 18, 2021 | - | - | 0.65 | 5,342 |
| December 18, 2021 | - | - | 1.10 | 219,000 |
| December 20, 2021 | - | - | 1.10 | 103,580 |
| December 31, 2021 | - | - | 1.10 | 807,427 |
| February 10, 2022 | - | - | 1.10 | 70,000 |
| April 1, 2022 | - | - | 1.10 | 613,515 |
| June 2, 2022 | 0.25 | 8,642 | 0.25 | 25,851 |
| August 4, 2022 | 1.10 | 230,743 | 1.10 | 230,743 |
| October 21, 2022 | 1.10 | 285,000 | 1.10 | 285,000 |
| December 15, 2022 | 1.10 | 307,692 | 1.10 | 307,692 |
| December 18, 2022 | 1.10 | 359,277 | 1.10 | 359,277 |
| April 9, 2023 | 2.00 | 952,500 | 2.00 | 952,500 |
| April 9, 2023 | 2.50 | 8,625,000 | 2.50 | 8,625,000 |
| June 1, 2025 | 0.35 | 760,000 | 0.35 | 760,000 |
| **Weighted average price / Quantity outstanding** | **$2.17** | **11,528,854** | **$1.74** | 18,565,976 |

(Expressed in Canadian Dollars)

## 16. WARRANTS AND STOCK OPTIONS (continued)

**Options**

Continuity schedule of the Company's stock options granted and outstanding for the years ended May 31, 2022, and May 31, 2021, was as follows:

| Options | Weighted average price | Number of Options |
|---|---|---|
| **Outstanding – May 31, 2020** | $ 0.51 | 4,294,020 |
| Granted | 0.67 | 1,510,000 |
| Exercised | (0.31) | (1,294,401) |
| Forfeited/cancelled | (0.65) | (250,000) |
| **Outstanding – May 31, 2021** | $ 0.61 | 4,259,619 |
| Granted (July 27, 2021) | 2.00 | 250,000 |
| Granted (March 17, 2022) | 0.495 | 3,070,000 |
| Exercised | (0.65) | (34,300) |
| Expired | (0.53) | (423,760) |
| Forfeited | (0.495) | (130,000) |
| Forfeited | (0.65) | (22,512) |
| **Outstanding – May 31, 2022** | **$ 0.61** | **6,969,047** |

As at May 31, 2022 the following stock options were outstanding and exercisable with a weighted average remaining life of 3.55 years (2021 – 3.57 years).

| **Options** | | **2022** | | 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 |
| 0.53 | March 11, 2022 | - | - | 300,000 | 300,000 |
| 0.53 | March 13, 2022 | - | - | 60,000 | 60,000 |
| 0.53 | April 1, 2022 | - | - | 63,760 | 63,760 |
| 0.53 | July 28, 2022 | 10,000 | 10,000 | 10,000 | 10,000 |
| 2.00 | May 6, 2023 | 250,000 | 250,000 | - | - |
| 0.53 | June 1, 2024 | 750,000 | 546,876 | 750,000 | 359,375 |
| 0.65 | October 10, 2024 | 500,000 | 291,660 | 500,000 | 197,912 |
| 0.65 | December 1, 2024 | 180,700 | 129,899 | 215,000 | 13,650 |
| 0.65 | January 9, 2025 | 32,488 | 32,080 | 55,000 | 18,330 |
| 0.65 | February 4, 2025 | 600,000 | 300,000 | 600,000 | 187,500 |
| 0.65 | June 1, 2025 | 700,000 | 439,584 | 700,000 | 62,500 |
| 0.65 | July 1, 2025 | 50,000 | 22,917 | 50,000 | - |
| 0.28 | October 2, 2025 | 355,859 | 355,859 | 355,859 | 355,859 |
| 0.80 | December 15, 2025 | 600,000 | 212,499 | 600,000 | - |
| 0.495 | March 17, 2027 | 2,940,000 | - | - | - |
| **Total** | | **6,969,047** | **2,591,374** | 4,259,619 | 1,628,886 |

(Expressed in Canadian Dollars)

## 16. WARRANTS AND STOCK OPTIONS (continued)

The following assumptions were used for the Black-Scholes valuation of stock options granted during the years ended May 31, 2022, and May 31, 2021:

| Warrants and Stock Options | 2022 | 2021 |
|---|---|---|
| Risk-free interest rate | **0.39%** | 0.37% to 0.45% |
| Expected life of options | **2 - 5 years** | 5 years |
| Share price | **$0.49 - $1.06** | $0.65 - $0.80 |
| Annualized volatility | **90% - 102%** | 100% - 105% |
| Dividend rate | **0.00%** | 0.00% |
| **Valuation based on assumptions:** | | |
| Fair value per option granted | **$0.34 - $0.41** | $0.32 to $0.40 |

## 17. RELATED PARTY TRANSACTIONS

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

As at May 31, 2022, the Company had $30,906 (2021: $18,586) 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. The bonuses awarded to key management personnel during the year, represent key operational milestones reached by both the CEO and President.

| Key management compensation | 2022 | 2021 |
|---|---|---|
| Salary, benefits, bonuses, management, and consulting fees | $ 1,312,587 | $ 1,218,651 |
| Share based payments to directors and officers of the Company | 386,213 | 273,287 |
| **Total** | **$ 1,698,800** | **$ 1,491,938** |
| **Amounts included in due to related parties** | **$ 30,906** | **$ 18,587** |

(Expressed in Canadian Dollars)

## 18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

A breakdown of selling, general and administrative expenses follow:

| Selling, general and administrative expenses | 2022 | 2021 |
|---|---|---|
| Administrative expenses | $ 833,716 | $ 1,059,258 |
| Advertising, marketing, and other promotional expenses | 1,130,886 | 3,714,947 |
| Consulting fees | 585,476 | 1,858,458 |
| Legal and professional fees | 1,100,092 | 666,961 |
| Management fees | 837,250 | 775,824 |
| Salaries and benefits | 1,714,562 | 718,756 |
| **Total selling, general and administrative** | **$ 6,201,982** | **$ 8,794,204** |

## 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)

| | Fair value through | Amortized | Fair Value | | | |
|---|---|---|---|---|---|---|
| **May 31, 2022** | **profit and loss** | **cost** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | $ - | $ 15,507,163 | $ 15,507,163 | $ - | $ - | $ 15,507,163 |
| Term deposits | - | 40,000 | 40,000 | - | - | 40,000 |
| Investment in GICs | - | 12,955,307 | - | 12,955,307 | ` - | 12,955,307 |
| Trade and other receivables | - | 1,338,423 | - | 1,338,423 | - | 1,338,423 |
| **Total Financial assets** | **$ -** | **$ 29,840,893** | **$ 15,547,163** | **14,293,730** | **$ -** | **$ 29,840,893** |
| | | | | | | |
| **Financial Liabilities** | | | | | | |
| Trade and other payables | - | 1,574,108 | | 1,574,108 | - | 1,574,108 |
| Deferred Government grant liability | - | 1,000,000 | - | 1,000,000 | - | 1,000,000 |
| Due to related parties | - | 30,906 | | 30,906 | - | 30,906 |
| Government loan payable | - | 1,244,925 | - | 1,244,925 | - | 1,244,925 |
| **Total Financial Liabilities** | **$ -** | **$ 3,849,939** | **$ -** | **$ 3,849,939** | **$ -** | **$ 3,849,939** |

| | Fair value through | Amortized | Fair value | | | |
|---|---|---|---|---|---|---|
| **May 31, 2021** | **profit and loss** | **cost** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | $ - | $ 50,526,731 | $ 50,526,731 | $ - | $ - | $ 50,526,731 |
| Term deposits | - | 40,000 | 40,000 | - | - | 40,000 |
| Trade and other receivables | - | 603,385 | - | 603,385 | - | 603,385 |
| **Total Financial assets** | **$ -** | **$ 51,170,116** | **$ 50,566,731** | **$ 603,385** | **$ -** | **$ 51,170,116** |
| | | | | | | |
| **Financial Liabilities** | | | | | | |
| Trade and other payables | $ - | $ 1,516,954 | $ | ` 1,516,954 | $ - | $ 1,516,954 |
| Bank overdraft | | 804,611 | | 804,611 | - | 804,611 |
| 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 |
| **Total Financial Liabilities** | **$ -** | **$ 4,796,379** | **$ -** | **$ 4,796,379** | **$ -** | **$ 4,796,379** |

### 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 (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, investments in GICs, and trade and other receivables 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 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:

| **May 31, 2022** | **Less than 1 year** | **1 to 3 years** | **4 to 5 years** | **Over 5 years Total** |
|---|---|---|---|---|
| Trade and other payables | $ 1,574,108 | $ - | $ - | $ 1,574,108 |
| Due to related parties | 30,906 | - | - | 30,906 |
| Gov't loan payable | 259,511 | 713,660 | 271,754 | 1,244,925 |
| Long-term lease liabilities | 144,341 | 381,273 | - | 525,614 |

| **May 31, 2021** | **Less than 1 year** | **1 – 3 years** | **4 to 5 years** | **Over 5 years Total** |
|---|---|---|---|---|
| Trade and other payables | $ 1,516,954 | $ - | $ - | $ 1,516,954 |
| Due to related parties | 18,586 | - | - | 18,586 |
| Gov't loan payable | 500,004 | 1,500,012 | 291,649 | 2,291,665 |
| Long-term lease liabilities | 155,851 | 472,500 | 170,625 | 798,976 |

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.

## 20. SEGMENT DISCLOSURE

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

(Expressed in Canadian Dollars)

## 21. INCOME TAXES

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss for the years ended May 31, 2022 and 2021:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Net loss before tax | **$** | **(8,339,913)** | $ | (17,178,988) |
| Statutory tax rate | | **27%** | | 27% |
| Expected income tax (recovery) | **$** | **(2,251,776)** | $ | (4,638,327) |
| Non-deductible items and other | | **181,464** | | 1,394,066 |
| Change in estimates | | **(2,273)** | | - |
| Other | | **10** | | 15,650 |
| Debt forgiveness | | **-** | | - |
| Foreign exchange | | **-** | | 28,305 |
| Share issuance costs | | **-** | | (360,237) |
| Change in deferred tax assets not recognized | | **2,072,575** | | 3,560,543 |
| Total tax expense (recovery) | **$** | **-** | $ | - |

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

| Deferred tax assets (liabilities) | | 2022 | | 2021 |
|---|---|---|---|---|
| Government loan payable | $ | (337,163) | $ | (280,112) |
| Plant and equipment | | - | | (17,683) |
| ROU Asset | | (138,798) | | (175,810) |
| Low interest government loan – WINN benefit | | 235,886 | | 280,112 |
| Non-capital loss carryforwards | | 240,075 | | 193,493 |
| Net deferred tax assets | $ | - | $ | - |

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. The unrecognized deductible temporary differences as at May 31, 2022 and 2021 are as follows:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Non-capital loss carryforwards | $ | 19,532,751 | $ | 12,321,261 |
| Share issuance costs | | 880,355 | | 1,188,255 |
| Property and equipment | | 2,578,610 | | 1,704,329 |
| Intangible assets | | 1,585,001 | | 1,615,760 |
| Deferred government grant liability | | 1,000,000 | | 1,000,000 |
| Lease liability | | 526,115 | | 542,647 |
| Low interest government loan – WINN benefit | | - | | 129,691 |
| Eligible capital property | | 450 | | 450 |
| Unrecognized deductible temporary differences | $ | 26,103,282 | $ | 18,502,393 |

(Expressed in Canadian Dollars)

## 21. INCOME TAXES (continued)

The Company has non-capital loss carryforwards of approximately $19,532,751 (2021: $12,321,261) which may be carried forward to apply against future income for Canadian tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

| EXPIRY | 2022 | 2021 |
|---|---|---|
| 2035 | $ - | $ 7,435 |
| 2036 | - | 100,386 |
| 2037 | 372,205 | 310,807 |
| 2038 | 502,495 | 638,876 |
| 2039 | 692,019 | 822,924 |
| 2040 | 1,467,447 | 1,467,447 |
| 2041 | 9,018,373 | 8,973,386 |
| 2042 | 7,480,212 | - |
| **TOTAL** | $ 19,532,751 | $ 12,321,261 |

## 22. 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.

(Expressed in Canadian Dollars)

## 23. COMMITMENTS

The Company has committed to procuring manufacturing and production equipment according to the information below. The Company used approximate exchange rates of 1.3561 (EUR) and 1.2667 (USD)

| | Currency | Commitments | | Payments | | Outstanding |
|---|---|---|---|---|---|---|
| | | Stated in F/X | CAD($) Equivalent | Stated in F/X | CAD($) Equivalent | CAD($) Equivalent |
| **Commitments as at May 31, 2022** | | | | | | |
| | EUR | 5,997,690 | 8,133,467 | 3,228,576 | 4,378,272 | 3,755,195 |
| | USD | 2,586,297 | 3,276,062 | 1,604,633 | 2,032,589 | 1,243,473 |
| | CAD | 4,296,802 | 4,296,802 | 1,500,699 | 1,500,699 | 2,796,103 |
| **Total commitments as at May 31, 2022** | | | **15,706,331** | | **7,911,560** | **7,794,771** |
| **Additional commitments, payments, and balances subsequent to May 31, 2022** | | | | | | |
| Additional payments | EUR | - | - | 585,000 | 793,997 | (793,997) |
| | USD | - | - | - | - | - |
| Additional commitments and payments | CAD | 296,862 | 296,862 | 976,680 | 976,680 | (679,818) |
| Revision of prior commitments and refunds of deposits paid | CAD | (2,167,174) | (2,167,174) | (547,890) | (547,890) | (1,619,284) |
| Less revision costs | CAD | - | - | (121,820) | (121,820) | 121,820 |
| **Total additional commitments, payments, and revisions of commitments subsequent to May 31, 2022** | | | **(1,870,312)** | | **1,100,967** | **(2,971,279)** |
| **Total commitments as of September 28, 2022** | | | **13,836,019** | | **9,012,527** | **4,823,492** |

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 20 months.

## 24. SUBSEQUENT EVENTS

Subsequent to May 31, 2022, a total of 239,385 warrants expired unexercised at a weighted average exercise price of $1.07 and no warrants were exercised. Subsequent to the fiscal year end, 15,000 options at an exercise price of $0.495 were forfeited and 10,000 options at an exercise price of $0.53 expired.