NEXE INNOVATIONS INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED May 31, 2022

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For the Year Ended May 31, 2022
(Expressed in Canadian Dollars)

This Management Discussion & Analysis ("MD&A") of NEXE Innovations Inc. and its subsidiaries (referred to as the "Company" or "NEXE") was prepared by management as of September 28, 2022 and was reviewed and approved by the Board of Directors of NEXE. The following discussion of performance, financial condition and future prospects should be read in conjunction with the audited consolidated financial statements for the year ended May 31, 2022 and the annual audited consolidated financial statements for the year ended May 31, 2021, and the notes thereto (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The information provided herein supplements but does not form part of the Financial Statements. This discussion covers the year ended May 31, 2022, and the subsequent period up to the date of issue of this MD&A.

The Company has prepared this MD&A following the requirements of National Instrument 51-102 ("NI-51-102"). These statements are filed with the relevant regulatory authorities in Canada. All currency amounts are expressed in Canadian dollars, unless otherwise noted.

DESCRIPTION OF BUSINESS

The Company designs, manufactures and commercializes fully compostable materials for everyday consumer products. The Company's first product is the fully compostable single-serve pods that are compatible with the Keurig® and Nespresso® machines. Ultimately, the Company aspires to be a leading partner to major consumer packaging companies ("CPG" or "Consumer Packaged Goods") and provide compostable solutions for a variety of beverages, including coffee, tea, and other food items.

The proprietary fully compostable NEXE pod is designed to reduce the significant environmental impact caused by single-serve plastic capsules – over 56 billion[1] of which are discarded every year. Hundreds of municipalities in the European Union, Canada, and the United States are moving in the direction of introducing comprehensive compost systems, making the NEXE Pod a viable alternative to the typical plastic coffee capsules currently available in the marketplace.

With over $70 million raised to date from equity and government funding and over eight years of R&D, management of NEXE believes it is well-positioned at the forefront of advanced material manufacturing and automation to meet the growing demand for environmentally friendly and sustainable packaging options to replace single-use plastics.

OUTLOOK

The Company's primary focus has been to commercialize its compostable pod technology and vertically integrate operations, including transitioning to an injection molding manufacturing process and manufacturing components in-house. During COVID-19, the Company experienced logistical bottlenecks and supply issues and decided to localize solutions and vertically integrate operations. The Company believes that these vertically integrated operations will allow the Company to be less reliant on third parties for manufacturing, scale operations faster, have greater control over quality and with the increased efficiencies lead to higher operating margins.

In January 2022, the Company purchased a 54,000 square foot industrial facility in Windsor, Ontario and also invested in and took delivery of key proprietary equipment needed for the new vertically integrated operations. The capacity provided at the new Windsor facility is expected to be key to securing large commercial contracts and work with private label and co-manufacturing coffee branded companies. The Windsor facility is located in a key industrial hub, close to the U.S. border and provides access to a highly skilled workforce with deep experience in manufacturing and automation to support the Company's growth plans.

The Company has not only achieved scientific and commercial validation of the NEXE Pod - it has also demonstrated the key competitive features in two different retail formats compatible with major brewing systems (Keurig® and Nespresso®).

[1] https://www.newstalk.com/news/over-56-billion-coffee-capsules-to-go-to-landfill-this-year-492445

The NEXE Coffee brand is available for purchase online at nexecoffee.com, ecscoffee.com and Amazon. For the remainder of calendar 2022 and for the calendar year 2023, a key strategic focus is expected to be the growth of Company's customer base, focusing on private label and co-manufacturing segments of the market.

The private label and co-manufacturing segments are different than the retail segment. The Company is working to build a talented sales and marketing team to meet the needs of the private label and co-manufacturing segments. This market requires more specialized coffee and manufacturing expertise, however, requires much less investments and resources required to build a new retail coffee brand. The typical sales cycle for the private label and co-manufacturing segments is longer and can take anywhere from one to two years from first initiating contact to delivery of goods. The agreements with this segment also tend to be larger and are expected to become recurring. Examples of private label contracts includes major CPG companies, including major coffee players that are looking for sustainable options to meet the growing demands of their customers. However, management believes a key advantage of this segment is that these opportunities come with established distribution channels, and require less investments and resources, leading to better returns.

The Company is in the process of obtaining various certifications, including the BPI certification. The certifications are not required to produce or sell our products and not all of our potential clients require these certifications. We expect to be granted certifications throughout the remainder of 2022 and early 2023.

NEXE is fully funded with $28.5 million in cash and guaranteed investment certificates (GICs) to weather the increased volatility and focus on executing its strategy over the next 12-18 months. Capital investments were front-end loaded and are largely complete and benefited during fiscal 2022 on the weakening Euro relative to the Canadian dollar with most of the equipment purchased in Euros.

HIGHLIGHTS

Financial

- As of May 31, 2022, the Company had working capital of $31,728,662 (May 31, 2021 - $49,501,770) with cash and cash equivalents that totaled $15,507,163 (May 31, 2021 - $50,526,731) and investment in GICs that totaled $12,955,307 (May 31, 2021 - $nil).

Sales and Product

- The Company is actively in discussions with several private label and co-manufacturing companies to secure large commercial contracts as the new facility in Windsor’ capacity comes online.
- NEXE Coffee is currently available on e-commerce platforms such as Amazon Prime and Walmart.ca.
- In December 2021, the Company completed the SAT (Site Acceptance Test) for one of the high-speed dosing machines. This equipment produces up to 50 million pieces, supports the company’s proprietary filter which allows for higher volume per capsule, and works with compostable materials without requiring adhesives that ensures a fully compostable end product.
- On March 1, 2022, the Company announced the receipt of its first order for XOMA SUPERFOODS products from PSC NATURAL FOODS.
- On April 7, 2022, the Company announced it had received its first purchase order from Purity Life Health Products LP.
- On August 24, 2022, the Company announced the hiring of two new executives. Chris Murray as Vice President of Sales and Marketing and Kam Mangat as Vice President of Investor Relations and Corporate Strategy.

Operational

- Invested in and took delivery of proprietary equipment required for the commercialization of fully compostable pods for both the Keurig® compatible and Nespresso® compatible pods.
- Continue to develop infrastructure for full in-house vertical integration and a “Made in North America” manufacturing strategy within the expanded footprint in Surrey, BC.
- In January 2022, NEXE acquired a 54,000 square foot industrial facility in Windsor, Ontario to significantly expand its production capacity of its proprietary NEXE compostable pods as well as other form factors.

Product Marketing and Distribution

The Company’s NEXE Coffee brand is available on online platforms, including its own site and popular e-commerce platforms. The Company is focused on growing its customer base in the private label and co-packing space such as the office coffee services (OCS) market.

The Company is also building out a sales and marketing team and recently hired its first Vice President of Sales and Marketing, Chris Murray. Mr. Murray was most recently Vice President of Sales and Marketing at Zavida Coffee Company and has extensive experience across the coffee and CPG space.

Manufacturing and Operational

The Company has allocated the necessary capital to bring its equipment needs in-house with the objective of providing it with full control over the design, manufacture, timelines, and operational functions of NEXE’s growing fully compostable product lineup. These moves are expected to reduce operational costs, reduce supply chain risks and provide greater control over quality.

On December 15, 2021, the Company announced it had completed its SAT for its high-speed assembly, filter forming and dosing automation equipment at its site in Surrey, BC. This is the first of two custom machines that were ordered by NEXE in February 2020, pre-pandemic. A SAT is conducted after the Factory Acceptance Test (“FAT”) has taken place and the system has been delivered and installed at site. The SAT was successfully conducted by both our operations team and our European partners.

This high-speed automation was designed and engineered based on NEXE’s proprietary specifications for the Company’s Keurig®-compatible NEXE Pod. As standard automation in the space was not sufficient to assemble our compostable polymers, most of the proprietary processes were pioneered by NEXE (and its partners).

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.

Intellectual Property

The Company's vertical integration strategy is designed to protect the Company’s expanding intellectual property (“IP”) portfolio. The Company has filed several Utility Patent Applications in both the U.S. and PCT and several additional Provisional Patent Applications. As NEXE expands the number of products under development beyond single-serve pods, the Company will also look to commercialize these additional products with best-of-breed partners that have the expertise, distribution, and sales channels to quickly enter each market. In this situation, NEXE anticipates establishing ongoing licensing and royalty revenue streams to monetize its IP.

PRODUCT LAUNCH

On October 8, 2021, the Company expanded its premium espresso pods lineup with its second and third premium espresso blends for Nespresso® Original coffee machines. The flavourful medium roast espresso brings together high-grade, certified organic beans, roasted in small batches. The Company sources sustainably grown beans from women-led cooperatives in Sumatra as well as with community producers in Peru and Ethiopia. Our third blend, a single origin French Roast espresso is grown in the rugged mountain jungles of Sumatra. This French roast has a clean, juicy body, with hints of lemon-lime, cacao, pipe tobacco, light ginger, and a long finish. The certified organic beans are cultivated, harvested, hand sorted and wet hulled by a women-led cooperative. Currently, this offering is available at NEXEcoffee.com and are also now available through Amazon Prime on Amazon.com.

On October 14, 2021, the Company announced the addition of three new functional beverages to its XOMA Superfoods line. XOMA Keto Cocoa is a rich, dark, and luscious keto hot chocolate made with quality fats from organic cocoa powder, vegan cocoa butter, and chocolate MCT powder. XOMA Keto Cocoa delivers the great taste and the health benefits of cocoa while being a great addition to a ketogenic diet. XOMA Matcha is made from finely-ground, shade-grown Japanese green tea leaves and packed with antioxidants. XOMA Matcha features a rich umami flavour that can help to decrease stress and increase alertness. XOMA Turmeric Latte is a dairy-free, thick, yellow, and spicy traditional health food drink containing curcumin, ginger, cinnamon, and other powerful ingredients.

On November 1, 2021, the Company launched NEXE Coffee's first products to be sold in its patented NEXE Pods, which are compatible with Keurig® single serve brewing systems. All NEXE Coffee products are packaged exclusively in the Company's proprietary, single-serve, fully compostable, plant-based NEXE Pods. The unique design of the pod and filter enables NEXE to fill each pod with more coffee and results in increased extraction when compared to other leading coffee brands, producing a superior taste profile for every brew.

The NEXE Pod is made from plant-based materials and is the result of over eight years of research and development. It breaks down in as few as 35 days in a municipal composting facility, about the time it takes for an apple core to decompose.

Grown in the mountains of Peru, the Company's blends use 100% certified organic beans that are roasted to perfection for a rich and balanced flavor, with hints of brown sugar, lime, and an apple finish. The NEXE Coffee selection is available in three different roasts including, Medium Roast, Medium-Dark Roast and Dark Roast.

Currently, NEXE Coffee is available at NEXEcoffee.com, ecscoffee.com and through Amazon Prime on Amazon.com.

VERTICAL INTEGRATION AND INNOVATION

On January 20, 2021, the Company announced the expansion of its research, development, and manufacturing facility in Surrey, B.C., by leasing an adjacent bay and adding 10,000 sq. ft. increasing total manufacturing square footage to approximately 20,000 sq. ft. The expansion was a strategic business decision to enhance vertical integration in its supply chain, to increase product margins, protect intellectual property and mitigate supply chain risk. The expansion allowed for increased space for manufacturing equipment, laboratories, offices, and the factory floor. Using proven technologies developed by the Company in collaboration with leading experts in plant-based materials, the Company can bring key manufacturing processes to commercial scale in-house. By mitigating supply chain vulnerabilities and by increasing vertical integration in production, the Company can reduce or eliminate many uncertainties in production as it scales up.

By upgrading plant operations to produce plant-based resins and parts in-house using proven technology, NEXE will have greater control over product development and quality from conception to manufacturing. NEXE continues to make significant strides as it has received key equipment required to compound its polymers to fill, reinforce and improve the production of our polymer blends for our coffee pods as well as other product innovation it intends to pursue in the long-term.

To align with the Company's strategy of improving vertical integration and securing capacity, the Company has purchased a 54,000 square foot facility in Windsor Ontario. The facility is strategically located close to key U.S. markets and has access to skilled labour. Windsor, Ontario is a growing industrial hub with several companies focused on building out operations in the area. With this revitalization, skilled labour pool, and access to key markets, we expect this facility to be a core part of our operations.

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 economic outlook in 2022, 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.

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.

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.

SELECTED ANNUAL INFORMATION

The following table sets forth selected audited financial information of the Company from the last four completed years ended May 31[2]:

	2022 **$**	2021 $	2020 $	2019 $
Revenue	**26,986**	Nil	Nil	Nil
Total assets	**49,169,758**	57,675,600	8,642,707	5,365,292
Total non-current financial liabilities	**1,366,687**	1,470,943	1,254,214	996,929
Net loss	**8,339,913**	17,178,988	2,187,603	1,158,327
Net loss per share – basic and diluted	**0.09**	0.37	0.12	0.06
Dividends declared	**Nil**	Nil	Nil	Nil

The Company has prepared this MD&A following the requirements of National Instrument 51-102 ("NI-51-102"). These statements are filed with the relevant regulatory authorities in Canada. All currency amounts are expressed in Canadian dollars, unless otherwise noted.

(Expressed in Canadian Dollars)

RESULTS OF OPERATIONS

FINANCIAL RESULTS for the YEAR ENDED MAY 31, 2022

For the year ended May 31, 2022, the Company recorded a net loss of $8,339,913 or $0.09 per share, compared to a net loss of $17,178,988, or $0.37 per share, for the twelve months ended May 31, 2021. The year over year differences are due to the following:

- Selling, General & Administrative expenses decreased to $6,201,982 (2021 - $8,794,204) primarily due to lower marketing, consulting, and professional fees.
- Depreciation increased to $672,830 (2021 – $253,331) due to additional equipment purchased.
- The Company recorded a non-cash interest expense of $309,167 (2021 – $289,601) related to the accretion of interest associated with the interest free Government loan from the Western Innovation program.
- Research and development expenses decreased to $336,460 (2021 - $666,725) as majority of the work related to developing and commercializing the product occurred in the previous year.
- A non-cash share-based compensation expense of $626,693 (2021 - $660,645) was recorded for stock options granted to directors, officers, employees, and advisors.

SUMMARY OF QUARTERLY RESULTS

The following is summary of the Company's financial results for the eight most recently completed quarters:

	Three Months Ended May 31, 2022 $(1)	Three Months Ended Feb. 28, 2022 $	Three Months Ended Nov. 30, 2021 $	Three Months Ended Aug. 31, 2021 $	Three Months Ended May 31, 2021 $(2)	Three Months Ended Feb. 28, 2021 $(3)	Three Months Ended Nov. 30, 2020 $	Three Months Ended Aug. 31 2020 $
Revenue	26,986	–	–	–	–	–	–	–
Net loss	(2,356,657)	(1,905,645)	(2,060,656)	(2,016,955)	(8,948,759)	(6,366,013)	(1,080,912)	(783,303)
Basic loss per share	(0.02)	(0.02)	(0.02)	(0.02)	(0.19)	(0.10)	(0.06)	(0.04)

(1) Included was the impairment of intangibles, plant and equipment that totaled $75,428.

(2) Included was the impairment of intangibles, plant and equipment that totaled $2,121,192; fair value of $1,852,500 regarding 3,250,000 performance warrants that were issued; write-off of common shares valued at $418,000; share-based compensation of $412,802.

(3) Included was a listing expense of $2,614,701 regarding the Whatcom Capital Corp. RTO transaction; the Company increased its use of consultants for business and corporate development and incurred advisory and consulting fees of $1,468,828; pursued a market awareness program to introduce future products and incurred increased advertising and media activities totaling $1,345,906.

FINANCIAL RESULTS for the THREE MONTHS ENDED MAY 31, 2022

During the three months ended May 31, 2022, the Company had a net loss of $2,356,657 or $0.02 per share, compared to a net loss of $8,948,759, or $0.19 per share, for the comparable period last year. The change in net loss was predominantly a result of the following:

- Selling, General and Administrative expenses decreased to $1,750,369 (2021 - $4,149,231) due to lower overhead costs, lower consulting and professional fees;
- A non-cash share-based compensation expense of $238,940 (2021 - $412,802) was recorded for stock options granted to directors, officers, and employees;
- Interest expense increased to $73,068 (2021 - $(7,162)) and interest income increased to $45,327 (2021 - $10,008).

COMMITMENTS

The Company has committed to procuring manufacturing and production equipment according to the information below.

(Expressed in Canadian Dollars)

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			**15,706,332**		**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			**13,836,020**		**9,012,527**	**4,823,493**

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.

Warehouse Space Lease Agreement

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

LIQUIDITY AND CAPITAL RESOURCES

As of May 31, 2022, the Company had working capital of $31,728,662 (May 31, 2021 - $49,501,770) with cash and cash equivalents that totaled $15,507,163 (May 31, 2021 - $50,526,731) and investments in GICs of $12,955,307.

The Company's ability to raise additional capital is subject to a number of factors, uncertainties and risks including market conditions that could make it difficult or impossible for the Company to raise necessary funds to meet its capital and operating requirements. If the Company is unable to obtain financing through commercial profitability or equity investments, it may consider other financing solutions including, but not limited to credit facilities or debenture issuances.

All cash is held with Schedule A banks either in deposit accounts or guaranteed investment certificates, and the Company has no joint ventures with any parties that may potentially create derivative or hedge risk.

OPERATING ACTIVITIES

For the year ended May 31, 2022, the Company's operating activities used cash of $9,992,756 compared to cash used of $10,444,763 for operating activities for the year ended May 31, 2021. The decrease relates primarily to the decrease in operational payables and the increase in prepaid expenses, and inventory.

(Expressed in Canadian Dollars)

INVESTING ACTIVITIES

For the year ended May 31, 2022, cash and cash equivalents used by investing activities of $23,828,004 compared to cash and cash equivalents used of $1,013,554 for the year ended May 31, 2021. The increase is predominantly due to the purchase of GICs and the purchase of the Windsor, Ontario property.

FINANCING ACTIVITIES

For the year ended May 31, 2022, cash and cash equivalents used in financing activities of $1,198,808, compared to cash and cash equivalents provided of $58,673,585 for the year ended May 31, 2021. The cash used for the year ended May 31, 2022, relates primarily to the repayment of the bank operating line and the government loan payments; whereas the cash provided for the year ended May 31, 2021, relates primarily to the issues of share capital and proceeds from exercise of warrants.

As at May 31, 2022, the Company had 96,857,583 issued and outstanding (May 31, 2021 – 96,628,647) common shares.

During the 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.

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 May 31, 2022 and as at May 31, 2021 follows:

		May 31, 2022		May 31, 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 (May 31, 2021 - $500,004) and the non-current amount was $985,414 (May 31, 2021 - 956,224), both are recorded in the consolidated statements of financial position.

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 amounts of $250,000 in each of June, September, October 2020, and January 2021.

The Company has submitted a detailed report to the Department of Natural Resources, Innovative Solutions Canada, 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 in the statements of financial position.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments include cash and cash equivalents, receivables, deposits, investments in GICs, trade payables, accrued liabilities and a loan payable. The carrying values of these financial instruments approximate their fair values with the exception of loan payable due to their relatively short periods to maturity.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies, and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these Financial Statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

(a) 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, are subject to credit risk for a maximum of the amount shown on the condensed interim consolidated statements of financial position. The Company limits its exposure to credit risk on cash and cash equivalents by depositing only with reputable financial institutions and limits its exposure to credit risk on other receivables by only working with large and well-funded organizations. Management believes that the Company is subject to minimal credit risk.

(b) 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 fall due.

The Company prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary. To facilitate its expenditure program, the Company raises funds through financings and anticipates it will have adequate liquidity to fund its financial liabilities.

As at May 31, 2022, the Company's financial liabilities were comprised of trade and other payables, due to related parties, Government loan payable, and long-term lease liabilities, which have a maturity of less than one year and a loan payable, which is payable over five years that commenced on January 1, 2021.

(Expressed in Canadian Dollars)

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

(c) 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.

(d) 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.

OFF BALANCE SHEET ARRANGEMENTS

As of the date of this MD&A, the Company had no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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

As at May 31, 2022, the Company had $30,906 (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. The bonuses awarded to key management personnel during the year, represent key operational milestones reached by both the CEO and President. Both the CEO and President have committed to utilizing $150,000 each of their milestone bonuses in purchasing additional shares in the Company. The shares will be purchased in the open market (versus issuing additional shares).

(Expressed in Canadian Dollars)

	May 31, 2022	May 31, 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**

FUTURE ACCOUNTING STANDARDS

A number of new standards, and amendments to standards and interpretations are not yet effective and have not been early adopted in preparing these 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 financial statements.

Critical Accounting Estimates

Significant areas requiring the use of management estimates include the collectability of amounts receivable, balances of accrued liabilities, the fair value of financial instruments, the rates for depreciation of property and equipment, determination of estimates of deferred tax assets and liabilities, and the determination of variables used in the calculations of share-based payments. While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

ACCOUNTING STANDARDS ADOPTED

The Company notes the following significant accounting policies were adopted during the period.

Revenue Recognition
The Company recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The revenue recognition policy is compliant with IFRS 15. The Company records revenue, net of discounts, when products are sold to retail and wholesale customers.

Inventory
The Company determines the value of estimated net realizable value at the end of each reporting period. Management allocates costs, such as for materials, labor attributable to goods in production and an allocation of overhead, to WIP based on management's estimate of the percentage completion of the 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 or slow-moving inventory balances are identified, the Company assesses its ability to recover customer payment for such inventory and estimates of net realizable values for the excess or slow moving volumes are made.

OTHER MD&A REQUIREMENTS

Disclosure Controls and Procedures

Management is responsible for the preparation and integrity of the Financial Statements and maintains appropriate information systems, procedures, and controls to ensure that information used internally and disclosed externally is complete and reliable. Management is also responsible for the design of the Company's internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with IFRS.

Readers are cautioned that the Company is not required to certify the design and evaluation of its disclosure controls and procedures and internal controls over financial reporting and has not completed such an evaluation. The inherent limitations on the ability of the Company's certifying officers to design and implement on a cost-effective basis disclosure controls and procedures and internal controls over financial reporting for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

In connection with National Instrument 52-109 - Certificate of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the Financial Statements for the three months ended May 31, 2022, and this accompanying MD&A (together, the "Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information, the reader should refer to the Venture Issuer Basic Certificates filed by the Company with its Filings on SEDAR at www.sedar.com.

RISKS AND UNCERTAINTIES

The following are certain factors relating to the business of the Company. If any such risks actually occur, the financial condition, liquidity, and results of operations of the Company could be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected. The Company will face a number of challenges in the development of its business.

Prospects for companies in the technology industry generally may be regarded as uncertain given the nature of the industry and, accordingly, investments in technology companies should be regarded as highly speculative. Technology research and development involves a significant degree of risk. An investor should carefully consider the risks and uncertainties described below. The risks and uncertainties described below are not an exhaustive list. Additional risks and uncertainties not presently known to NEXE or that NEXE believes to be immaterial may also adversely affect NEXE's business. If any one or more of the following risks occur, the Company's business, financial condition and results of operations could be seriously harmed. Further, if the Company fails to meet the expectations of the public market in any given period, the market price of the Company's shares could decline.

If any such risks actually occur, shareholders could lose all or part of their investment and the financial condition, liquidity, and results of operations of the Company could be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected. Potential investors should consult with their professional advisors to assess an investment in the Company.

The risks and uncertainties described in this section are not inclusive of all the risks and uncertainties to which the Company may be subject.

Risks Related to Regulation by Governmental Authorities

The activities of the Company may be subject to regulation by governmental authorities wherever its business is conducted. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals could have a material adverse effect on the business, results of operations and financial condition of the Company.

The business of the Company is subject to rapid regulatory changes. Failure to keep up with such changes may adversely affect the business of the Company. Failure to follow regulatory requirements will have a detrimental impact on the business. Timing and nature of changes in legislation cannot be predicted and could irreparably harm the business.

Risks Related to Protection of Intellectual Property Rights

The future success of the Company's business is dependent upon the intellectual property rights surrounding the technology, which include patents, trade secrets and trademarks.

Although Intellectual Property protection may be unenforceable or limited in certain countries, NEXE Innovations has focused exclusively on Patent applications and registrations in markets such as the United States and Europe which have robust Patent laws and associated protections. If a third party accuses the Company of infringing its intellectual property rights or if a third party commences litigation against the Company for the infringement of patent or other intellectual property rights, the Company may incur significant costs in defending such action, whether or not it ultimately prevails. The Company also relies on its trade secrets, which include information relating to the manufacture, development, and administration of its technology. The protective measures that the Company employs may not provide adequate protection for its trade secrets. This could erode the Company's competitive advantage and materially harm its business.

Risks Related to Competition

To remain competitive, the Company will require a continued elevated level of investment in research and development, marketing, sales, and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales, and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition, and results of operations of the Company.

The beverage industry is intensely competitive with respect to product, quality, convenience, and price. NEXE faces significant competition in each of its channels and marketplaces. NEXE competes with major international beverage and appliance companies that operate in multiple geographic areas, as well as numerous companies that are primarily local in operation. The Company's ability to gain a share of sales in the global marketplace or in various local marketplaces or maintain or enhance its relationships with its partners and customers may be limited as a result of actions by competitors, including as a result of increased consolidation in the food and beverage industry and an increase in the number of competitive pod contract manufacturers.

Many of the Company's competitors and potential competitors are larger and have greater name recognition, longer operating histories, larger marketing budgets and significantly greater resources than the Company does. With the introduction of new technologies and market entrants, the Company expects competition to continue to intensify in the future. If the Company fails to compete effectively, its business will be harmed. For these reasons, the Company may not be able to compete successfully against its current and future competitors.

Some of the Company's current and potential competitors have significantly greater resources and better competitive positions in certain markets than the Company does. These factors may allow the Company's competitors to respond more effectively than the Issuer to new or emerging technologies and changes in market requirements. The Company's competitors may develop products, features, or services that are similar to the Company or that achieve greater market acceptance, may undertake more far-reaching and successful product development efforts or marketing campaigns, or may adopt more aggressive pricing policies. Certain competitors could use strong or dominant positions in one or more markets to gain a competitive advantage against the Company. As a result, the Company's competitors may acquire and engage users at the expense of the growth or engagement of its user base, which may negatively affect the Company's business and financial results.

The Company believes that its ability to compete effectively depends upon many factors both within and beyond the Company's control, including:

- the usefulness, ease of use, performance, and reliability of the Company's products and services compared to its competitors;
- customer service and support efforts;
- marketing and selling efforts;
- the Company's financial condition and results of operations;
- changes mandated by legislation, regulatory authorities, or litigation, some of which may have a disproportionate effect on the Company;
- acquisitions or consolidation within the Company's industry, which may result in more formidable competitors;
- the Company's ability to attract, retain, and motivate talented employees and consultants;
- the Company's ability to cost-effectively manage and grow its operations; and
- the Company's reputation and brand strength relative to that of its competitors.

Risks Related to Management of Growth

The Company may in the future, experience rapid growth and development in a relatively brief period of time by aggressively marketing its products and services. The Company may be subject to growth related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Risks Related to Conflicts of Interest

The Company's directors and officers may serve as directors or officers, or may be associated with, other reporting companies, or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting a transaction. If a conflict of interest arises, the Company will follow the provisions of the Business Corporations Act (BC) ("Corporations Act") dealing with any conflict of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his or her interest and refrain from voting on the matter, unless otherwise permitted by the Corporations Act. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith and in the best interests of the Company.

Going Concern Risks

The Financial Statements have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. The Company's future operations are dependent upon the identification and successful completion of equity or debt financing and the achievement of profitable operations at an indeterminate time in the future. There can be no assurances that the Company will be successful in completing an equity or debt financing or, in achieving profitability.

The Financial Statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

Limited Operating History

NEXE was incorporated on April 27, 2015 and has limited operating history. The Company will be subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its growth objectives. To the extent that such expenses do not result in revenue gains that are adequate to sustain and expand its business, the Company's long-term viability may be materially and adversely affected.

Negative Cash Flow from Operating Activities

NEXE has had negative cash flow from operating activities since inception. Significant capital investment will be required to achieve NEXE's existing plans. There is no assurance that the Company's business will generate earnings, operate profitably, or provide a return on investment in the near future. Accordingly, the Company may be required to obtain additional financing in order to meet its future cash commitments.

Further, NEXE has a history of operating losses and may not sustain profitability. The Company cannot guarantee investors that it will become profitable, and even if the Company achieves profitability, given the competitive and evolving nature of industry in it operates, the Company may not be able to sustain or increase profitability and its failure to do so could adversely affect its business, including its ability to raise any additional funds.

Future Performance is Highly Dependent upon the Sales of Keurig® and Nespresso® Beverage Systems

Continued acceptance and adoption of Keurig® and Nespresso® beverage systems are significant factors in the Company's growth plans. Any substantial or sustained decline in the sale of Keurig® and Nespresso® hot system brewers, failure of consumers to adopt those beverage systems, would materially adversely affect the Company's business.

The Research and Development of the Single-Serve Beverage Pods has Required and will Continue to Require a Significant Investment and Commitment of Resources, is Subject to Numerous Risks and Uncertainties, and Ultimately may not Prove Successful

NEXE has invested and expects to continue to invest in the research and development of its NEXE Pod technology. Such endeavour involves significant risks and uncertainties, including, insufficient revenues to offset liabilities and expenses associated with developing and launching the single-serve beverage pods, not accurately predicting consumer tastes and the market opportunity for a beverage platform, inability to respond in a timely manner to consumer desires and demands, and unidentified issues not discovered in NEXE due diligence and planning.

The Company cannot be certain that the Keurig® and Nespresso® hot system brewers will be widely accepted by consumers or that they will be willing to pay a higher price for these products. In addition, the Company may not be able to sufficiently scale or find other ways to reduce the costs of manufacturing the pods. Because the introduction of and investment in a new pod is inherently risky, no assurance can be given that the NEXE Pods will ultimately be successful or that it will not materially adversely affect the Company's reputation, financial condition, and operating results.

Continued Innovation and the Successful Development and Timely Launch of New Platforms, Products and Product Extensions are Critical to the Company's Financial Results and Achievement of its Growth Strategy

The Company may not be successful in developing innovative new products or the new products may not be commercially successful. Additionally, new product introductions are often time sensitive, and thus failure to deliver innovations on schedule could be detrimental to the Company's ability to successfully launch such new products and retain partners, in addition to potentially harming the Company's reputation and customer loyalty.

The Company's financial results and its ability to maintain or improve its competitive position will depend on its ability to effectively gauge the direction of its key marketplaces and successfully identify, develop, manufacture, market and sell new or improved products in these changing marketplaces. As the Company and its industry evolve, the Company expects to face new challenges with respect to the introduction of innovative products and the changing competitive landscape within the single-serve category and the beverage industry. These challenges can occur at various stages, including design, supply chain and sales cycle.

Future Financial Results are Difficult to Predict, and Failure to Meet Market Expectations for the Company's Financial Performance or its Publicly Announced Guidance May Cause the Price of its Securities to Decline.

The Company's public forecasts regarding the expected performance of the business and future operating results are forward-looking statements subject to risks and uncertainties, including the risks and uncertainties described in other public statements, and necessarily reflect current assumptions and judgments that may prove incorrect. As a result, there can be no assurance that the Company's performance will be consistent with any public forecasts or that any variation from such forecasts will not be material and adverse.

Changes in the Beverage Environment and Retail Landscape could Impact the Company's Financial Results

The beverage environment is rapidly evolving as a result of, among other things, changes in consumer preferences; shifting consumer tastes and needs; changes in consumer lifestyles; and competitive product and pricing pressures. In addition, the beverage retail landscape is dynamic and constantly evolving, not only in emerging and developing marketplaces, where modern trade is growing at a faster pace than traditional trade outlets, but also in developed marketplaces, where discounters and value stores, as well as the volume of transactions through e-commerce, are growing at a rapid pace. If the Company is unable to successfully adapt to the rapidly changing environment, its overall financial results could be negatively affected.

Failure to Maintain Strategic Relationships with Well-Recognized Brands/Brand Owners and Private Label Brands Could Adversely Impact the Company's Future Growth and Business

Any of the Company's strategic partners may make their own business decisions which may not align with the Company's interests. If the Company is unable to provide an appropriate mix of incentives to its strategic partners through a combination of pricing and marketing and advertising support, or if its strategic partners are not satisfied with its brand innovation and technological or other development efforts, they may take actions, including entering into agreements with competing pod contract manufacturers or vertically integrating to manufacture their own pods. Increasing competition among pod manufacturers and the move to vertical integration may result in price compression, which could have an adverse effect on the Company's gross margins. The loss of strategic partners could also adversely impact the Company's future profitability and growth, its ability to attract additional branded or private label parties to do business with the Company or its ability to attract new customers.

In order to grow its business, the Company anticipates that it will continue to depend on its relationships with third parties, such as alliance partners, distributors, equipment supplies, and manufacturers. Identifying partners, and negotiating and documenting relationships with them, requires significant time and resources. The Company's competitors may be effective in providing incentives to third parties to favour their products or services, or to prevent or reduce the Company's products and services. In addition, acquisitions of the Company's partners by its competitors could result in a decrease in the number of current and potential customers, as its partners may no longer facilitate the adoption of the Company's products and services by potential customers.

If the Company is unsuccessful in establishing or maintaining its relationships with third parties, its ability to compete in the marketplace or to grow its revenue could be impaired, and its operating results may suffer. Even if the Company is successful, the Company cannot assure investors that these relationships will result in increased customer usage of the Company's services or increased revenue and/or profitability. Furthermore, if the Company's partners fail to perform as expected, the Company's reputation may be harmed, and its business and operating results could be adversely affected.

Product Safety and Quality Concerns could Negatively Affect the Company's Business

The Company's success depends in part on its ability to maintain consumer confidence in the safety and quality of all of its products. Product safety or quality issues, or mislabeling, actual or perceived, or allegations of product contamination or quality or safety issues, even when false or unfounded, could subject the Company to product liability and consumer claims, negative publicity, a loss of consumer confidence and trust, may require the Company from time to time to conduct costly recalls from some or all of the channels in which the affected product was distributed, could damage the goodwill associated with its brands, and may cause consumers to choose other products. Such issues could result in the destruction of product inventory, lost sales due to the unavailability of product for a period of time, and higher than anticipated rates of warranty returns and other returns of goods, all of which could cause the Company's business to suffer and affect its results of operations.

The Company's Long Term Purchase Commitments for Certain Strategic Materials Critical for the Manufacture of Pods could Impair its Ability to be Flexible in its Business Without Penalty

In order to ensure a continuous supply of high-quality materials, some of the Company's inventory purchase obligations may create long-term purchase commitments for certain strategic materials critical for the manufacture of pods. The timing of these may not always coincide with the period in which the Company needs the supplies to fulfill customer demand. This could lead to higher and more variable inventory levels and/or higher material costs.

Risk Related to Technological Obsolescence and Difficulty in Obtaining Equipment

To remain competitive, the Company will continue to invest in equipment at its facilities required for maintaining the Company's activities. Should competitors introduce new technologies, the Company recognizes its equipment, and its underlying technology may become obsolete and require substantial capital to replace such equipment, which could adversely affect an investment in the Company.

Risks Related to Insurance of the Company's Operations

The Company maintains insurance coverage including directors' and officers' insurance and commercial insurance covering the facility and the equipment within the facility. Nevertheless, given the novelty of development of biodegradable pods and associated businesses, such insurance may become unavailable, uneconomical for the Company, or the nature or level may be insufficient to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the Company. While the Company believes its insurance coverage will address all material risks to which it is exposed and could be adequate and customary in its current state of operations, such insurance will be subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed.

In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Risks Related to Product Development and Technology Change

The Company's success could be seriously affected by a competitor's ability to develop and market technologies that compete with the Company's technologies. To remain competitive, the Company must continue to enhance and improve the responsiveness, functionality and features of its technology. The single-serve beverage industry is characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render the Company's existing operations and proprietary technology and systems obsolete. There can be no assurance the Company will successfully implement new technologies and systems to meet industry standards and if unable to adapt in a timely matter, the business of the Company could be materially affected.

Risks Related to Slow Acceptance of Products

The marketplace may be slow to accept or understand the significance of the Company's technology due to its unique nature and the competitive landscape. If the Company is unable to promote, market and sell its products and secure relationships with partners and purchasers, the Company's business and financial condition will be adversely affected, which could adversely affect an investment in the Company.

Company has an Evolving Business Model and thus its Services and Products could Change

To stay current with the industry, the Company's business model may need to evolve as well. From time to time, it may modify aspects of the Company's business model relating to Company's product mix and service offerings. The Company cannot offer any assurance that these or any other modifications will be successful or will not result in harm to the business. The Company may not be able to manage growth effectively, which could damage the Company's reputation, limit the Company's growth, and negatively affect its operating results.

If the Company's Revenue is Primarily Derived from a Limited Number of Customers, the Loss of such Customer could have an Adverse Impact on the Company

Although the Company intends to seek a broad base of customers, if the Company's revenue is concentrated in one or a few larger customers, and such customers become dissatisfied with the Company's products and services, or the Company's pricing, or ceases to do business with the Company for any other reason, the operating results of the Company would be negatively and substantially impacted.

Interruptions or Delays in Service from the Company's Facilities could Impair the Delivery of the Company's Services and Harm its Business

The facilities may be vulnerable to damage or interruption due to floods, fires, power loss, telecommunications failures, and similar events. The facilities may also be subject to destruction, break-ins, sabotage, intentional acts of vandalism and similar misconduct. Any damage to, or failure of, the Company's systems generally could result in stoppage interruptions in its service. Interruptions in its service may reduce its revenue, cause the Company to issue credits, or pay penalties, cause customers to terminate their contracts and adversely affect the Company's renewal rate and its ability to attract new customers.

The Company's business will also be harmed if its customers and potential customers believe the Company's service and products are unreliable. Despite precautions taken such as disaster recovery plans at these facilities, the occurrence of a natural disaster, an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in the Company's services. Even with the disaster recovery arrangements and precautions taken at its facilities, the Company's services could be interrupted. Further, as the Company continues to grow and scale its business to meet the needs of its customers, additional burdens may be placed on its facilities. These interruptions, stoppages and burdens could adversely affect an investment in the Company.

The Company Depends on Highly Skilled Personnel to Grow and Operate its Business, and if the Company is Unable to Hire, Retain and Motivate its Personnel, the Company may not be able to Grow Effectively

The Company's future success will depend upon its continued ability to identify, hire, develop, motivate, and retain highly skilled personnel, including senior management, engineers, designers, product managers, sales representatives, and customer support representatives. The Company's ability to execute efficiently is dependent upon contributions from its employees, including its senior management team. In addition, there may occasionally be changes in the Company's senior management team that may be disruptive to its business. If the Company's senior management team, including any new hires that the Company may make, fails to work together effectively and to execute on its plans and strategies on a timely basis, its business could be harmed.

The Company's growth strategy also depends on its ability to expand its organization with highly skilled personnel. Identifying, recruiting, training, and integrating qualified individuals will require significant time, expense, and attention. In addition to hiring new employees, the Company must continue to focus on retaining its best employees. The Company may need to invest significant additional amounts of cash and equity to attract and retain new employees, and the Company may never realize returns on these investments. If the Company is not able to effectively add and retain employees, its ability to achieve its strategic objectives could be adversely impacted, and its business could be harmed.

If the Company is Unable to Maintain and Promote its Brand, its Business and Operating Results may be Harmed

The Company believes that maintaining and promoting its brand is critical to expanding its customer base. Maintaining and promoting its brand will depend largely on its ability to continue to provide useful, reliable, and innovative services, which the Company may not do successfully. The Company may introduce new features, products, services, or terms of service that its customers do not like, which may negatively affect its brand and reputation. Maintaining and enhancing the Company's brand may require it to make substantial investments, and these investments may not achieve the desired goals. If the Company fails to successfully promote and maintain its brand or if the Company incurs excessive expenses in this effort, its business and operating results could be adversely affected.

Risks Associated with Acquisitions

If appropriate opportunities present themselves, the Company intends to acquire businesses, technologies, services, or products that the Company believes are strategic. There can be no assurance that the Company will be able to identify, negotiate or finance future acquisitions successfully, or to integrate such acquisitions with its current business. The process of integrating an acquired business, technology, service, or product into the Company may result in unforeseen operating difficulties and expenditures and may absorb significant management attention that would otherwise be available for ongoing development of the Company's business. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities and/or amortization expenses related to goodwill and other intangible assets, which could materially adversely affect the Company's business, results of operations and financial condition. Any such future acquisitions of other businesses, technologies, services, or products might require the Company to obtain additional equity or debt financing, which might not be available on terms favourable to the Company, or at all, and such financing, if available, might be dilutive.

The Company in the future may invest, in new business strategies, acquisitions and/or joint ventures. New ventures are inherently risky and may not be successful. In evaluating such endeavours, the Company is required to make difficult judgments regarding the value of business strategies, opportunities, technologies and other assets, and the risks and cost of potential liabilities. Furthermore, acquisitions and investments involve certain other risks and uncertainties, including the risks involved with entering new competitive categories or regions, the difficulty in integrating newly-acquired businesses, the challenges in achieving strategic objectives and other benefits expected from acquisitions, investments or joint ventures, the diversion of the Company's attention and resources from its operations and other initiatives, the potential impairment of acquired assets and liabilities, the performance of underlying products, capabilities or technologies and the potential loss of key employees and customers of the acquired businesses.

The Expansion or Development of the Business, including through Acquisitions, Increased Product Offerings or Other Strategic Growth Opportunities, may cause Disruptions in the Company's Business, which may have an Adverse Effect on the Company's Business, Operations, or Financial Results

The Company may seek to expand and develop its business, including through acquisitions, increased product offerings, or other strategic growth opportunities. In the ordinary course of business, the Company may review, analyze, and evaluate various potential transactions or other activities in which it may engage. Such transactions or activities could cause disruptions in, increase risk, or otherwise negatively impact its business. Among other things, such transactions and activities may:

- disrupt the Company's business relationships with its customers, depending on the nature of or counterparty to such transactions and activities;
- direct the time or attention of management away from other business operations;
- fail to achieve revenue or margin targets, operational synergies, or other benefits contemplated;
- increase operational risk or volatility in the Company's business; and/or
- result in current or prospective employees experiencing uncertainty about their future roles with the Company, which might adversely affect the Company's ability to retain or attract key managers or other employees.

The Company may be Vulnerable to Security Breaches that could Adversely Affect its Operations, Business, Operations, and Reputation

The Company's infrastructure may be vulnerable to damage, disruptions, or shutdowns due to unauthorized access, computer viruses, cyber-attacks, and other security breaches. An attack attempt or security breach could potentially result in interruption or cessation of certain of the Company's services to its customers or the Company's inability to meet expected levels of service. The Company cannot guarantee that its security measures will not be circumvented, resulting in production interruptions and have a material adverse effect on its business, financial condition, or operational results.

The Company may be required to expend significant resources to protect against or recover from such threats. If an actual or perceived breach of its security occurs, the market perception of the effectiveness of its security measures could be harmed, and the Company could lose customers. Furthermore, the perpetrators of cyber-attacks are not restricted to particular groups or persons. These attacks may be committed by the Company's employees, contractors or external individuals or organizations operating from any geography. Any such events could result in legal claims or penalties, disruption in operations, misappropriation of sensitive data, damage to the Company's reputation, negative market perception, or costly response measures, which could adversely affect its business.

Additional Financing Requirements and Access to Capital

The Company may require additional funds for further research and development, sales and marketing, operations, working capital, and general corporate purposes. The Company may attempt to raise additional funds for these purposes through public or private equity or debt financing, collaborations with other companies, government grants and/or from other sources. There can be no assurance that additional funding or partnership will be available on terms acceptable to the Company. If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences, and privileges superior to those of holders of Company shares.

Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital or to pursue business opportunities, including potential acquisitions. If adequate funds are not obtained, the Company may be required to reduce, curtail, or discontinue operations.

Product Recalls and/or Product Liability may Adversely Impact the Company

The Company will be subject to regulation by a variety of regulatory authorities. In the event that the Company, does not adhere to product safety requirements or its quality control standards, it might not identify a deficiency before its ships its products to customers. The failure to produce products that adhere to the Company's quality control standards could damage its reputation and brands and lead to customer litigation against the Company and the Company may be required to remove or recall those products at a substantial cost. The Company may be unable to recover costs related to product recalls.

The Company's Business will be Highly Dependent on Sales of Coffee, and if Demand for Coffee Decreases, its Business would Suffer

Because the Company is highly dependent on consumer demand for coffee, a shift in consumer preferences away from coffee or its product offerings would harm the business more than if it had more diversified product offerings. If customer demand for coffee decreases, its sales would decrease, and the Company would be materially adversely affected.
Future revenues are dependent on demand for coffee. Demand for coffee and demand for single cup brewing systems is affected by many factors, including:

- Changes in consumer tastes and preferences;
- Changes in consumer lifestyles;
- National, regional, and local economic conditions;
- Perceptions or concerns about the environmental impact of the products;
- Demographic trends; and
- Perceived or actual health benefits or risks.

Risks Related to Volatility of Share Price, Absence of Dividends and Fluctuation of Operating Results

Market prices for the securities of technology companies have historically been highly volatile. Factors such as fluctuation of the Company's operating results, announcements of technological innovations, patents or new commercial products by the Company or competitors, and other factors could have a significant effect on the share price or trading volumes for the Company shares. The Company has not paid dividends to date and the Company does not expect to pay dividends in the near future.

Risks Related to No Assurance of an Active Trading Market

There can be no assurances that an active trading market in the Company shares on the Exchange will be sustained.

Risks Related to Equity Dilution to Shareholders

The issuance of any equity securities could, and the issuance of any additional shares will, cause the Company's existing shareholders to experience dilution of their ownership interests.

Any additional issuance of shares or a decision to acquire other businesses through the sale of equity securities may dilute investors' interests, and investors may suffer dilution in their net book value per share depending on the price at which such securities are sold. Such issuance may cause a reduction in the proportionate ownership and voting power of all other shareholders. The dilution may result in a decline in the price of the Company's shares.

Risks Related to Value of Securities

The value of the Company's shares may be reduced for a number of reasons, many of which are outside the control of the Company, including:

- general economic and political conditions in Canada, the United States and globally;
- governmental regulation of the beverage industry including coffee pods;
- failure to achieve desired outcomes by the Company;
- failure to obtain industry partner and other third-party consents and approvals, when required;
- stock market volatility and market conditions;
- competition for, among other things, capital, and skilled personnel;
- the need to obtain required approvals from regulatory authorities;
- revenue and operating results failing to meet expectations in any particular period;
- investor perception of the beverage, coffee, and single-serve coffee industries;
- limited trading volume of the Company's shares;
- announcements relating to the Company's business or the businesses of the Company's competitors; and
- the Company's ability or inability to raise additional funds.

Risks Related to Use of Proceeds

Although the Company has set out its intended use of proceeds in this MD&A, these intended uses are estimates only and subject to change. While management does not contemplate any material variation, management does retain broad discretion in the application of such proceeds. The failure by the Company to apply these funds effectively could have a material adverse effect on the Issuer's business, including the Company's ability to achieve its stated business objectives.

Risks Related to Global Economic and Financial Deterioration Impeding Access to Capital or Increasing the Cost of Capital

Market events and conditions, including disruption in the Canadian, U.S. and international financial markets and other financial systems and the deterioration of Canadian, U.S. and global economic and financial market conditions, could, among other things, impact currency trading and impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. Current and future conditions in the domestic and global economies remain uncertain. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more difficult to estimate growth or contraction in various parts, sectors, and regions of the economy, including the market area in which the Company will participate.

Risks Related to Litigation

The Company and/or its directors and officers may be subject to a variety of civil or other legal proceedings, with or without merit. From time to time in the ordinary course of its business, the Company may become involved in various legal proceedings, including commercial, employment and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause the Company to incur significant expenses. Furthermore, because litigation is inherently unpredictable, the results of any such actions may have a material adverse effect on the Company's business, operating results, or financial condition.

Risks Related to Reporting Issuer Status

As a reporting issuer, the Company will be subject to reporting requirements under applicable securities law and stock exchange policies. Compliance with these requirements will increase legal and financial compliance costs, make some activities more difficult, time consuming or costly, and increase demand on existing systems and resources. Among other things, the Company will be required to file annual, quarterly, and current reports with respect to its business and results of operations and maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and, if required, improve disclosure controls and procedures and internal controls over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm the Company's business and results of operations. The Company may need to hire additional employees to comply with these requirements in the future, which would increase its costs and expenses.

Management of the Company expects that being a reporting issuer will make it more expensive to maintain director and officer liability insurance. This factor could also make it more difficult for the Company to retain qualified directors and executive officers.

Economic Environment and Global Economic Risk

The Company's operations could be affected by the economic context should the unemployment level, interest rates or inflation reach levels that influence consumer trends and consequently, impact the Company's sales and profitability.
Any economic slowdown and downturn of global capital markets could make the raising of capital by equity or debt financing more difficult. Access to financing has been negatively impacted by the ongoing global economic risks. These factors may impact the Company's ability to raise equity or obtain loans and other credit facilities in the future and on

terms favourable to the Company. If uncertain market conditions persist, the Company's ability to raise capital could be jeopardized, which could have an adverse impact on the Company's operations and the trading price of the Company's shares on the stock exchange.

Climate Change may have a Long-Term Adverse Impact on the Company's Business and Results of Operations

There is increasing concern that a gradual increase in global average temperatures due to increased concentration of carbon dioxide and other greenhouse gases in the atmosphere will cause significant changes in weather patterns around the globe and an increase in the frequency and severity of natural disasters. Decreased agricultural productivity in certain regions of the world as a result of changing weather patterns may limit availability or increase the cost of key agricultural commodities, such as coffee, which are important sources of ingredients for the Company's business and products and could impact the food security of communities around the world. Increased frequency or duration of extreme weather conditions could also impair production capabilities, disrupt the Company's supply chain, or impact demand for its products. As a result, the effects of climate change could have a long-term adverse impact on the business and results of operations.

Business Interruptions Resulting from the COVID-19 Outbreak or Similar Public Health Crises Could Cause a Disruption to the Development and Distribution of Products and Adversely Impact Business

Public health crises such as pandemics or similar outbreaks could adversely impact the Company's business. In December 2019, a novel strain of a virus named SARS-CoV-2 (severe acute respiratory syndrome coronavirus 2), or coronavirus, surfaced in Wuhan, China and has reached multiple other regions and countries, including Surrey, British Columbia, Canada where NEXE's primary office and facility is located. The coronavirus pandemic is evolving, and to date has led to the implementation of various responses, including government-imposed quarantines, travel restrictions and other public health safety measures. The extent to which the coronavirus impacts the demand for the Company's products and the Company's operations or those of third-party partners, will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that will emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others.
The continued spread of COVID-19 globally could adversely impact the Company's product distribution, business relationships and sales, both locally and internationally. COVID-19 may also affect the Company's management personnel and employees as well as employees of third parties located in affected geographies that it relies upon.

Currency Risk Exposures

The Company may have financial risk exposure to varying degrees relating to the currency risk and volatility of each of the countries where it operates.

Cautionary Note Regarding Forward-Looking Information

This MD&A contains forward-looking statements and information about the Company which reflect management's expectations regarding the Company's future growth, results of operations, operational and financial performance and business prospects and opportunities. In addition, the Company may make or approve certain statements or information in future filings with Canadian securities regulatory authorities, in news releases, or in oral or written presentations by representatives of the Company that are not statements of historical fact and may also constitute forward-looking statements or forward-looking information.

All statements and information, other than statements or information of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements and information, including, but not limited to statements and information preceded by, followed by, or that include words such as "may", "would", "could", "will", "likely", "expect", "anticipate", "believe", "intends", "plan", "forecast", "budget", "schedule", "project", "estimate", "outlook", or the negative of those words or other similar or comparable words. Examples of forward-looking statements in this MD&A include, but are not limited to, statements in respect of: the Company's business objectives; the Company's long-term growth and development plans; the Company's forecasts and expected performance of the business; the ability of the Company to raise funds in the future, including through public or private equity or debt financing; the expansion of the Company's production capacity to other form factors; the design and rapid building of prototypes in-house; bringing key manufacturing processes to commercial scale in-house; the development of innovative single-serving packaging in multiple formats; the Company's ability to access a workforce located in Windsor, Ontario; the continued commercialization of NEXE Pods in Keurig® and Nespresso® format capsules; the Company becoming a leading partner to major consumer packaging companies; the Company providing compostable solutions for a variety of beverages, including coffee, tea, and others; the establishment of the NEXE brand as the standard in fully compostable packaging; the reduction of the environmental impact caused by single-serve pods; the NEXE pod becoming a viable alternative to currently available plastic coffee capsules; NEXE's ability to meet the growing demand for environmental friendly and sustainable products in the single-serve coffee sector and beyond; the Company's ability to secure large contracts and work with private label and co-manufacturing coffee branded companies; the growth of the Company's customer base through the offering of NEXE Coffee through retail and e-retail channels; the continued offering of NEXE coffee through retail and e-retail channels; the continued commercialization of the XOMA Superfoods product line; the establishment of ongoing licensing and royalty revenue streams to monetize the Company's intellectual property; the building of a strong marketing foundation and the Company's marketing plans; NEXE having full control over the design, manufacture, timelines and operational functions of its pod product lineup; the acceleration of R&D initiatives and reduction of operational costs; the elimination of bottlenecks related to delivery time; that each scaled manufacturing line will add capacity of up to 50 million pods per year; the ability of NEXE's partners to deliver key pieces of equipment on time and budget and the Company entering into agreements to effect same; the completion of a FAT (as defined below) for a second high-speed assembly line; protection of the Company's intellectual property; collaboration with strategic partners; the future growth and development of the Company; the Company's enhanced vertical integration of the supply chain and the reduction in its reliance on third parties for manufacturing; the Company bringing key manufacturing processes to commercial scale in-house; the Company's marketing, digital advertising, and distribution strategies; the addition of key team members with relevant experience; the impact of the ongoing COVID-19 Crisis; the equity, assets, and liquidity of the Company; the Company's future investment in research and development; the Company's brand promotion strategy and the effect that each risk factor will have on the Company.

Forward looking statements and information involve significant risks, assumptions, uncertainties, and other factors that may cause actual future performance, achievement, or other realities to differ materiality from those expressed or implied in any forward-looking statements or information and, accordingly, should not be read as guarantees of future performance, achievement, or realities. Although the forward-looking statements and information contained in the MD&A reflect management's current beliefs based upon information currently available to management and based upon what management believes to be reasonable assumptions, the Company cannot be certain that actual results will be consistent with these forward-looking statements and information. A number of risks and factors could cause actual results, performance, or achievements to differ materially from the results expressed or implied in the forward-looking statements and information. Such risks and factors include, but are not limited to, the following:

- the Company may continue to operate at a net loss and a going concern;
- the Company has a limited operating history;
- the Company may require additional liquidity;
- the Company will continue as a going concern;
- ability to commercialize the NEXE Pod;
- the Company's future is highly dependent upon the sales of Keurig® and Nespresso® beverage systems;
- the Company may be subject to litigation;
- the Company being able to secure and maintain its manufacturing equipment and facilities;
- the Company may need to take active steps to protect its intellectual property;
- research and development requires significant investment and commitment of resources;
- the Company's development and launch of new platforms and productions is critical to the Company's business
- financial results and growth strategy;
- ability to meet market expectations for financial performance;
- any changes in the beverage environment and retail landscape;

- if the Company is reliant on a limited number of customers, the loss of such customers could have an adverse impact on its business;
- expansion of the business and increased product offerings may cause disruption of the Company's business;
- the Company's ability to maintain strategic relations with well recognized brands;
- product safety and quality concerns;
- the Company's ability to negotiate flexible long-term purchase contracts;
- risks associated with acquisitions;
- the Company's products and services may become obsolete without innovation;
- the Company maintaining adequate insurance;
- the Company's risks related to product development and technology change;
- the Company will be profitable;
- the Company's products will be accepted by the market;
- the Company has an evolving business model and thus its services and products could change;
- the Company will be dependent on the experience and skill of its management and key personnel;
- ability to promote its brand;
- the Company's growth depends in part on strategic relationships;
- the Company's ability to expand and grow its operations and scale production of its products;
- the Company may be vulnerable to security breaches;
- government regulation of the Company's products and services;
- the Company not infringing a third party's intellectual property rights;
- the Company faces competition from larger businesses;
- the Company may require additional financing;
- product recalls may have an adverse impact on the Company;
- the Company's business is dependent on demand for coffee;
- the directors and officers may engage in business that is in conflict with the Company;
- the common shares of the Company are speculative and may experience high volatility on the TSX-V;
- global economic conditions may adversely affect the Company's business;
- foreign exchange rates; and
- market perception of smaller companies.

Although the Company has attempted to identify important risks and factors that could cause actual actions, events, or results to differ materially from those described in forward-looking statements or information, there may be other factors and risks that cause actions, events or results not to be as anticipated, estimated or intended. Further, any forward-looking statements and information contained herein are made as of the date of this MD&A and, other than as required by applicable securities laws, the Company assumes no obligation to update or revise them to reflect new events or circumstances.

New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual realities to differ materially from those contained in any forward-looking statement or information. Accordingly, readers should not place undue reliance on forward looking statements and information contained in this MD&A. All forward-looking statements and information disclosed in this MD&A, are qualified by this cautionary statement.

CORPORATE GOVERNANCE

The Company's board of directors and its committees adhere to recommended corporate governance guidelines for public companies listed on the TSXV to ensure transparency and accountability to shareholders. The current board of directors is comprised of five individuals, three of whom are independent of management as they are neither executive officers nor employees of the Company. The audit committee is currently comprised of three directors, who are independent of management and have strong financial backgrounds.

The audit committee's role is to ensure the integrity of the Company's reported financial results through its review of the interim and audited annual Financial Statements prior to their submission to the board of directors for approval. The audit committee meets with management, at least, quarterly to review the consolidated Financial Statements, as well as the management's discussion and analysis (MD&A), and to discuss financial, operational, and other important matters.

DISCLOSURE OF OUTSTANDING SHARE DATA

Common Shares

As at, September 28, 2022, the Company had 96,857,583 common shares issued and outstanding.

Share Purchase Warrants

As at, September 28, 2022, the Company had 11,289,469 share purchase warrants outstanding.

Options

As at, September 28, 2022, the Company had 6,944,047 stock options outstanding.

Fully Diluted

As at, September 28, 2022, on a fully diluted basis, the share capital outstanding was 115,091,099.

ADDITIONAL INFORMATION

Additional information relating to the Company can be found on SEDAR at www.sedar.com and on the Company's website at www.NEXEinnovations.com.