Management's Discussion and Analysis of

ALUULA COMPOSITES INC.

For the three-months ended January 31, 2024 and 2023

NOTICE

The following management discussion and analysis ("MD&A") provides information concerning Aluula Composites Inc.'s (the "Company") financial condition for the three months ended January 31, 2024 and 2023. This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three months ended January 31, 2023 and 2023 (the "Interim Consolidated Financial Statements") and the Company's audited consolidated financial statements and notes thereto for the years ended October 31, 2023 and 2022 (the "Consolidated Financial Statements"). Additional information related to the Company is available on the Company's website www.aluula.com and on sedarplus.ca.

This MD&A was prepared by the Company's management and was approved by the board of directors on March 26, 2024. All amounts are in Canadian dollars unless otherwise stated.

DEFINITIONS

In this document, the terms "we", "us", "our", and "Company" refer to ALUULA Composites Inc. on a consolidated basis. "ALUULA" refers to the standalone entity ALUULA Composites Inc., and "Ocean Rodeo" refers to the standalone entity Ocean Rodeo Sports Inc. As Ocean Rodeo was acquired by ALUULA on October 31, 2022, consolidated figures from the statement of comprehensive income exclude the results of Ocean Rodeo for the year ended October 31, 2022, by necessity.

"2022" and future years refer to our fiscal years, which run from November 1 to October 31. Any references to a calendar year or other period will be noted as such.

The term "Consolidated Financial Statements" refers to the Company's audited consolidated financial statement for the years ended October 31, 2023 and 2022 unless indicated otherwise.

The term "brand partners" does not refer to formal partnerships with our customers. The term refers to marketing relationships with our customers who use ALUULA's technology as a brand ingredient in their products.

Other capitalized terms in this document are defined at the time of their first use.

This document contains trademarks and trade names associated with the Company and are referred to without the TM symbol. However, these trademarks and trade names are the property of their respective owners.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A are forward-looking and may constitute "forward-looking information" within the meaning of applicable securities legislation. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "expect" or "believe" used by any of the Company's management are intended to identify forward-looking statements. Such statements reflect the Company's forecasts, estimates and expectations as they relate to the management's current views based on their experience and expertise with respect to future events and are subject to certain risks, uncertainties, and assumptions. Many factors could cause the Company's actual results, performance, or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. There can be no assurance that it will be completed as proposed or completed at all. The Company does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments unless required by law.

COMPARATIVE INFORMATION

Unless indicated otherwise, all comparative figures for the three months ended January 31, 2024 ("Q1 2024"), are referring to the results for the three months ended January 31, 2023 ("Q1 2023").

ACCOUNTING FRAMEWORK

The Company's Interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") using the accounting policies described in Note 3 of those Interim Consolidated Financial Statements.

This MD&A may make reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

ACCOUNTING ESTIMATES AND ASSUMPTIONS

Management is required to make estimates, judgements and assumptions in preparation of the Interim Consolidated Financial Statements in accordance with IFRS. These estimates affect the reported amounts of assets and liabilities at the date of the Interim Consolidated Financial Statements, and the amounts of reported revenue and expenses during the reporting period.

ROUNDING AND PERCENTAGES

Rounded numbers are used throughout this MD&A, with all year-over-year percentage changes calculated in whole dollar amounts.

COMPANY AND INDUSTRY OVERVIEW

COMPANY STRUCTURE

ALUULA was incorporated on July 18, 2019, and Ocean Rodeo was incorporated on January 12, 2001, both under the British Columbia Business Corporations Act. Both legal entities are domiciled in Victoria, BC Canada with registered offices at 300 - 4240 Glanford Avenue. On October 31, 2022, ALUULA acquired all the outstanding shares of Ocean Rodeo. The Company's management and most staff are also located in Victoria.

On April 14, 2023, Bastion Square Partners Inc. ("BSP"), a Canadian company previously listed on the TSX Venture exchange under the symbol BASQ.P, acquired all the outstanding shares of ALUULA by way of a three-cornered amalgamation with BSP changing its name to ALUULA Composites Inc. and ALUULA changing its name to ALUULA Composites Canada Inc. The transaction was accounted for as a Reverse Takeover ("RTO") and the resulting financial statements are presented as a continuance of ALUULA (accounting acquirer), and comparative figures presented in the consolidated financial statements are those of ALUULA.

ALUULA operates within the composite materials industry selling to customers within performance outdoor markets, having originally launched in the windsport market. The Company services this market through ALUULA as an ingredient brand and directly by its subsidiary, Ocean Rodeo, as a designer and seller of high-end windsport products.

CORE BUSINESS

ALUULA

ALUULA's core business is the development, assembly, and sale of a broad range of composite materials to globally recognized industry partner brands within a variety of commercial markets. ALUULA leverages a patented process to fuse high tech fibers and technical coatings together at a molecular level without the use of heavy glues. Compared to conventional coated and laminated woven fabrics, ALUULA's products are lighter, stronger, more durable and UV resistant than incumbent materials and recycle-ready at the end of their useful life.

ALUULA's most mature market is the windsport market where its ALUULA Gold™ ("Gold") product has successfully displaced Dacron as the leading material used in manufacturing premium priced kites and wings. With Gold materials demonstrating clear competitive advantages on weight and durability compared to incumbent materials, ALUULA realized that its process supports the production of a variety of soft composite materials capable of disrupting markets beyond windsport. While the windsport market has generated the majority of ALUULA's sales to date, customer inquiries from various industries have helped the Company understand that its materials have strong potential in markets that are significantly larger than windsport.

During fiscal 2023 ALUULA began working with customers across several vertical markets including Outdoor, Sailing, and Airships. Working in partnership with these customers in order to successfully replace incumbent materials in these new markets, ALUULA has developed additional products including ALUULA Durlyte™ ("Durlyte"), and ALUULA Graflyte™. ("Graflyte"). The Durlyte product is ideal for use in applications where abrasion resistance and extreme toughness are critical, for example in inflatable rafts. The Graflyte product is waterproof, UV resistant, and puncture resistant. This fabric is ideal for use in applications where lightness and strength are important, for example with ultralight packs.

ALUULA's commercialization process involves multiple steps in partnership with its customers and from initial contact through to final product launch can be time consuming to help ensure the launch is successful. After the market demand and potential customer is validated, the process starts with a needs analysis where ALUULA gathers information on what product characteristics are important to the customer. This is followed by collaboration with brands on product development, advising on ideal manufacturing techniques and field testing. Once field testing has successfully concluded, ALUULA works with the brand and/ or their manufacturer to launch full scale commercialization. Upon the completion of commercialization, brands then launch their products in-market. Although this long sales cycle results in delayed revenue it is essential for ALUULA to help ensure successful long-term customer and brand relationships where the unique ALUULA materials are constructed into high value products.

Trends within the Company's most active vertical markets are discussed below.

Windsport industry

The windsport market benefited from a growth surge during the COVID-19 pandemic, however consumer demand shifted at the end of 2022 leading to the overstocking of kites and wings. This overstocking has resulted in windsport brands reducing the number of new products manufactured while they focus on selling finished goods in stock.

During the three months ended January 31, 2024, ALUULA onboarded a further five windsport brands bringing the total of number of brands collaborating with ALUULA thirteen. At the end of Q1 2024, nine of these brands had premium priced products featuring ALUULA materials in-market. While the premium end of the market was not as significantly impacted by the post COVID softness, initial customer orders have been lower than expected. The current overstocking is expected to continue to impact order volumes during fiscal 2024.

Outdoor industry

The outdoor industry addressable market for ALUULA includes packs and bags, tents, bikes and bike accessories, inflatable rafts, impact protection, and outdoor safety and survival. The Graflyte product is a natural fit for this industry and can be substituted for incumbent materials in the manufacturing process.

During its fiscal 2023 year, ALUULA finalized material specifications for its Durlyte and Graflyte products. These products were developed with the goal of gaining a competitive advantage in the outdoor market. During Q1 2024, the ALUULA sales pipeline featuring outdoor vertical market opportunities grew by over thirty new leads after the company showcased its materials at the ISPO trade show in Munich, Germany which is highlighted later in this MD&A.

OCEAN RODEO

Ocean Rodeo specializes in the design and production of wind sports equipment, including kites, wings, boards, and a range of accessories and apparel for wind sports enthusiasts. Ocean Rodeo uses composite materials in the production of its products to ensure high performance and durability.

In 2019, Ocean Rodeo's founders invented the ALUULA process to gain a competitive advantage in the windsport industry. At the time, all market competitors used the same input materials to manufacture kites and wings and leveraged marketing budgets to differentiate their brands. Ocean Rodeo was first to field test products manufactured with ALUULA materials and successfully demonstrated their superior performance.

Ocean Rodeo holds multiple patents related to the design of wind sports equipment. Ocean Rodeo created the world's first kites and wings featuring an all ALUULA canopy and airframe using the new ALUULA Aeris™ ("Aeris) and ALUULA AerisX™ ("AerisX") products; the world's first flexible kiteboards; and the world's first Dacron reinforced kites. Ocean Rodeo has also introduced the Go-Joe leashless board recovery device, a board recovery device officially endorsed and promoted by both the International Kiteboarding Organization and the Professional Air Sports Association

Ocean Rodeo sells its products to distributors, dealers, and individuals worldwide, and sponsors team riders competing at the highest level windsport events. By focusing its strategy on product innovation using ALUULA materials, Ocean Rodeo is able to demonstrate to the windsport market the possibilities that come with manufacturing with ALUULA materials. Sales at Ocean Rodeo have declined year over year as ALUULA invested in growing the base of market leading windsport brands diversifying sales and use of ALUULA materials outside of Ocean Rodeo. While generating third party sales revenues, Ocean Rodeo also serves as a R&D hub for ALUULA in windsport enabling the testing of new products.

FIRST QUARTER IN REVIEW

During Q1 2024, ALUULA capitalized on momentum built during the fiscal 2023 year. The company commercialized with new customers in the windsport and outdoor vertical markets and reported its highest quarterly sales and material production since inception.

Market share expansion in windsport

ALUULA continues to gain momentum in the windsport market, which represents the nearest term sales opportunity. Over the past two fiscal years, ALUULA commercialized with a limited number of brand partners to showcase its materials' competitive advantages. With the Gold product's superior performance now successfully demonstrated, ALUULA is securing commitments from additional windsport brands, diversifying sales away from its in-house brand, Ocean Rodeo. At the end of Q1 2024, nine windsport brands had launched products with the Gold material and an additional five are expected to follow during the second quarter of fiscal 2024.

Sales pipeline and sales growth in non-windsport markets

The Company is uniquely positioned in fiscal 2024 to expand its product offering and capitalize on sales opportunities in the outdoor market. After finalizing material specifications for products aimed at this market (Durlyte and Graflyte) during Q4 2023, ALUULA showcased these materials and new brand partnerships at the November 2023 ISPO trade show with highlights as follows:

- Arc'teryx announced their collaboration with ALUULA and previewed a concept backpack which showcased new manufacturing technologies such as "no sew" and other new finishing techniques made possible by the unique properties of ALUULA. A key feature of the concept backpack is that it can be recycle ready at the end of its useful life.

- Durston Gear announced the launch of their first backpack featuring ALUULA's seam tape program in conjunction with its Graflyte and Durlyte materials. The combination of these ALUULA materials enabled Durston to reduce the weight of their backpack by 50%.

- Rockgeist, the first brand to launch ALUULA in the bike market, announced their collaboration with ALUULA to reshape bike pack performance by leveraging ALUULA materials' ultralight, waterproof, and abrasion resistant properties as well as its unique construction methodologies such as welded seams.

- ALUULA previewed a new concept product, Forged ALUULA, at ISPO. Forged ALUULA is a new class of ultra-strong, light hard composite made entirely with scrap / recycled polyethylene and the reclaimed ultra-high molecular weight fibers. Forged ALUULA was showcased for applications in the outdoor vertical markets including use in backpack frames, and other hard components that require low weight, stiffness and durability/abrasion resistance.

LEGAL AND REGULATORY ENVIRONMENT

The Company is subject to the general business requirements of operating within Canada, particularly within British Columbia. This includes the following applicable Employment Standards guidelines, employment tax rules, Workers Compensation regulations, Goods and Services Tax and Provincial Sales Tax requirements, and business licensing requirements.

Outside of Canada, the Company may be subject to import duties, tariffs, value-added taxes, and applicable Consumer Guarantee Law. The Company has no employees outside of Canada.

FINANCIAL PERFORMANCE

The following table is a management level summary of the Company's financial results for the three months ended January 31, 2024 and 2023 with relevant variance analysis below. Certain balances included in the January 31, 2023 financial results have been restated for comparative purposes, see Note 19 to the Interim Consolidated Financial Statements for details.

For the three months ended		January 31 2024		January 31 2023
Sales	$	2,334,255	$	1,453,702
Cost of sales		1,317,905		1,251,468
Gross profit		1,016,350		202,234
Gross margin %		44%		14%
Operating expenses:				
Salaries and benefits		507,355		500,851
General and administrative		375,644		438,496
Marketing		166,352		182,504
Research and development		47,210		17,244
Share-based compensation		30,838		4,937
		1,127,399		1,144,032
Loss before interest, tax and amortization		(111,049)		(941,798)
Other income		7,819		75,616
Interest expense		(22,936)		(91,994)
Depreciation and amortization		(128,665)		(127,321)
Loss before taxes		(254,831)		(1,085,497)
Deferred income tax recovery		25,859		-
Income tax expense		-		(79,654)
Net loss and comprehensive loss	$	(228,972)	$	(1,165,151)

For the three-month periods ended January 31, 2024, and January 31, 2023:

Sales

Q1 2024 sales were $2,334,255 compared to $1,453,702 during Q1 2023, which represents a 61% quarter over quarter increase.

ALUULA's standalone sales increased by $1,281,747 or 179% in Q1 2024 compared to Q1 2023 primarily due to an increase in sales to the windsport and outdoor vertical markets. Q1 2023 sales were negatively impacted by a working capital shortage which resulted in a delay in fulfilling sales orders. ALUULA did not face the same challenges in Q1 2024 and was able to capitalize on prior years business development efforts by commercializing with new customers.

ALUULA considers companies purchasing more than 1000 square meters of material as commercialized. During Q1 2024, ALUULA sold 54,924 square meters to seven commercialized customers at an average price of $31 per square meter compared to 15,007 square meters sold to one customer in Q1 2023 at a similar average price per square meter.

Ocean Rodeo's sales decreased by $401,194 or 54% in Q1 2024 compared to Q1 2023. The quarter over quarter decline in sales was influenced by an erosion of Ocean Rodeo's previous competitive advantage, which was near exclusive access to ALUULA's materials for use in its high-performance kites and wings. In Q1 2023, only one other windsport brand had commercialized with products using ALUULA materials and by Q1 2024 that number increased to nine. In fiscal 2022, ALUULA made the strategic decision to sell its Gold material more broadly across the windsport market and leverage Ocean Rodeo as an innovation hub to field test and showcase new products designed using ALUULA materials and construction techniques. This has enabled the Company to expand its sales reach by collaborating with multiple premium windsport brands, most of which have broader distribution channels than Ocean Rodeo while maintaining a vehicle for ongoing product innovation using ALUULA materials. Q1 2024 total windsport sales were approximately $1 million higher than Q1 2023.

Cost of sales and gross margin

Q1 2024 cost of sales increased to $1,317,905 compared to $1,251,468 for Q1 2023 while gross margin increased to 44% in Q1 2024 from 14% in Q1 2023.

ALUULA's stand alone cost of sales for Q1 2024 were $1,095,652 with a gross margin of 45%. Cost of sales for Q1 2023 were $567,270 with a gross margin of 21%. Q1 2023 gross margin percentage was negatively impacted by a production slowdown due to a working capital shortage. ALUULA did not face those same constraints in Q1 2024 and the production team fulfilled sales orders on hand resulting in Q1 2024 gross margins aligning with expectation.

Ocean Rodeo's cost of sales for the Q1 2024 year were $222,253 and its gross margin was 34%. Cost of sales for Q1 2023 were $684,198 with a gross margin of 7%. Ocean Rodeo's 34% gross margin is below the historical average of approximately 40%. Q1 2023 and Q1 2024 margins were negatively impacted by the accounting treatment of ALUULA's October 31, 2022 acquisition of Ocean Rodeo. When ALUULA acquired Ocean Rodeo, accounting standards required that ALUULA value Ocean Rodeo's inventory on hand (the "Acquisition Inventory") at its fair market value, which was deemed to be the sales price for those finished goods. Therefore, as Acquisition Inventory is sold, it generates a zero margin (as the cost equals fair value which equals the sales price). Acquisition Inventory sold during the quarter resulted in a negative impact to normalized margins of approximately 9% for Q1 2024 and 18% for Q1 2023. The remaining balance of Acquisition Inventory at January 31, 2024 was $150,910.

Salaries and benefits

Salaries and benefits expense was $507,355 in Q1 2024 compared to $500,851 in Q1 2023 representing a nominal quarter over quarter increase of $6,504. This increase was due to new leadership roles (CFO, Director of Production, board of directors) in place during Q1 2024 offset by an overall reduction in total employee headcount in Q1 2024 compared to Q1 2023.

General and administrative

General and administrative ("G&A") expense was $375,644 in Q1 2024 compared to $438,496 in Q1 2023 representing a decrease of 14%. G&A expenses are comprised primarily of professional fees, rent, commercial insurance, bad debt provision, warranty costs, freight, bank charges and license fees paid for the Company's ERP system.

Q1 2023 G&A costs were $62,852 higher than Q1 2024 due to professional fees incurred and the recognition of approximately $130,000 in bad debt expense in Ocean Rodeo offset by $48,366 costs incurred in Q1 2024 that were a direct result of having a public listing on the TSX Venture Exchange. No such costs were incurred in Q1 2023.

Marketing

Marketing expense was $166,352 in Q1 2024 compared to $182,504 in Q1 2023 representing a quarter over quarter decrease of $16,152. The 9% reduction in marketing cost was due to a partial reduction in Ocean Rodeo marketing spend associated with team riders and external marketing consultants offset by increased spend to attend key trade shows including ISPO.

Research and development

Research and development expense was $47,210 in Q1 2024 compared to $17,244 in Q1 2023 representing a quarter over quarter increase of $29,966. This increase is primarily due to the purchase of new raw input materials that the R&D team tests as they continue to refine and enhance ALUULA materials' properties and performance to meet customer needs.

Other income

Other income was $7,819 in Q1 2024 compared to $75,616 for Q1 2023. Other income was $67,797 higher in Q1 2023 due to the recognition of $33,993 in fair value adjustments and higher license income.

Interest expense

Interest expense for Q1 2024 was $22,936 compared to $91,994 for Q1 2023. The $69,058 quarter over quarter decrease was due to the July 2023 repayment of interest-bearing credit facilities with Scotia Bank, the majority of which had been drawn on during the Q1 2023 period. On December 29, 2023, the Company entered into a $1,000,000 short-term loan agreement with 0876991 B.C. Ltd., a related party. The loan bears interest at a rate of 12% per annum and is due on July 1, 2024

Depreciation and Amortization

Depreciation and amortization expense for Q1 2024 was $128,665 which is consistent with the Q1 2023 expense of $127,321.

Deferred taxes

Deferred tax recovery for Q1 2024 was $25,859 and is primarily due to a reduction in the deferred tax liability recognized as intangible assets are amortized for accounting purposes.

SUMMARY OF QUARTERLY RESULTS

The following table is a management level summary of the financial results of the Company for each of the three-month periods ending:

	January 31, 2024 ("Q12024")	October 31, 2023 ("Q42023")	July 31, 2023 ("Q32023")	April 30, 2023 ("Q22023")	January 31, 2023 ("Q12023")	October 31, 2022 ("Q42022")	July 31, 2022 ("Q32022")	April 30, 2022 ("Q22022")
Sales *	$ 2,334,255	$ 1,720,612	$ 2,163,621	$ 2,009,365	$ 1,453,702	$ 693,150	$ 832,569	$ 523,613
Net and comprehensive loss	(228,972)	(844,251)	(533,880)	(2,612,145)	(1,165,151)	359,812	(111,575)	(176,091)
Loss per share basic and diluted **	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.02)	$ (0.01)	$ 0.00	$ (0.00)	$ (0.00)

* Restated for reclassification of shipping revenue and warranty expense as outlined in Note 26 to the Consolidated Interim Financial Statements.

** Through the reverse takeover transaction described in Notes 1 and 4 to the Consolidated Financial Statements, the holders of common shares of Aluula received 16.05 common shares in the Company for each Aluula share held immediately prior to the amalgamation. All per share amounts presented in these tables have been adjusted to reflect this ratio.

	July 31, 2023	April 30, 2023	January 31, 2023	October 31, 2022	July 31, 2022	April 30, 2022
Sales - as originally reported	2,174,595	1,937,193	1,448,515	700,382	862,253	556,915
Restatement - shipping revenue	(51,374)	(21,555)	(29,039)	(7,232)	(31,146)	(33,302)
Restatement - warranty expense	40,400	93,727	34,226	-	1,462	-
Sales - restated	2,163,621	2,009,365	1,453,702	693,150	832,569	523,613

Sales

Sales reported in Q12023 were the lowest for the fiscal 2023 year due to a working capital shortage that impacted ALUULA's ability to fulfill sales orders. With the completion of the RTO in April 2023, the Company's working capital supported the purchase of raw materials needed to fulfill sales orders resulting in a 38% increase to sales for the Q22023 period. Ocean Rodeo reported its highest sales for the fiscal year during Q32023, as this quarter coincides with peak ordering times for its customers as they stock up for the summer season. Ocean Rodeo's Q42023 sales were $423,211 lower than Q32023 which is the primary driver for the Company's quarterly sales decrease. The Company reported its highest sales over the previous 8 quarter period in Q12024. ALUULA sales increase by $1,064,166 in Q12024 compared to Q42023 due to existing windsport customers ordering more materials during the quarter, in addition to several new windsport brands ordering materials to support product launches. Also contributing to the Q12024 increase in sales were approximately $200,000 in material orders from new customers in the outdoor market.

Sales and net loss and comprehensive for the fiscal 2022 quarters are ALUULA standalone results as the acquisition of Ocean Rodeo occurred on October 31, 2022 and represent results from commercializing across the windsport industry.

Net and comprehensive loss

The Company's net and comprehensive loss for Q12023 was impacted by lower sales and gross margins due to the working capital constraints outlined above. The $2,612,145 net and comprehensive loss for Q22023, included certain expenses incurred as a result of the Company's April 2023 RTO (listing expense ($1,640,538) and stock compensation expense ($390,317)). If those expenses were excluded, the adjusted net and comprehensive loss for Q22023 would have been $581,290 (the "Adjusted Q22023 Net and Comprehensive Loss). The Q32023 net and comprehensive loss was marginally lower than the Adjusted Q22023 Net and Comprehensive Loss as the Company reported an increase in sales and margins while keeping expenses flat. The Q42023 net and comprehensive loss increased by $310,371 compared to Q32023 primarily due to a decrease in gross margins as well as an increase warranty provisions, marketing and research and development expenses incurred during the period. Q12024 net and comprehensive loss improved by $615,219 compared to Q4 2023 primarily due to improved gross profits and lower operating expenses.

BALANCE SHEET ANALYSIS, LIQUIDITY, AND CAPITAL RESOURCES

ANALYSIS OF STATEMENT OF FINANCIAL POSITION

The following table presents selected information from the January 31, 2024 Interim Consolidated Financial Statements and the October 31, 2023 Consolidated Financial Statements, followed by a variance analysis below:

	January 31 2024	October 31 2023
Selected assets		
Cash and cash equivalents	$ 1,185,825	$ 773,368
Trade and other receivables	2,261,948	1,969,008
Inventory	1,747,369	1,560,222
Selected liabilities		
Trade and other payables	1,064,832	983,311
Short-term loan from related party	1,000,000	-
Debt *	772,753	818,351
Lease obligations *	373,291	406,657

* Current and long term debt and lese obligations combined for this analysis

Cash and cash equivalents

Cash and cash equivalents balance as at January 31, 2024 was $1,185,825, which is $412,457 higher than the balance at the end of October 2023. The increase in cash is a result of the Company securing a $1,000,000 short-term loan from a related party. Funds will be deployed to finance operations and working capital needs as the Company's planned production increases to meet forecasted order volumes and sales.

Trade and other receivables

Trade and other receivables increased from $1,969,008 at the end of October 2023 to $2,261,948 as at January 31, 2024. The $292,940 increase is primarily due to an increase in ALUULA's trade receivables resulting from a quarter over quarter increase in sales. The Company's current account receivables comprise 72% of the balance owing (net of credit losses) while 25% or $532,843 is over 90 days. Of the balance over 90 days, $509,755 is receivable from Ocean Rodeo's third-party production factory for ALUULA materials purchased during fiscal 2022. As the factory utilizes materials in the manufacturing of finished goods for Ocean Rodeo, the accounts receivable is drawn down. Ocean Rodeo's sales orders for new products slowed in fiscal 2023 as it focused on selling existing finished goods inventory and as such the factory receivable has aged. The Company has recorded expected credit losses of $31,041 as of January 31, 2024, compared to $18,146 as of October 31, 2023.

Inventory

Inventory balance as at January 31, 2024 was $1,747,369, representing an increase of $187,147 compared to the balance at October 31, 2023. This increase is primarily due to ALUULA's purchase of raw materials to support sales forecasts for the fiscal 2024 year.

Trade and other payables

Trade and other payables balance was $1,064,832 as at January 31, 2024 compared to $983,311 at October 31, 2023. The $81,521 increase is primarily due to an increase in trade payables and royalties payable associated with higher sales offset by a reduction in warranty provision.

Short-term loan from related party

On December 29, 2023, the Company entered into a $1,000,000 short-term loan agreement with 0876991 BC Ltd, a related party. The loan bears interest at a rate of 12% per annum and is due on July 1, 2024.

Debt

As at January 31, 2024, the Company had $772,753 of debt which is $45,598 lower than the fiscal year ended October 31, 2023 balance of $818,351. The reduction in debt was due to repayments made in accordance with the terms of the debt.

Lease obligations

As of January 31, 2024, the Company's lease obligations consist of right-of-use lease obligations for the rental of office and production space. Lease obligations at the end of January 2024 were $373,291, a decrease of $33,366 compared to October 31, 2023. This decrease is a result of lease payments in the normal course of operations.

Off-balance sheet arrangements

As of the date of this MD&A, the Company has not entered into any off-balance sheet arrangements.

CASH FLOW FROM OPERATING, INVESTING, AND FINANCING ACTIVITES

Analysis of cash flows:

	January 31 2024	January 31 2023
Cash used in operating activities	$ (502,540)	$ (504,895)
Cash provided by (used in) investing activities	5,950	(37,630)
Cash provided by financing activities	909,047	757,197
Increase in cash and cash equivalents	$ 412,457	$ 214,672

Operating activities

Cash used in operating activities was $502,540 during Q1 2024 compared to $504,895 during Q1 2023 representing a $2,355 decrease. While the net loss during Q1 2023 was $936,179 higher than Q1 2024, the Company actively collected trade receivables, sold inventory and delayed vendor payments in Q1 2023 which contributed to higher cash provided by operations during that period.

As the Company continues to grow sales, it expects that a working capital mismatch between timing of when raw materials are purchased for use in production and when accounts receivable from customer sales are collected, which averages approximately 7 months depending on vendor terms and customer credit terms in place will continue to result in cash used in operating activities.

Investing activities

During Q1 2024, the Company received $36,298 repayment of its capital reserve account with GKA Event GmbH ("GKA"). The Company owns 16.67% of GKA's issued and outstanding shares and had funded a capital reserve account, along with all other GKA shareholders, in August 2018. For additional information on this investment see Note 9 to the Consolidated Financial Statements. Offsetting the increase in funds from investing activities was cash used to acquire intangible assets, property and equipment.

Financing activities

During Q1 2024, the Company generated $909,047 of cash flow from financing activities compared to $757,197 in Q1 2023. The inflow of funds in Q1 2024 was a result of the Company entering into a $1,000,000 short-term loan with a related party. During Q1 2023, cash flow from financing activities arose as the Company borrowed $750,000 from Gustavson Capital Corporation ("GCC") to assist with working capital shortage. The GCC loan was repaid in April 2023.

WORKING CAPITAL AND DEBT MANAGEMENT

The Company funds its operations, including capital expenditures, debt repayments, and other financing needs, through a combination of sources. These sources include loans and equity issuances. The various facilities are utilized based on overall cost of financing and availability of cash flows. Where government grants for interest free or forgivable loans are available to the Company, management applies for funding and has had success obtaining such funding historically. Interest free and partially forgivable loans have been received from PacifiCan. The Company is currently funding its operations through equity issuances and is exploring various sources of additional capital. Below is a summary of transactions from the fiscal 2023 year and Q1 2024 period.

On April 14, 2023, the Company completed an Amalgamation Agreement with ALUULA Composites Canada Inc. ("ALUULA Canada"), in which the Company acquired 100% of the outstanding shares of ALUULA Canada in exchange for shares of the Company (the "RTO").

The RTO was structured as a three-cornered amalgamation pursuant to the provisions of the Business Corporations Act (British Columbia) (the "BCABC"), whereby the Company incorporated a wholly owned subsidiary under the BCABC which amalgamated with ALUULA Canada to form a newly amalgamated company that is continuing as a wholly owned subsidiary of the Company. To effect the Proposed Transaction, the Company acquired all the outstanding shares of ALUULA Canada, and in exchange ALUULA Canada's shareholders received common shares in the Company. The aggregate consideration issued was $21,001,123 and the Company issued 175,009,365 shares.

In connection with the RTO, the Company conducted a concurrent private placement of subscription receipts, raising net proceeds of $2,966,821, at $0.12 per share issued.

On December 21, 2022, Gustavson Capital Corporation ("GCC"), a shareholder in BSP, loaned $750,000 to the Company. The loan bears interest at 7% per annum, compounded monthly. The GCC loan and interest was repaid in April 2023.

On July 12, 2023, the Company completed a bought deal and private placement led by Haywood Securities Inc. ("Haywood") for gross proceeds of $3,673,492.95 (The "Offering") through the issuance of 24,489,953 units (the "Units"), at a price of $0.15 each, which are comprised of one common share of the Company and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one common share of the Company at a price of $0.25 per share for a period of 24 months ended July 12, 2025. In connection with the Offering, the Company paid Haywood a cash commission of $220,409.58, issued to Haywood 1,469,397 broker warrants which are exercisable to acquire Units at the issue price, and paid Haywood a corporate finance fee comprised of $45,918.40 in cash and $137,756.25 payable in Units (918,375 Units).

A portion of proceeds from the Offering were deployed to repay interest bearing debt including Bank of Nova Scotia lines of credit, term loans, and manufacturing equipment leases. As of October 31, 2023, the Company's only debt includes non-interest-bearing loans from Western Economic Diversification Canada, a Canadian government program recently renamed Pacific Economic Development Canada ("PacifiCan"). The Company retains a credit card facility with the Bank of Nova Scotia which is used for purchasing efficiency.

The Company chose to repay most of its debt since a predominantly equity-based structure aligns better to the planned growth profile of the Company.

On May 1, May 11, and May 29, 2023, Haywood exercised a total of 147,930 broker warrants in exchange for 147,930 common shares at a price of $0.10 per share for net proceeds of $14,793. A total of 375,000 broker warrants had been issued to Haywood on BSP's 2021 initial public offering and 227,070 remain outstanding as of October 31, 2023. These warrants are exercisable up to October 12, 2024.

On December 29, 2023, the Company entered into a $1,000,000 short-term loan agreement with 0876991 BC Ltd, a related party. The loan bears interest at a rate of 12% per annum and is due on July 1, 2024.

In January 2024, the Company repaid $40,000 of the $60,000 Government of Canada loan received as part its Canada Emergency Benefit Account. The loan was repaid prior to the January 18, 2024 deadline qualifying the Company for $20,000 in debt forgiveness

CONTRACTUAL OBLIGATIONS

The Company is subject to contractual obligations, including office and warehouse leases, machinery and equipment leases, and long-term debt repayments.

Management cancelled a related party office and warehouse lease during Q1 2023 as the space was no longer required to support operations. This cancellation resulted in a reduction of contractual obligations of $8,001 per quarter and a total of $93,333 through December 2025.

PRODUCTION CAPACITY AND CAPITAL EXPENDITURES

<u>Fusion Pods</u>

An ALUULA fusion pod is a standalone unit that converts input materials into finished composites. Each pod requires two to three production staff to operate. Management closely monitors production scheduling and capacity. Production staff perform machine maintenance and cleaning during existing downtime where possible.

During Q1 2024, a second fusion pod was in the process of being built to assist ALUULA meet increasing customer demand for its various materials. ALUULA will dedicate one pod to the exclusive production of the Gold material, while the second pod is used to manufacture other materials, such as Durlyte and Graflyte.

The Company has initiated development of a new wider format pod which could produce rolled fabric at a width of 1.6 meters and is exploring the most efficient way to commercialize at this larger width.

<u>Other Equipment</u>

The Company invests in research and development equipment to test new composite materials, new input materials, and existing input materials from new sources. The materials are subject to tests including strength, abrasion resistance, UV resistance, permeability, and accelerated life cycle testing. Equipment is also purchased to assist with new assembly methods, such as heat welding and other alternatives to sewing.

<u>Patents & Molds</u>

Where management feels it is warranted, patents are sought out to protect both designs and processes in certain global jurisdictions. The legal costs of acquiring these patents are capitalized as intangible assets where appropriate. In addition, some Ocean Rodeo products require the creation of molds for the external manufacturing of certain products. These molds are purchased from a supplier and capitalized as property and equipment.

RESEARCH AND DEVELOPMENT ("R&D")

ALUULA has a patented, highly customizable process for assembling composite materials. R&D activities are key to the Company's success and are separated into three main areas:

Customization of the ALUULA process
When the sales opportunity warrants, the R&D team works closely with brand partners to customize materials to meet their needs. Through this collaboration process we determine material specifications required and apply our internal knowledge of the ALUULA process and the chemical and physical properties of potential input materials to develop new composite materials or methodologies to meet their needs. Once finalized we work with the brand partner's manufacturer to ensure smooth integration of our materials into their processes.

Where we feel there is an opportunity to use existing ALUULA materials to replace existing alternatives, R&D may also proactively create a sample finished product to demonstrate the use case to a prospective brand partner. Once they see the benefit of using ALUULA we work with them to tailor our composites to meet their specifications.

The current production pod can produce approximately 25,000 square meters in a month of production. Management estimates the volume can be increased to as much as 42,000 meters per month, with additional costs for employees to run multiple shifts per day and on weekends. The fixed costs embedded in the rolled fabric are less than 10% of the total cost of each meter, so the increased production would not have a significant impact on gross margin percentage, instead, any increased production would enable more fabric to be created and sold in a period which would increase overall gross profit.

Based on brand partner feedback, the Company commenced the design and planning for production at a 1.6 meter width. Current materials are produced at 0.925 meter width. ALUULA started at the slimmer width so the initial variables involved would be easier to control as the Company developed the industrial process. The Company plans to transition to the wider 1.6 meter width as it allows customers to create their products with better nesting of their material for less waste and fewer seams, reducing labour and assembly time.

Quality control and improvements to the ALUULA process
Our fusion pods are custom designed, proprietary equipment. As such, the R&D team continues to work with the production team to investigate process improvements and machine enhancements to improve efficiency, quality, and production capacity. Where risks are identified they investigate whether an improvement could occur or whether to implement a compensating control.

Windsport product development
The Ocean Rodeo R&D and design team has significant experience designing and working with products in the windsport industry. This allows them to create unique products within windsport, but also to apply new techniques and technologies to all areas of ALUULA R&D.

EQUITY

As outlined in Note 4 to the Interim Consolidated Financial Statements, the Company completed a RTO BSP in April 2023. To effect the acquisition, BSP issued 175,009,365 shares at a ratio of 1:26.05 for 100% of the outstanding shares of ALUULA. All share, option, and per share amounts presented in this MD&A have been adjusted to reflect this ratio.

As of January 31, 2024, the Company had 250,565,623 shares issued and outstanding, 27,104,795 warrants outstanding and 10,441,905 stock options outstanding.

More detail on these transactions can be found in Notes 15 and 16 of the Interim Consolidated Financial Statements.

TAX MATTERS

The Company is considered to be operating in Canada for tax purposes and falls under the jurisdiction of the Canadian Income Tax Act. In the ordinary course of business, the Company may be subject to tax audits and certain matters may be reviewed and challenged by tax authorities.

ACCOUNTING POLICIES AND ESTIMATES

Management is required to make estimates, judgements, and assumptions in preparation of the Interim Consolidated Financial Statements in accordance with IFRS. These estimates affect the reported amounts of assets and liabilities at the date of the Interim Consolidated Financial Statements, and the amounts of reported revenue and expenses during the reporting period.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant judgement and estimates made in preparation of the Interim Consolidated Financial Statements are described in Note 2 of those financial statements, with the associated accounting policies described in Note 3.

FUTURE ACCOUNTING PRONOUNCEMENTS

No new significant accounting standards were adopted during three months ended January 31, 2024. Future accounting pronouncements are disclosed in Note 3 of the Consolidated Financial Statements.

FAIR VALUE MEASUREMENTS

A number of the Company's financial instruments are recognized at fair value. Fair value is discussed in detail in the Interim Consolidated Financial Statements. There have been no changes to the fair value policies during the three months ended January 31, 2024.

KEY RISKS AND RISK MANAGEMENT

Management defines risk as the probability of a future event that could negatively affect the financial condition and/or results of operations of the Company. The following section describes specific and general risks that could affect the Company. As it is difficult to predict whether any risk will be realized or its related consequences will occur, the actual effect of any risk on the business could be materially different from that anticipated. The following descriptions of risk do not include all possible risks as there may be other risks of which Management is currently unaware or currently believe to be immaterial.

Effective risk management is vital to the ongoing growth and success of the Company. As the Company is still in its growth stage, management's focus began with mitigating the key risks as they were identified, with additional risk management being added over time.

STRATEGIC RISKS

<u>Reputation</u>

As an early-stage innovative company earning its market share with multiple customers in multiple vertical markets, we must meet expectations on deliverability and quality while we also scale up rapidly. There is risk of reputational damage and liability if composite materials experience quality control issues or do not hold up in the long-term.

Management has mitigated the risk of quality control issues through the implementation processes discussed in Quality control discussion within he Research and Development section of this MD&A.

<u>New Markets</u>

We are actively working to expose the Company's composite materials to markets outside windsports with an expectation of future commercialization within these other markets. There is risk that this may not be successful, or that it will take longer than expected, delaying expected scaling of the Company's production levels and associated revenues.

Management mitigates the risk of delayed entry by building forecasts conservatively, with the understanding that not all opportunities will materialize within the expected timelines. The best case scenario is built out, with the actual revenue forecasts prepared based on probabilities of success within the forecast period.

OPERATIONAL RISKS

Confidentiality of trade secrets

The Company relies on closely held trade secrets in addition to the intellectual property that has been obtained over the years. There is a risk that an individual could gain access to trade secrets and share this information publicly, limiting or eliminating our competitive advantage.

Management mitigates the risk of exposed trade secrets through limiting the number of individuals with access to key process information, by limiting access to both the office and production facilities, and by obtaining signed NDAs from any individuals who will be exposed to any level of the trade secrets.

Supply chain and associated cash flows

Supply chain management includes maintaining the ability to source input materials in a timely manner, verifying the quality of those input materials, and managing the cost of those input materials. The majority of the raw materials purchased by the Company for use in production are non-specialized in nature, and readily available from various suppliers. In specific instances the Company relies on one supplier to meet our raw material needs. We require access to sufficient working capital to purchase these raw materials in advance of production, including allowing time for shipment from international suppliers to our warehouse in Victoria. There is risk that these materials may be delayed, resulting in production slowdowns and delayed collection of receivables from customers.

Management mitigates supply chain risk in the following ways:

- We invest in research and quality control up front to determine the best sources of raw materials, both for cost and flexibility to meet our specifications.
- We prepare a detailed production planning schedule including lag times for receipt of raw materials.
- We have invested in shipping insurance to cover losses that may occur on incoming materials.
- We store our raw materials and finished goods in our own warehouse with limited access to the facility by outsiders.
- We remain in constant communication with key suppliers and occasionally make site visits to both strengthen the relationship and monitor quality control.

Management mitigates cash flow risk by negotiating credit terms with key suppliers, matching order quantities with sales forecasts and maintaining key relationships enabling access to additional capital to ensure sufficient cash is on hand to support the raw materials requirements of the business.

Excess production

As ALUULA is early in the growth stage, there is risk attached to producing finished composites in advance of purchase order demand, as overproduction could divert the Company's working capital from other areas.

Management mitigates the risk of overproduction by, where possible, only purchasing raw materials to meet upcoming purchase orders from customers, and by only producing to meet the demand of those confirmed purchase orders.

Cyber security

The Company relies on a number of electronic systems to store and process data. There is risk of data loss if one of our providers experiences a data breach or loss of backups. Management has implemented contracts with and uses the services of well-established or off-the-shelf service providers to meet these needs, such as Google, Microsoft, Dropbox, and NetSuite, to minimize both our exposure to risk of data loss and the requirements of maintaining physical server space.

Employees and management are often subject to phishing attempts, primarily through email. The risk of data loss or wire fraud associated with these attempts is mitigated through employees being centralized in one office, secondary approvals for bank payments, and having open discussions with other staff when attacks occur ensuring the office is aware of the attempt.

<u>Data and information</u>
The Company retains certain customer data, as required to operate the business. When customer credit card information is stored, we follow the customer data retention policies set out by the Payment Card Industry Security Standards Council.

<u>Employee retention and dependence on key personnel</u>
The Company employs skilled employees with industry and company specific knowledge across many facets of its operations. The retention and satisfaction of these employees is important to the ongoing success of the business, particularly where they oversee many aspects of the business or where little redundancy is built in. Failure to retain key employees and directors or to attract and retain new employees with the required skills could have an adverse impact on the Company's growth and profitability.

Management looks to retain employees by offering fair and equitable compensation packages which include competitive salaries with performance-based upside, an optional benefits package, and ensuring a strong work-life balance with minimal overtime. The Executive Leadership Team is actively involved in day-to-day operations, working closely with staff in various departments while also allowing them to own their roles and allowing all staff to feel invested in the success of the Company.

FINANCIAL RISKS

The Company's is exposed to a number of financial risks during the normal course of business. These risks are discussed in more detail in Note 14 the Interim Consolidated Financial Statements.

<u>Credit risk</u>
Credit risk is the risk that a counterparty will not meet its obligations, typically under a customer contract or of a financial instrument, leading to a financial loss. Management has a number of mitigating policies in place, including the following:

- We transact with Scotia Bank, a reputable Canadian bank.
- Customers who wish to trade on credit terms are subject to a credit verification process.
- We obtain customer deposits, where possible, where the Company is incurring out-of-pocket costs that cannot be recovered through retention and sale of the product being manufactured.
- We obtain payment prior to shipping for customers who are not subject to credit terms.

<u>Liquidity risk</u>
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Management mitigates liquidity risk by monitoring forecasted and actual cash flows, and proactively managing the maturity profiles of financial assets and liabilities.

<u>Foreign currency risk</u>
Foreign exchange risk is the risk that the value of financial instruments or cash flows will fluctuate due to changes in foreign exchange rates. A significant portion of the Company's revenues and associated receivables are generated and held in foreign currencies. This risk is naturally mitigated by the purchase of input materials in foreign currencies. As the Company's cash flows become more predictable, it will explore the implantation of a formal hedging policy.

Interest rate risk
Interest rate risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. Management mitigates Interest rate risk by seeking out alternate sources of financing and securing fixed-rate or equity-based financing where rates are favourable.

INTERNAL CONTROLS AND PROCEDURES

QUALITY CONTROLS

Quality control procedures are vital to the Company's success to reduce the risk of warranties, returns, and damaged customer relationships. Management is responsible for creating and implementing effective systems, controls, and processes for both operations and financial reporting.

ALUULA composite materials
Quality control measures are undertaken at many steps throughout the ALUULA process. To select raw materials, our R&D team tests each input material to ensure we are purchasing from reliable sources that meet our quality control specifications. Where raw materials require modification prior to use in our assembly process we contract a reputable factory and remain in constant communication as to the specifications that must be met. As required, ALUULA staff visit the facility to ensure compliance with specifications. Raw materials are visually inspected once received, and continuously during the assembly process.

Once composite materials are assembled, we perform a two-step quality control check. A final visual inspection during the re-rolling and packaging stage to check for imperfections and contaminates, and material sample is taken each day to be tested for thickness, weight, tensile strength, and water absorption. A Quality Control Report is prepared for inclusion with each shipment.

Any changes to the production process are carefully tested and verified using our standard quality control procedures prior to implementation in full-scale production to ensure the minimum specifications are still being met.

Ocean Rodeo windsport products
Ocean Rodeo's finished products are purchased from established overseas manufacturers. Each delivery of finished goods for resale is subject to the manufacturer's quality control process, and in the case of kites and wings we also contract a third party to conduct secondary quality control review.

FINANCIAL CONTROLS

The Company has financial controls in place to mitigate financial risks:

Segregation of cash
There is an inherent risk of loss due to fraud and error with cash and banking. The Company limits banking access to members of finance who require access and executive with signing authority. Generating transfers of cash outside of the Company's bank requires a minimum of three people to create and authorize payments.

Use of Enterprise Reporting Planning ("ERP") software
The Company has invested in cloud-based ERP software system for managing data, including its sales, production, and accounting records. Access to the ERP is user based, and employees have role-based permissions assigned to limit access to their areas of responsibility.

External review and tax preparation
Financial statements are internally prepared and are subject to an annual financial statement audit on a consolidated basis. Income tax is externally reviewed and filed, and an external SR&ED consultant is engaged to ensure appropriateness and completeness of submissions.

ENVIRONMENTAL SUSTAINABILITY

The ALUULA process uses no adhesives or volatile substances and does not produce wastewater. It is our intent to ensure that all ALUULA produced composites are single polymer and therefore inherently recycle ready. The majority of our products are already 100% recycle ready, and we continue to work on new materials with the same qualities. All our packaging is recycled material, and we take pride in minimizing packaging waste. Our team is also working with our partners to try to create easy access to recycling processes for end-of-life products.

OUTLOOK

The Company is focused on working with its growing list of brand partners, developing products that are lighter, stronger, and more sustainable.

Already a proven innovation leader in wind sports, ALUULA will continue to develop products in this vertical. While wind sport consumer sales were slower than expected in early 2024, ALUULA's current partnerships with new performance outdoor recreation brands partnerships are progressing from concept to developed products, field testing, and commercialization. ALUULA is seeing increasing demand for their extremely lightweight and durable bags and tents, anticipating early orders during fiscal 2024.

Market opportunities in industrial applications are also on the horizon with research and development projects, including a research and development project with Michelin Inflatable Solutions, that was announced on March 18, 2024. Increasing use of Aluula's materials across multiple verticals continues to drive the Company's innovative product designs.

RELATED PARTY TRANSACTIONS

Director related transactions:

The Company has a royalty agreement with Epic Ventures Inc, which is controlled by a director of the Company, pursuant to which royalties are paid on each square meter of certain patented materials, in exchange for Epic Venture Inc's assignment of the applicable patents to the Company. As at January 31, 2024, royalties of $36,351 were paid to the related company (January 31, 2023 - $nil).

Related parties:

On December 29, 2023, the Company entered into a $1,000,000 short-term loan agreement with 0876991 B.C. Ltd., a related party. The loan bears interest at a rate of 12% per annum and is due on July 1, 2024.

Key management compensation:

The Company's key management personnel includes the Executive Leadership Team, which is comprised of the Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer. The Executive Leadership Team has the authority and responsibility for overseeing, planning, directing and controlling the Company's activities.

Total compensation expense paid to the Executive Leadership Team for the three months ended January 31, 2024 was $170,648 (January 31, 2023 - $103,504), which includes $nil (January 31, 2023 - $3,623) in share-based payments. Employment agreements with the members of the Executive Leadership Team provide for severance payments if the executive is terminated without cause totaling $280,000 (January 31, 2023 - $328,000).

SUBSEQUENT EVENTS

Customer claim:

In June 2019, Ocean Rodeo signed a contract (the 'Contract") with a third-party customer (the "Customer") outlining the terms under which Ocean Rodeo would supply kites and bars (the "Products') to the Customer.

Subsequent to year end, Ocean Rodeo received correspondence from the Customer claiming certain Products purchased under the terms of the Contract had quality issues which resulted in higher-than-expected return rates and the Customer's eventual withdrawal of those Product from their sales channels. The Customer is seeking reimbursement for Product return and recall costs totaling approximately $225,000. The Customer has also requested the right to return Products purchased and shipped at the end of fiscal 2023 (including reimbursement of freight charges incurred) totaling approximately $65,000. The Company has reviewed the Contract, facts and circumstances, and historical correspondence surrounding the Customer's claim and is of the opinion that the claim is not supported. The Company believes the claim meets the definition of a contingent liability under IAS 37 and no amount has been recorded in these 2023 consolidated financial statements.

Stock option plan:
Subsequent to year end, the Company announced that it had adopted a 10% fixed stock option plan (the "New Plan"), which replaced the Company's 10% rolling stock option plan. The new stock option plan is in compliance with the policies of the TSX Venture Exchange (the "TSXV") and permits the Company to grant stock options to eligible participants until the Company is able to hold an annual general meeting to seek approval for a 10% rolling stock option plan. The New Plan was approved by the TSXV and provides for the granting of up to 25,056,562 options. On February 12, 2024, the Company granted 10,500,000 to the incoming President.

Repayment of RRRF loan:
In March 2024, the Company repaid $40,000 of the $60,000 Western Economic Diversification Canada loan received as part its Regional Relief and Recovery Fund. The loan was repaid prior to the March 28, 2024 deadline qualifying the Company for $20,000 in debt forgiveness