Management's Discussion and Analysis of

ALUULA COMPOSITES INC.

For the three- and six-months ended April 30, 2023 and April 30, 2022

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1.0 PREFACE

The following document provides information concerning the financial condition and results of operations of the Company (as defined below) for the three- and six-months ended April 30, 2023 ("Q2 2023") and April 30, 2022 ("Q2 2022"), and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three- and six-months ended April 30, 2023 and April 30, 2022 and with the audited financial statements for the year ended October 31, 2022.

1.1 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 three- and six-months ended April 30, 2022, by necessity.

"2021", "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 Consolidated Financial Statements of ALUULA Composites Inc. dated October 31, 2022, unless indicated otherwise.

The term "Interim Financial Statements" refers to the Interim Condensed Consolidated Financial Statements of ALUULA Composites Inc. dated April 30, 2023, unless indicated otherwise.

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.

1.2 FORWARD-LOOKING INFORMATION

Certain statements contained in this Management's Discussion and Analysis ("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.

1.3 BOARD OF DIRECTORS RESPONSIBILITY AND APPROVAL

The Board of Directors is responsible for the review and approval of the MD&A and has approved the contents of this MD&A on June 29, 2023.

1.4 MANAGEMENT RESPONSBILITY

Management is responsible for creating and implementing effective systems, controls, and processes over both operations and financial reporting. Sections 8 and 9 of this MD&A discuss key risk areas and controls implemented in detail.

1.5 COMPARATIVE INFORMATION

Unless indicated otherwise, all comparative figures for the three- and six-month periods ended April 30, 2023 are referring to the results for the three- and six-month periods ended April 30, 2022.

1.6 ACCOUNTING FRAMEWORK

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

This MD&A makes 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. We use the non-IFRS measure "Operating Income" within this MD&A. Management uses this non-IFRS measure to measure operating performance from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. As required by Canadian securities laws, we reconcile these non-IFRS measures to the most comparable IFRS measures in this MD&A.

We define "Operating Income" as net income (loss) before other income, share-based compensation, foreign exchange gains and losses, and income taxes. This removes unusual or non-operating items from Operating Income. We are presenting this measure because it is used by management in managing the Company and making business decisions. Operating Income is not intended as a substitute for IFRS measures.

1.7 ACCOUNTING ESTIMATES AND ASSUMPTIONS

Management is required to make estimates, judgements, and assumptions in preparation of the Consolidated Financial Statements in accordance with IFRS. These estimates affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements, and the amounts of reported revenue and expenses during the reporting period. Accounting estimates and assumptions are discussed in section 7.1 of this MD&A.

1.8 ROUNDING AND PERCENTAGES

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

2.0 COMPANY AND INDUSTRY OVERVIEW

2.1 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. The Company's management and most staff are also located in Victoria.

On October 31, 2022, ALUULA acquired all the outstanding shares of Ocean Rodeo. Due to the timing of its acquisition by ALUULA, Ocean Rodeo's revenues and expenses are not included in the Company's consolidated results for the year ended October 31, 2022, or the comparative interim periods as reported in this MD&A unless specifically mentioned.

On April 14, 2023, Bastion Square Partners ("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 a variety of 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.

2.2 CORE BUSINESS

<u>ALUULA</u>

Our 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. The ALUULA team works directly with brand partners to develop and approve prototype products made from our composite materials, shipping materials directly to globally dispersed design teams for each brand partner until commercialization when we work directly with the brand partner's factory or manufacturing partner.

The team at ALUULA is working with customers in several vertical markets, with the windsport market driving the majority of the Company's revenues. In other markets we are working with significant brands and our preliminary interactions involve providing sample materials and working through product development and market assessments. Management monitors activities within these markets based on current sales volumes and the potential market opportunity. The major trends within the vertical markets are discussed in the Company's MD&A for the year ended October 31, 2022, with significant changes discussed below.

<u>Windsport industry update</u>

While the windsport market is experiencing a post-COVID-19 recovery in consumer demand, we are seeing this recovery take longer to impact orders for new products. Ocean Rodeo orders have been delayed and longer credit terms have been issued as a result. ALUULA continues to onboard new customers as expected, but order volumes within the windsport vertical have been lower than expected as customers navigate the market conditions.

OCEAN RODEO

Ocean Rodeo was established in 2001 to develop best-in-class windsport products. It was this business that inspired its founders to establish a soft composite product for the windsport market, the ALUULA composite rolled fabric, which is rapidly becoming the standard for high performance in windsports. That, in turn, has allowed ALUULA to develop composites for other vertical markets. It is a well-established design hub for ALUULA and for windsport products, which it both sells and patents the design of. Ocean Rodeo sells to distributors, dealers, and individuals worldwide, and sponsors team riders competing in windsport events at the highest level. Ocean Rodeo holds a number of key patents that can be bundled with ALUULA to enhance products and entice windsport brands to use ALUULA materials, demonstrates the capabilities of ALUULA composites and is an innovation hub for these materials. By focusing its strategy on disruptive innovation using ALUULA materials we are accelerating the market acceptance of ALUULA and are able to offer ALUULA composite materials to Ocean Rodeo's competitors without creating a conflict.

2.3 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.

3.0 FINANCIAL PERFORMANCE

The following table is a management level summary of the financial results of the Company for the three- and six-month periods ended April 30, 2023 compared to the same periods ended April 30, 2022 with relevant variance analysis below:

	For the three-month period ended April 30 2023	April 30 2022	For the six-month period ended April 30 2023	April 30 2022
Sales	$ 1,937,193	$ 556,915	$ 3,385,708	$ 1,221,447
Cost of sales	1,403,642	251,311	2,655,110	698,103
Gross profit	533,551	305,604	730,598	523,344
Gross margin %	28%	55%	22%	43%
Expenses				
Employee costs	578,334	217,972	1,079,185	492,669
General and administrative	379,063	293,842	812,372	381,203
Marketing	103,823	11,668	286,327	28,648
Research and development	45,884	1,321	63,128	113,933
Share-based compensation	390,317	4,938	395,254	9,875
Listing expense	1,640,538	-	1,640,538	-
Interest and bank charges	90,358	30,245	182,352	46,622
Depreciation and amortization	123,883	33,968	251,204	65,728
Other income	(74,479)	(51,150)	(150,095)	(51,150)
Deferred tax expense	(132,025)	(61,109)	(52,371)	165,623
Net loss	$ (2,612,145)	$ (176,091)	$ (3,777,296)	$ (729,807)
Loss per share:				
Basic loss per share	$ (0.02)	$ -	$ (0.02)	$ (0.01)
Diluted loss per share	$ (0.02)	$ -	$ (0.02)	$ (0.01)

Due to the timing of the acquisition of Ocean Rodeo by ALUULA on October 31, 2022, the 2023 profit and loss figures contain the results of Ocean Rodeo while the comparative results do not.

For the three-month periods ended April 30, 2023, and April 30, 2022:

Sales

Within the three-month period ended April 30, 2023 ("Q2 2023"), the Company generated 86% of its sales within the windsports market, 12% of revenues were derived from Aerospace, and the remaining 2% of revenue from other early stage markets including sailing and outdoor. In the same period of the prior year ("Q2 2022"), 95% of revenue was attributed to windsports, 3% came from Aerospace with the remaining 2% coming from all other markets.

ALUULA sold approximately 50,000 meters of composite fabrics in the quarter, up from approximately 16,000 meters in Q2 2022. The increase in meters sold is due largely to three customers each purchasing more than 7000 meters in Q2 2023 (one customer in Q2 2022). The increase in larger shipments is indicative of customers integrating the rolled fabric into their own respective manufacturing processes.

ALUULA also shipped samples and test products to 52 customers in Q2 2023 compared to 28 in Q2 2022. These entities are at various stages of evaluating the products, ranging from initial testing to advance development and integration of the ALUULA products into the manufacturing processes.

Cost of sales and gross margins

For the three months ended April 30, 2023, the overall gross margin for the Company was $1,403,642 compared to $251,311 for the same period of the prior year. The change is due to the significant increase of product sales combined with some one-off factors.

The Ocean Rodeo stand alone cost of sales was $327,165 in Q2 2023, resulting in a gross margin of 9% for the segment. The low gross margin is primarily due to the required accounting treatment of inventory acquired in the Company's October 31, 2022, acquisition of Ocean Rodeo. Under IFRS, inventory acquired in a business combination is valued at net realizable value. When the Company acquired Ocean Rodeo, it recorded the purchase of inventory with a net realizable value of $1,708,993 (the "Opening Inventory"). Margins are expected to be impacted by this accounting treatment until all Opening Inventory is sold.

The ALUULA stand alone gross margin percentage for Q2 2023 was 32%, compared to 55% for the same period of the prior year. The reduction in gross margin percentage was due predominantly to the following items:

The Company's first product entry in the windsport market, ALUULA Gold, sold at a price per meter that was less in Q2 2023 compared to the same period of the prior year. The Company reduced the price for the initial adopter of ALUULA Gold starting in the third quarter of 2022 as the Company saw the additional value of such a large windsports brand. As the initial adopter, the customer would promote and market their products with the ALUULA label. This reduction in price amounted to approximately 7% less gross margin realized in the current quarter for the segment, assuming the Company could have sold the same volume of ALUULA Gold at the prior year price; however, it is through this relationship that the Company has generated interest from all other premium windsport brands, five of which have begun commercialization with four more expected to commercialize before the end of the calendar year.

In Q2 2023, the Company completed an inventory count of raw materials used in the manufacture of the rolled fabric, to confirm the balances of those materials held in the production area. It was found that a one-time write down of $114,887 was required, which had occurred partially due to the unrecorded usage of films and weaves by the R&D team and partially due to incorrect measurement of raw materials consumed to create each square meter of finished goods. This one-time impact to the cost of sales reduced gross margin percentage by approximately 7% for the Aluula segment. The Company has installed an automated counter in the production pod to accurately determine raw materials consumed.

<u>Employee costs</u>

Employee costs for the Company increased in Q2 2023 compared to Q2 2022, in part to the addition of Ocean Rodeo staff to the cost structure and in part due to hiring more employees. At the end of Q2 2022 there were 14 staff at ALUULA, compared to 20 at ALUULA and 8 working for Ocean Rodeo at the end of Q2 2023 (total of 28) effectively doubling the number of employees.

<u>General and administrative</u>

General and administrative costs increased in Q2 2023, compared to Q2 2022, due to the addition of Ocean Rodeo expenses. Although additional costs are being incurred from the larger combined corporate entity, overall general and administrative expenses have not increased at the same pace as revenues since the Company works diligently to keep overhead costs to a minimum.

<u>Marketing</u>

Marketing expenses increased in Q2 2023 compared to Q2 2022 due to the incorporation of Ocean Rodeo costs. Marketing costs were lower in Q2 2022 (split evenly between advertising costs and tradeshows) due to cash constraints. In fiscal year 2023, the Company has been investing in better content within the various markets being addressed. The marketing costs in Q2 2023 have decreased since Q1 2023 as the use of marketing consultants and promotions has been reduced ($103,823 for Q2 2023 compared to $182,504 for Q1 2023).

Interest and bank charges

Interest expense increased in Q2 2023 compared to Q2 2022 as the Company used the various debt and line of credit facilities available. As the RTO allowed use of equity to provide liquidity, the higher cost borrowings were paid down to reduce the interest expense.

Research and development

Research and Development ("R&D") expense is comprised mostly of the consumption of raw materials by the engineers and scientists to create new products which the Company will provide to customers. The R&D expense was higher in Q2 2023 compared to Q2 2022 as approximately 1200 meters of rolled fabric was consumed to finalize the manufacturing process of the new AA Glide product.

Loss per share

The Company incurred a loss per share in Q2 2023 of ($0.02) (Q2 2022 – $nil). However, the majority of the loss amount derives from the listing expense and share based compensation expense generated through the RTO. Removing those impacts, the adjusted loss per share for Q2 2023 is ($0.01).

For the six-month periods ended April 30, 2023, and April 30, 2022:

Sales

The Company sold approximately 66,000 meters of fabric to customers in six-month period ended April 30, 2023 ("YTD Q2 2023"), compared to approximately 35,000 meters in same period of the prior year ("YTD Q2 2022"), increasing sales from rolled fabric to $2,293,340 of sales generated in YTD Q2 2023, from $1,221,447 of sales generated in YTD Q2 2022. In addition to adding new large customers, the Company sold at least one thousand meters of four products in YTD Q2 2023 compared to only one product selling more than one thousand meters in YTD Q2 2022.

The Company sold $1,092,368 of product through the Ocean Rodeo subsidiary in the YTD Q2 2023 compared to nil in YTD Q2 2022. The two Companies merged on October 31, 2022, and as such, the prior year does not have comparable sales amounts from Ocean Rodeo.

Cost of sales and gross profit

The cost of goods sold increased to $2,655,110 for YTD Q2 2023, compared to $698,103 for the same period of the prior year. Most of the increase stems from the Company selling almost double the amount of fabric combined with the addition of the costs incurred to ship Ocean Rodeo products in the period.

Ocean Rodeo contributed approximately $1,011,363 to cost of sales in YTD Q2 2023 which has no comparable amount in YTD Q2 2022 since the two companies merged on October 31, 2022. Included in the amount for YTD Q2 2023 is $174,832 caused by the IFRS accounting adjustment to the cost of goods sold, which stemmed from the merger of ALUULA and Ocean Rodeo on October 31, 2022. The amount is driven from the assessed fair value of the inventory held by Ocean Rodeo on the merger date.

In addition to the items discussed above and in the quarterly analysis, the following item impacted the cost of goods sold in YTD Q2 2023:

The Company had a production slowdown in Q1 2023 that resulted from a shortage of working capital. Production fell well below capacity, but the Company still incurred $76,834 of direct labour and production overhead costs that were recorded in cost of sales and resulted in 2% lower gross margins in YTD Q2 2023 than if that capacity had been utilized.

Employee costs

Employee costs for the Company increased in YTD Q2 2023 compared to YTD Q2 2022 largely due to the addition of Ocean Rodeo staff to the cost structure and in part due to hiring more employees. At the end of Q2 2022 there were 14 staff at ALUULA, compared to 20 at ALUULA and 8 working for Ocean Rodeo at the end of Q2 2023 (total of 28) effectively doubling the number of employees.

General and administrative

General and administrative costs increased in YTD Q2 2023 compared to YTD Q2 2022 due to the addition of Ocean Rodeo expenses to the company. Outside the additional costs generated from the larger combined corporate entity, the general and administrative expenses decreased slightly ($323,867 in YTD Q2 2023 compared to $381,203 in YTD Q2 2022) as the Company works diligently to keep overhead costs to a minimum.

Marketing

Marketing expenses increased in YTD Q2 2023 compared to YTD Q2 2022 largely due to the incorporation of Ocean Rodeo expenses in the current period.

Interest and bank charges

Interest expense increased in YTD Q2 2023 compared to YTD Q2 2022 as the Company used the various debt and line of credit facilities available. As the RTO allowed use of equity issuances to provide liquidity, the higher cost borrowings were paid down to reduce the interest expense for future periods.

Research and development

Research and development expenses decreased in YTD Q2 2023 compared to YTD Q2 2022 as the Company expensed ~$70,540 of inventory in April of 2022 which had been held for R&D purposes but held no longer held future value.

Loss per share

The Company incurred a loss per share in YTD Q2 2023 of ($0.02) (YTD Q2 2022 – ($0.01)). Most of the loss amount derives from the listing expense and share based compensation expense generated through the RTO. Removing those impacts the adjusted loss per share, for YTD Q2 2023, is ($0.01).

4.0 SUMMARY OF QUARTERLY RESULTS

The following table is a management level summary of the financial results of the Company for the last two quarters. Share balances prior to April 30, 2023, have been updated to reflect the RTO share exchange ratio of 26.05:1.

	April 30 2023	January 31 2023
Revenue	$ 1,937,193	$ 1,448,515
Net and comprehensive income (loss)	(2,612,145)	(1,165,151)
Net income (loss) per share	$ (0.02)	$ (0.01)
Net income (loss) per share: diluted	$ (0.02)	$ (0.01)

Revenue

The Company sold 50,000 meters of fabric in Q2 2023 compared to only 24,000 meters in Q1 2023 generating a quarter-on-quarter increase of 119% from rolled fabric sales. The increase is largely attributable to shipping at least 7,000 meters of fabric to three customers in Q2 2023 vs only one in Q1 2023. Offsetting the increase in rolled fabric was a decrease in Ocean Rodeo sales of $371,374 caused by the Company being undercapitalized in Q1 2023. Since the RTO which occurred in April 2023, the Company has had the necessary resources to release inventory and fulfill customer back orders.

Net and comprehensive loss

The Company recorded a loss of ($2,612,145) which was largely due to the listing expense ($1,640,538) and stock compensation expense ($390,317) generated from the RTO in April 2023. Overall, the company had quarter-on-quarter improvements to revenue and margins while keeping expenses flat.

5.0 BALANCE SHEET ANALYSIS, LIQUIDITY, AND CAPITAL RESOURCES

5.1 ANALYSIS OF STATEMENT OF FINANCIAL POSITION

The following table presents selected information from the Interim Financial Statements, followed by a variance analysis below:

	April 30 2023	October 31 2022
Selected assets		
Cash and cash equivalents	$ 1,198,784	$ 295,377
Trade and other receivables	1,300,789	$ 1,137,872
Inventory	1,418,249	2,166,825
Property and equipment	999,113	1,206,169
Selected liabilities		
Bank indebtedness	$ 1,000,000	$ 2,744,697
Trade and other payables	472,300	894,496
Long-term debt**	1,261,692	1,259,405
Lease obligations**	789,720	978,928

**Current and long-term portions combined for this analysis

Cash and cash equivalents / bank indebtedness

With the completion of the RTO the company obtained approximately $4.4 million through the merger with BSP as well as the concurrent private placement. Of the funds, bank indebtedness was reduced by $1.7 million to consist only of the PO based line of credit, accounts payable and other liabilities were reduced by $0.7 million, long term debt was reduced by $0.8 million and the Company retained $1.2 million to capitalize inventory purchase in anticipation of future sales.

Funds in excess of operational needs have been placed in a high interest earning account to generate interest revenue.

Trade and other receivables

AR for the three- and six-month periods increased primarily due to $623,713 of receivables extending into the "Over 90 days" column for accounts. Of the amount, two customers comprise most of the extended balances. Although the receivables are extending over 90 days, the Company has had multiyear relationships with both customers and management believes the extended amounts will be paid. However, the Company increased the expected credit losses from $41,437 as of October 31, 2022, up to $229,424 as of April 30, 2023.

Inventory

The balance of inventory as of October 31, 2022, was increased by $435,129 due to the acquisition of Ocean Rodeo by ALUULA. The amount is the fair value adjustment to the inventory required under IFRS 3 where assets and liabilities included in a business combination are recorded at the assessed fair value on the date of acquisition. Since October 31, 2022, the Company has expensed $174,832 of the FV adjustment into Cost of Sales on the income statement leaving an FV accounting adjustment of $260,297 remaining in the April 30, 2023, inventory balance. Removing the impact of the $435,129 from the October balance and $260,297 from the April 30 balance, the adjusted inventory balances would be approximately $1.7 million and $1.2 million respectively. Inventory decreased since October as the Company had built up windsports inventory in the Fall of 2022 in anticipation of increasing sales. Those sales have started to occur through the six-month period ended April 30, 2023, and the Company expects to continue lowering inventory balance as a measure against cost of sales (inventory turnover) in future quarters.

Property and equipment (including tangible right-of-use assets)

The Company was released from a long-term lease for office facilities in the first quarter which reduced the right-of-use asset by a net amount of $91,559. Offset against the removal of the lease asset was the acquisition of new assets, predominantly machinery and molds. The production team improved the ventilation at various stages during the six months ended April 30, 2023, and the Company invested in new molds for components of its windsports products.

Trade and other payables

Upon completion of the RTO, the Company made payments to suppliers, significantly reducing the balances outstanding. The Company will look to take advantage of its greater liquidity to pursue discounts with vendors with earlier payment terms.

Long-term debt

In the six-month period ended April 30, 2023, the Company obtained and repaid a $750,000 promissory note with Gustavson Capital. The remainder of the long-term debt is a combination of a term loan with Scotia bank and interest free loans through the Western Diversification program of the Canadian Government.

Lease obligations

The lease obligations consist of right-of-use lease obligations for the rental of office and production space as well as for manufacturing equipment purchased using lease financing. Lease obligations dropped by $189,208 as the Company was released from a long-term lease for office facilities which reduced the lease obligation and did not enter into any new leases in the six-month period ended April 30, 2023.

Off-balance sheet arrangements

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

5.2 CASH FLOWS FROM OPERATING, INVESTING AND FINANCING ACTIVITIES

Analysis of cash flows:

	April 30 2023	April 30 2022
Cash used in operating activities	$ (1,416,017)	$ (510,767)
Cash used in investing activities	1,289,337	(145,630)
Cash provided by (used in) financing activities	2,774,784	(880,851)
Increase (decrease) in cash and cash equivalents	$ 2,648,104	$ (1,537,248)

Operating activities

The Company used $1,416,017 of cash for operating activities in the six-month period ended April 30, 2023, compared to $510,767 for the same period of the prior year. The increase in cash usage for operations comes predominantly through the comparative reduced gross-margin (28% for current period comparted to 55% for the prior) with increased expenses to support the sale of product from the activities of two companies (ALUULA and Ocean Rodeo) compared to one in the prior year period (ALUULA). The Company was also able to significantly draw down its inventory balances which was partially offset by paying down a significant amount of accounts payable just prior to April 30, 2023.

Investing activities

For the six months ended April 30, 2023, cash from investing activities is drawn from the funds received, net of liabilities acquired, upon completion of the RTO ($1,359,462) offset by minor investments in production equipment and patents. In the same period of the prior year, the Company made larger investments in production equipment of $136,722 to develop the new fusion pod that is in use today.

Financing activities

For the six-month period ended April 30, 2023, funds generated through the financing activities were derived from the private placement amounts ($2,966,820) made in connection with the RTO and the conversion of shareholder loans into equity ($1,983,002 received offset against $2,122,802 paid out) combined with the purchase of options by employees prior to the RTO. Net repayments of debt and leases drew down the cash generated from financing activities. In the same period of the prior year the Company paid down related party loans as well as lease obligations for a net outflow of funds.

5.3 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 revolving lines of credit, a revolving pre-shipment financing facility, bank and government loans, a revolving lease facility, and equity issuances.

The various facilities are utilized based on overall cost of financing, availability of cash flows, and compliance with debt covenants. 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 Western Diversification Canada and the Government of Canada.

The primary credit facilities held by the company up to the date of this MD&A are with Scotia Bank. In addition to the debt facilities, the Company also holds a revolving Scotia Bank lease facility with a limit of $500,000 which is currently financing the existing machinery and equipment leases.

Refer to note 9 and note 11 of the Interim Financial Statements for a detailed description of the terms and repayment details of the bank indebtedness and debt facilities, respectively.

Certain covenants are in place, which the Company reports on periodically. These covenants are monitored by management on an ongoing basis, and calculations are submitted to Scotia Bank monthly, quarterly, or annually depending on the covenant. Non-compliance with covenants could result in loans being called in full and the Company losing access to its bank financing.

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, a shareholder in BSP, loaned $750,000 to the Company. The loan bears interest at 7% per annum, compounded monthly. The loan and interest were paid back to Gustavson Capital in April 2023.

The Company also paid down the balance of the open line of credit held at the Bank of Nova Scotia. The bank indebtedness of $1,000,000 held on the balance sheet as of April 30, 2023, consisted entirely of purchase order financing with the Bank of Nova Scotia.

Subsequent to the balance sheet date, on June 19, 2023, the Company signed an engagement letter with Haywood Securities ("Haywood") for which Haywood agreed to purchase itself or via substitute purchasers, on a bought deal private-placement basis, 20 million units of the Company (the "Units") at a price of C$0.15 per Unit (the "Issue Price"), for total gross proceeds of C$3.0 million (the "Bought Deal Offering"). Closing of the Offering is subject to the Company entering into an underwriting agreement with Haywood, as well as customary closing conditions including, but not limited to, the receipt of all necessary regulatory and other approvals, including the approval of the TSX Venture Exchange.

Each Unit will consist of one common share and one common share purchase warrant (a "Warrant"). Each Warrant will entitle the holder to purchase an additional common share of the Company at a price of C$0.25 per share for a period of 24 months from the closing of the Bought Deal Offering.

The Company has agreed to grant Haywood an option (the "Underwriter's Option") to purchase, or to find substitute purchasers for, up to an additional 10,000,000 Units (the "Additional Units") at the Issue Price, for total additional gross proceeds of up to C$1.5 million. The Underwriter's Option, if exercised, is expected to close concurrently with the closing of the Bought Deal Offering (collectively the Bought Deal Offering and the Underwriter's Option, as applicable, are referred to as the "Offering").

The funds will be used to add manufacturing capacity through a 1.5 meter wide production pod and to pay down all remaining bank debt held at Scotia Bank with the exception of the credit card facility which will be retained for purchasing efficiency.

The Company chose to transition away from a predominantly debt-based capital structure since a predominantly equity-based structure aligns better to the desired accelerated growth of the Company. In addition, the additional cash held on the balance sheet, as opposed to debt, provides resilience against negative economic factors which may occur.

5.4 CONTRACTUAL OBLIGATIONS

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

During Q2 2023, the Company repaid the $750,000 promissory note, plus accrued interest, from Gustavson Capital Corporation which had been issued in Q1 2023.

Management cancelled a related party lease of office and warehouse space 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.

Management believes the Company will have sufficient liquidity available to meet its contractual obligations in the coming years.

5.5 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.

A new fusion pod was constructed during the first half of fiscal 2022 to increase automation and consistency and add a new level of quality control to our process. This new fusion pod was put into use in Q3 2022.

<u>Other Equipment</u>

The Company invests in R&D 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.

Patents & Molds

Where management feels it's 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.

5.6 RESEARCH AND DEVELOPMENT

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 ALUULA

The R&D team works closely with our partners to customize our materials and processes to meet their needs. We determine the specifications required and apply our internal knowledge of the ALUULA process and the chemical and physical properties of potential input materials to develop new composites or methodologies to meet their needs. Once finalized we work with the brand's manufacturing partner to ensure smooth implementation 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 then work with them to tailor our composites to meet their exact specifications.

The current production pod can produce approximately 22,000 square meters in a month of production. Management estimates the volume can be increased to as much as 40,000 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.

We have begun the design and planning for the new production pod which will allow the creation of fabric rolls at a width of 1.5 meters. 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 will transition to the wider 1.5 meter width since it allows customers to create their products with better nesting of their material for less waste and fewer seams, reducing labour and assembly time. The benefit to the Company would be up to a 50% increase in sales volumes from a single production pod and the expansion of sales to a variety of customers otherwise disinterested in our narrower fabric.

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.

During the three- and six-month periods ended April 30, 2023, the R&D team put in numerous improvements including the following:

- The Company now receives and reviews Manufacturing reports for the rolled fabric materials acquired from vendors. Employees review the reports for the raw materials to ensure our requirements are met, with any non-compliant materials being rejected and sent back to the manufacturer.
- Input materials are tested every 50 meters before they are used in production (previous testing was once every 2,000 meters) and post manufacturing, a fusion bond strength test is completed every 50 meters. The pre-production test ensures all raw materials meet minimum standards and the post-production test provides assurance that all finished goods meet customer requirements.
- The Company contracted with a new primary supplier that is SA9100 and ISO 9001 compliant. Input materials meeting stringent requirements is key to the continued growth of the company and as such, the Company plans to invest further into improved materials and processes. This is a key improvement in quality control and the Company continues to implement procurement and production changes as the consistent production of the highest quality fabrics is a focus for ALUULA.

<u>Windsport product development</u>

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

6.0 EQUITY

All share and option values have been adjusted to the post RTO balances. As of April 30, 2023, the company had 225,009,371 shares issued and outstanding and 12,166,905 options to purchase shares. 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. The options consist of 2,500,000 acquired through the qualifying transaction with BSP and the remaining 9,666,905 were issued in the quarter. More detail on these share options can be found in note 17 of the Interim Financial Statements.

7.0 TAX MATTERS

The Company is considered 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.

8.0 ACCOUNTING POLICIES AND ESTIMATES

8.1 CRITICAL ACCOUNTING ESTIMATES

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

8.2 FUTURE ACCOUNTING PRONOUNCEMENTS

No new significant accounting standards were adopted during the three- and six-month periods ended April 30, 2023. Future accounting pronouncements are discussed in the year-end MD&A dated October 31, 2022.

8.3 FAIR VALUE MEASUREMENTS

A number of the Company's financial instruments are recognized at fair value. Fair value is discussed in detail in note 3 and 18 to the Consolidated Financial Statements dated October 31, 2022, and note 13 of the Interim Financial Statements. There have been no changes to the fair value policies during the three- and six-month periods ended April 30, 2023.

9.0 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.

9.1 STRATEGIC RISKS

Reputation

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 section 10.1 of this MD&A.

New Markets

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.

9.2 OPERATIONAL RISKS

Confidentiality of trade secrets

We are a very innovative company, with many 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 purchase only enough materials to meet confirmed purchase orders or production schedules, except where the cost savings of purchasing larger quantities is warranted.
- 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 holding a credit facility and purchase order financing to support the raw materials requirements of the business, and through the procedures listed above surrounding order quantities.

Excess production

As ALUULA is early in the growth stage and has been forced to manage available working capital very tightly, there is risk attached to producing finished composites in advance of purchase order demand.

Management mitigates the risk of overproduction by 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.

Data and information

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.

Employee retention and dependence on key personnel

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.

9.3 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 to the Interim Financial Statements.

Credit risk

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 have obtained accounts receivable insurance through Export Development Canada ("EDC") for significant customers based in foreign countries.
- We obtain customer deposits 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.

Liquidity risk

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, minimizing reliance on any single source of credit, maintaining sufficient undrawn committed credit facilities and managing the maturity profiles of financial assets and liabilities.

Foreign currency risk

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. In future, management plans to investigate whether more complex hedging strategies are in the best interest of the Company, and what the most efficient makeup of those hedging structures could be.

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. A significant portion of the Company's current working capital is available in the form of revolving credit facilities with variable interest rates attached. Management mitigates this risk by seeking out alternate sources of financing and securing fixed-rate financing where rates are favourable.

10.0 INTERNAL CONTROLS AND PROCEDURES

10.1 QUALITY CONTROL

Quality control procedures are vital to the Company's success to reduce the risk of warranties, returns, and damaged customer relationships.

ALUULA composite materials

Quality control measures are undertaken at many steps throughout the ALUULA process. To select raw materials, our research and development 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.

See section 5.6 of this MD&A for improvements made to the production process made during the current quarter.

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.

10.2 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 ERP software

The Company has invested in cloud-based Enterprise Reporting Planning ("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.

11.0 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.

12.0 FUTURE OUTLOOK

With a strong competitive advantage established in the windsport market, ALUULA is focused on increased penetration within this market and growing within the additional vertical markets. This means ensuring our production output can scale while maintaining quality control, allowing us to meet rising demand for our composite materials. A comprehensive in-house marketing strategy has been created to support this scaling and enable us to properly co-brand with our experienced multi-national partners as new products containing ALUULA are released in the coming years.

13.0 RELATED PARTIES

Shareholders and ultimate controlling parties:

The Company leased office and warehouse space from an immediate family member of a shareholder until the lease was cancelled in December 2022. Payments for this lease totaled nil and $12,377 respectively during the three- and six-months ended April 30, 2023 (three- and six-months ended April 30, 2022 - $12,377 and $24,753). No amounts were owing at the end of the period (October 31, 2022 – nil). Additional payments of $15,000 and $31,000 respectively were made to this related party during the three- and six-months ended April 30, 2023, for the collateralization of the building against the term loan with Scotia Bank (three- and six-months ended April 30, 2022 - $19,000 and $39,000).

Upon closing of the RTO, the Company paid $766,829 to the Gustavson Capital Corporation ("GCC"), which is controlled by a director of the Company, for repayment of a $750,000 promissory note plus accrued interest at 7%.

At April 30, 2023, loans to shareholders existed in the amount of nil (October 31, 2022 – $2,122,802). These loans bore no interest and were not repayable on demand. During the period, $139,800 of loans to shareholders were repaid in cash or forgiven and the remaining $1,983,002 was repaid by the issuance of shares. In addition, at April 30, 2023 there were payables of nil (October 31, 2022 - $197,092) owing to shareholders, and receivables of $7,915 (October 31, 2022 - $5,855) for transactions in the normal course of business.

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. Royalties of $275,000 and $275,000 were paid during the three- and six-months ended April 30, 2023 (three- and six-months ended April 30, 2022 – $34,241 and $84,241).

The Company made payments to Xlynx Materials Inc., which is controlled by a director of the Company, for consulting services of $2,017 and $2,017 during the three- and six-months ended April 30, 2023 (three- and six-months ended April 30, 2022 – nil).

The Company shares leased office and warehouse space with Ocean Rodeo, a related company under common management that was acquired by ALUULA on October 31, 2022. ALUULA and Ocean Rodeo also share staffing resources and are part of one overall cash management group.

Key management compensation:

The Company's key management personnel includes the Executive Leadership Team, which is comprised of the Chief Executive Officer, Chief Operating Officer, and Chief Financial 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- and six-month periods ended April 30, 2023, was $297,388 and $404,515 respectively (three- and six-months ended April 30, 2022 - $66,552 and $197,239), which includes $175,326 and $178,949 (April 30, 2022 - $3,623 and $7,426) 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 $328,000 (October 31, 2022 - $328,000).

14.0 SUBSEQUENT EVENTS

Events have occurred subsequent to April 30, 2023:

14.1 ACQUISITION OF WARRANTS

On May 1, May 11, and May 29, 2023, Haywood Securities exercised a total of 147,930 warrants in exchange for 147,930 common shares at a price of $0.10 per share for net proceeds of $14,793.

14.2 PRIVATE PLACEMENT

On June 19, 2023, the Company announced an agreement with Haywood pursuant to which Haywood agreed to purchase itself or via substitute purchasers, a Bought Deal private-placement basis, 20,000,000 units of the Company at a price of $0.15 per unit, for total gross proceeds of $3,000,000.

Each Unit will consist of one common share and one transferable common share purchase warrant. Each warrant will entitle the holder to purchase an additional common share of the Company at a price of $0.25 per share for a period of 24 months from the closing of the Bought Deal Offering.

The Company has agreed to grant Haywood an Underwriter's Option to purchase, or to find substitute purchasers for, up to an additional 10,000,000 Units at the Issue Price, for total additional gross proceeds of up to $1,500,000. The Underwriter's Option, if exercised, is expected to close concurrently with the closing of the Bought Deal Offering.

In connection with the Offering, the Company has agreed to pay Haywood cash commissions of 6% of the gross proceeds of the Offering, and compensation options to acquire Units at the Issue Price equal to 6% of the number of Units issued to investors. The Company will also pay Haywood a corporate finance fee of 5% of the gross proceeds of the Offering, up to a maximum of $200,000, payable in a combination of cash and Units.

Closing of the Offering is subject to the Company entering into an underwriting agreement with Haywood, as well as customary closing conditions including, but not limited to, the receipt of all necessary regulatory and other approvals, including the approval of the TSX Venture Exchange.