PEARL RIVER HOLDINGS LIMITED

MANAGEMENT’S DISCUSSION AND ANALYSIS
Three months ended March 31, 2024

Forward-Looking Information

This interim management discussion and analysis contains certain forward-looking statements and information relating to Pearl River Holdings Limited (“**Pearl**” or the “**Company**”). All statements, other than statements of historical fact, included herein may be forward-looking information. Generally, forward-looking information may be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “proposed”, “is expected”, “budgets”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events or results may, could, would, or might occur or be achieved. This forward-looking information reflects the Company’s current beliefs and is based on information currently available to the Company and on assumptions the Company believes are reasonable. These assumptions include, but are not limited to, the level of activity in the plastics industry and the economy generally, consumer interest in the Company’s products, and future costs and expenses being based on historical costs and expenses, adjusted for inflation. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information. Such risks and other factors may include, but are not limited to: general business, economic, competitive, political and social uncertainties; fluctuations in raw material costs; competition; lack of insurance; changes in legislation, including environmental legislation, affecting the Company; timing and availability of external financing on acceptable terms; and lack of qualified, skilled labour or loss of key individuals. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

Basis of Discussion and Analysis

The following management discussion and analysis of the financial condition and results of operations of the Company and other information is dated May 30, 2024 and should be read in conjunction with the Company’s condensed interim consolidated financial statements and notes thereto as at and for the three months ended March 31, 2024. These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements including International Accounting Standard 34 – Interim Financial Reporting and have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements for the year ended December 31, 2023.

These condensed interim consolidated financial statements include only significant events and transactions affecting the Company during the current fiscal period and do not include all disclosures normally provided in the Company’s annual financial statements. As a result, these condensed interim consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2023. The Company’s consolidated financial statements for the year ended December 31, 2023 and related MD&A can be obtained on the System for

Electronic Document Analysis and Retrieval ("SEDAR"). Interim results are not necessarily indicative of the results expected for the fiscal year.

In this MD&A, Pearl and its subsidiaries are referred to collectively as "Pearl", the "Group" or the "Company" unless the context requires otherwise.

FINANCIAL HIGHLIGHTS

	2024		2023	
	Quarter ended March 31 (RMB)	**Year to date** (RMB)	**Quarter ended March 31** (RMB)	**Year to date** **(RMB)**
Revenue	66,163,062	66,163,062	55,566,533	55,566,533
Gross profit	16,734,833	16,734,833	10,562,236	10,562,236
Gross margin	25.29%	25.29%	19.01%	19.01%
Net income (loss) attributable to common shareholders	905,553	905,553	(2,555,601)	(2,555,601)
Net income (loss) attributable to common shareholders per share	0.0332	0.0332	(0.0936)	(0.0936)
			March 31, 2023 (RMB)	**December 31, 2023** (RMB)
Total assets			189,860,624	202,225,526
Total liabilities			66,995,997	82,255,486
Shareholders' Equity			122,864,627	119,970,040
Non-controlling interest			31,751,200	31,444,575

- Revenues increased by 19.07% for the quarter compared to 2023. The operating margins have increased by 6.29% for the quarter compared to 2023.
-
- Debt to equity .55:1 (March 31, 2024), .69:1 (December 31, 2023), .71:1 (December 31, 2022)

Outlook

Cooler Factory:

China Sales:
The company continues to focus on China domestic sales as it is a market we can control. The local market is growing receptive for sports and outdoor camping activities which is a position for the cooler business to tap into. The company has added an ecommerce division for B2B, and B2C sales in the domestic market and has been successful with finding sales.

Export Sales:
Trade relations between US and China are still an uncertain risk. The export sales backlong in the upcoming quarter has made significant improvement. The USA based customers appear to have reduced surplus inventory levels from previous all time highs to bring back purchasing to a more normal basis.

Main Factory:

We have continued our focus toward developing new products in consistently growing market sectors, to compensate for some of the declining traditional products.

RESULTS OF OPERATIONS

Sales

	2024		2023	
	Quarter (RMB)	**Year to date** (RMB)	**Quarter** (RMB)	**Year to date** (RMB)
	66,163,062	**66,163,062**	55,566,533	55,566,533

Revenues have increased by 10,596,529 RMB or 19.07% for the quarter from 2023.

Gross Profit

	Quarter		Year to date	
	2024	**2023**	**2024**	**2023**
Gross Profit	16,734,833	10,562,236	16,734,833	10,562,236
% of Total Sales	25.29	19.01	25.29	19.01

The Cost of Goods Sold as percentage has increased as a reflection of the increased raw market cost caused by increase in oil prices.

Salaries

Salaries increased to 6,323,429 RMB from 5,670,624 RMB (11.51%) compared to 2023 due to increase in volume of sales which lead to increase in staff requirements.

General Administration

General administrative expenses increased to 11,054,671 RMB from 7,960,972 RMB (38.86%) compared to 2023.

Selling

Selling expenses increased to 3,068,102 RMB from 2,030,978 RMB (51%) compared to 2023.

Financing

Finance expenses decreased to 147,955 RMB from 191,229 RMB compared to 2023.

Interest on Debt

Interest has decreased for the quarter and for the current year.

Income Tax Expense

Income tax is incurred at the Chinese joint venture level at a rate of 25% of taxable earnings. The expenses incurred outside China are not deductible and as such the tax expense is higher as a percentage of consolidated profits due to this non-deductibility.

Quarterly Information

	Unaudited Quarters Ended			
	March 31, 2024 (RMB)	**December 30, 2023 (RMB)**	**September 30, 2023 (RMB)**	**June 30, 2023 (RMB)**
Revenue	66,163,062	62,255,917	66,504,795	58,704,499
Net income (loss) attributable to common shareholders	905,553	(1,295,795)	(721,698)	718,593
Net income (loss) attributable to common shareholders per Share	0.0332	(0.0474)	(0.0264)	0.0263

	Unaudited Quarters Ended			
	March 31, 2023 (RMB)	**December 30, 2022 (RMB)**	**September 30, 2022 (RMB)**	**June 30, 2022 (RMB)**
Revenue	55,566,533	47,816,008	78,480,380	86,943,683
Net income attributable to common shareholders	(2,555,061)	(2,939,891)	2,339,967	1,303,927
Net income attributable to common shareholders per Share	(0.0936)	(0.1077)	0.0857	0.0477

Selected Quarterly Consolidated Financial Information

The Corporation's primary capital management objective is to maintain a strong statement of financial position through the optimization of the debt and equity balance affording the Corporation financial flexibility to achieve goals of continued growth and access to capital. The capital structure of the Company consists of shareholders' equity comprised of share capital and deficit.

The basis for the Corporation's capital structure is dependent on the Corporation's expected business growth and changes in the business environment. The Corporation manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving the objective sated above. To manage the capital structure, The Corporation may adjust capital spending, issue new shares, issue new debt, or repay existing debt.

The Corporation is not exposed to externally imposed capital requirements.

Cash Flow:

	March 31, 2024 (RMB)	**March 31, 2023** (RMB)
Cash provided by operating activities	(3,339,324)	9,301,169
Cash used in investing activities	(8,091,258)	(641,288)
Cash provided by (used in) financing activities	(9,693,375)	(4,635,791)

Contractual obligations, Commitments and Guarantees

a) Commitments

The Company is committed to payments under operating leases for premises and equipment as follows:

	(RMB)
Current liabilities	57,716,182
Non-current liabilities	9,279,815

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Share Capital

a) Authorized
Unlimited number of voting, common shares and non-voting, preferred shares.

b) Issued

	March 31, 2024		**March 31, 2023**	
	Common Shares (#)	**Amount (RMB)**	**Common Shares (#)**	**Amount (RMB)**
Balance – Beginning and end of period	**27,309,927**	**52,242,949**	27,309,927	52,242,949

c) Stock option plan
Under the Corporation's stock option plan, the aggregate number of common shares that may be reserved for issuance pursuant to options shall not exceed 10% of the outstanding common shares at the time of the granting of an option, less the aggregate number of common shares then reserved for issuance pursuant to any other share compensation arrangement. The exercise price per common share for option granted shall not be less than the market price. Every option shall have a term not exceeding and shall expire no later than five years after the date of grant. The options granted under this plan may not be assigned or transferred. The Board of Directors shall determine the manner in which an option shall vest and become exercisable. As at 31 December 2023, there are 2,320,000 (2022 – 2,320,000) stock options outstanding and

exercisable at a weighted average price of RMB1.34 (CAD - $0.32) per share and have a weighted average life remaining of 2.79 years. During fiscal 2023 NIL (2022 – 500,000) stock options were forfeited and NIL (2022 – 1,730,000) stock options expired unexercised. As at 31 December 2022, there are 2,320,000 (2021 - 3,050,000) stock options outstanding and exercisable at a weighted average price of RMB1.62 (CAD - $0.32) per share and have a weighted average life remaining of 3.79 years. During fiscal 2022, 500,000 (2021 – 500,000) stock options were forfeited.

Transactions with Related Parties

Details of transactions between the Pearl River group of companies and related parties are disclosed below:

a) During the period the Company had the following other transactions included in general and administrative expenses with related parties:

   Administrative fees incurred with a company controlled by a director of the Company were incurred in the amount of 179,137RMB during the period. Of this amount 84,348RMB is included in accounts payable and accrued liabilities at March 31, 2023.

b) The remuneration paid of directors and other members of key management during the period was as follows:

	2023 (RMB)	**2022** (RMB)
Management salary and benefits	668,750	600,000

These transactions have been recorded in the financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Management is of the opinion that these transactions were undertaken under the similar terms and conditions as those with non-related parties.

CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that periods, or in the period of the revision and future periods if the revision affects both current and future periods. In the process of applying the Group's accounting policies, management has made the following judgments apart from those involving estimation as discussed below, which have the most significant effect on the amounts recognized in the financial statements. In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgment in the area of asset impairment, particularly in assessing:

whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or de-recognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of the Corporation's and the Group's assets and liabilities within the next financial year are discussed below.

Provision against slow-moving inventories

Provision for slow-moving inventories is made based on the ageing and estimated net realizable value of inventories. The assessment of the provision required involves management judgment and estimates. Where the actual outcome or future expectation is different from the original estimate, such differences will impact the carrying value of inventories and provision charged or reversed in the period in which the estimate has been changed.

Estimating the incremental borrowing rate — the Group as lessee

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") of the relevant lessee to measure lease liabilities. The IBR is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the lessee would have to pay, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs such as market interest rates when available.

To determine the IBR, the Group: -

Where possible, use recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; and - Makes adjustments specific to the lease, e.g. term, country, currency and security.

Impairment of trade receivables

The provision rate of trade receivables is made based on assessment of their recoverability and ageing analysis of trade receivables as well as other quantitative and qualitative information and on management's judgement and assessment of the forward-looking information. At the end of reporting period, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast of economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast of economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 26.

Income tax and deferred tax

Certain entities within the Group are subject to income taxes in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during ordinary course of businesses. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.
Deferred tax assets relating to certain temporary differences and tax losses are recognized when the management determines it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in period in which such estimates are changed.

Fair value measurement of purchase consideration payable

The fair value measurement of purchase consideration payable utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurement is categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the "fair value hierarchy"):
Level 1: Quoted prices in active markets for identical items (unadjusted);
Level 2: Observable direct or indirect inputs other than Level 1 inputs; and
Level 3: Unobservable inputs (ie. Not derived from market data) The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period that they occur.

New Accounting standards and amendments

The Corporation adopted the following new accounting standards which did not have a material impact on these financial statements:

Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred tax related to Assets and Liabilities Arising from a single transaction

The adoption of this standard did not have any material impact on the Group's accounting policies.

Amendments to IAS 1 and IFRS Practical Statement 2 – Disclosure of Accounting Policies
The amendments require the disclosure of "material" rather than "significant" accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

Impact on application of Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction
The amendments to IAS 12 narrow the scope of the initial recognition exemption of deferred tax liabilities and deferred tax assets so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences, such as leases and decommissioning liabilities. Therefore, entities are required to recognize a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. The Group previously applied IAS 12 requirements to the relevant assets and liabilities arising from a single transaction as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis. Upon application of the amendments to IAS 12, the Group has assessed the relevant deferred tax assets and deferred tax liabilities for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities separately.

In accordance with the transitional provisions:

(i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022; and

(ii) the Group also, as at 1 January 2022, recognized deferred tax assets (to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized) and deferred tax liabilities for all deductible and taxable temporary differences associated with right-of-use-assets and lease liabilities.

Financial Instruments and Other Instruments

Capital and financial risk management

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of equity attributable to equity holders of the Company only, comprising share capital and reserves.

The main risks arising from the Group's financial instruments in the normal course of the Group's businesses are credit risk, interest rate risk, liquidity risk, and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

a) Credit risk

The Group's credit risk is primarily attributable to cash, and trade and other receivables.

The carrying amounts of cash and trade and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problems.

For trade and other receivables, management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Most of these balances are due from state-owned enterprises or major customers with good repayment history. There has been no material credit defaults in the past.

Trade receivables

The Group measures loss allowances for accounts receivable at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicates no significantly different loss patterns by customer segments, the grouping for accounts receivable for the assessment of ECLs is by past due days, except one customer that was assessed as being credit-impaired and at risk of default.

Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Expected credit losses for accounts receivable and other receivables are detailed in the respective notes to these consolidated financial statements. At the end of the reporting period, the Group has a concentration of credit risk of 41% (2022: 45%) of accounts receivable which was due from one customer (2022 : one customer).

b) Interest rate risk

The Group's interest rate risk arises primarily from bank borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk, respectively.

The Group's exposure to interest rate risks relates primarily to the Group's borrowings with a floating interest rate. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 18. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows including interest payments computed using contractual rates and the earliest date the Group is required to settle the obligations.

d) Currency risk

The Group is exposed to currency risk primarily through transactions that are denominated in a currencies other than the functional currency of the entities to which they relate. The primary operations of the Group's subsidiaries are located in the PRC with most of the operating assets and transactions denominated and settled in Renminbi, which is the functional currency of the majority of the Group's subsidiaries. The entity does not have significant financial assets and liabilities or transactions denominated in currencies that are not the functional currency of the entities in which they relate. As a result, the Group does not have significant exposure to risk resulting from changes in foreign currency exchange rates.

e) Price risk

The Group is not exposed to any equity securities risk or commodity price risk.

Risks and Uncertainties

Pearl operates in the Chinese market which involves various known and unknown risk factors and uncertainties and other factors affecting Pearl specifically or the markets generally, Pearl's future performance could be affected by these important factors, which in some cases have affected, and which in the future could affect, Pearl's actual results and that could cause Pearl's actual results for 2023 and beyond to differ materially from those expressed in any forward-looking statements made by or on behalf of Pearl. These risks and uncertainties include fluctuations in the level of local demand and capital, changes in Pearl's product costs and pricing, an inability to achieve or delays in achieving sayings related to the cost reductions, consolidation and restructuring program, changes in Pearl's product mix, the growth rate of the markets in which Pearl products are sold, market acceptance and demand for Pearl's products, changes in availability or prices for raw materials, pricing competition, difficulty in developing and introducing new products, failure to penetrate new markets effectively, limitations on foreign investment in local business and other political, economic and regulatory risks, difficulty in preserving proprietary technology, changes in environmental regulation and currency risk exposure. Certain of these risks and uncertainties are described in more detail below.

The price and availability of raw materials represents a substantial portion of the cost of manufacturing Pearl products. Historically, there have been fluctuations in these raw materials' prices and in some instances price movements have been volatile and affected by circumstances beyond Pearl's control. There can be no assurance that Pearl can pass on increase from normal market fluctuations in the price of resin to its customers through increases in selling price, or otherwise absorb such cost increases without significantly affecting its margins. In addition, the industry has occasionally found certain raw materials to be in short supply.