Management's Discussion and Analysis of

ALUULA COMPOSITES INC.

For the three and six months ended April 30, 2024 and 2023

NOTICE

The following management discussion and analysis ("MD&A") provides information concerning Aluula Composites Inc.'s (the "Company") financial condition for the three and six months ended April 30, 2024 and 2023. This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and six months ended April 30, 2024 and 2023 (the "Interim Consolidated Financial Statements") and the Company's audited consolidated financial statements and notes thereto for the years ended October 31, 2023 and 2022 (the "Consolidated Financial Statements"). Additional information related to the Company is available on the Company's website www.aluula.com and on sedarplus.ca.

This MD&A was prepared by the Company's management and was approved by the board of directors on June 21, 2024. All amounts are in Canadian dollars unless otherwise stated.

DEFINITIONS

In this document, the terms "we", "us", "our", and "Company" refer to ALUULA Composites Inc. on a consolidated basis. "ALUULA" refers to the standalone entity ALUULA Composites Inc., and "Ocean Rodeo" refers to the standalone entity Ocean Rodeo Sports Inc.

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

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

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

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

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

FORWARD-LOOKING INFORMATION

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

COMPARATIVE INFORMATION

Unless indicated otherwise, all comparative figures for the three and six months ended April 30, 2024, are referring to the results for the three and six months ended April 30, 2023.

ACCOUNTING FRAMEWORK

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

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

ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

ROUNDING AND PERCENTAGES

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

COMPANY AND INDUSTRY OVERVIEW

COMPANY STRUCTURE

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

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

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

ALUULA has undergone significant evolution since 2019, broadening its product range from one to approximately fifty materials. Additionally, ALUULA expanded the number of commercialized windsport brands featuring ALUULA materials from one to sixteen, with current and ongoing growth.

During this evolution, ALUULA identified that its materials' unique properties benefit products in markets beyond windsport, creating an opportunity to expand its strategy to the broader performance outdoor market.

To successfully execute this updated strategy and eliminate a perceived conflict of interest with its growing list of windsport brands, the Company's board of directors approved a mandate to sell specific assets used in the Ocean Rodeo business and discontinue its operations on April 29, 2024. Accordingly, Ocean Rodeo's operations have been accounted for under IFRS 5- *non-current assets held for sale and discontinued operations*" in the Interim Consolidated Financial Statements.

CORE BUSINESS

ALUULA

ALUULA's core business is the development, assembly, and sale of a broad range of composite materials to globally recognized industry partner brands within a variety of markets. ALUULA's primary sales channels are Performance Outdoor and Commercial Industrial.

The Performance Outdoor channel encompasses a number of vertical markets including but not limited to windsport, packs and bags, tents, bike accessories, inflatable rafts, and outdoor safety and survival. The Commercial Industrial channel encompasses customers purchasing materials for industrial use in large scale structures and applications.

ALUULA leverages a patented process to fuse high tech fibers and technical coatings together at a molecular level without the use of heavy glues. Compared to conventional coated and laminated woven fabrics, ALUULA's products are lighter, stronger, more durable and UV resistant than incumbent materials and recycle-ready at the end of their useful life.

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

During fiscal 2023 ALUULA expanded its sales pipeline and onboarded additional customer in the Performance Outdoor channel. Working in partnership with these customers to successfully replace incumbent materials, ALUULA developed additional products including ALUULA Durlyte™ ("Durlyte"), and ALUULA Graflyte™ ("Graflyte"). The Durlyte product is ideal for use in applications where abrasion resistance and extreme toughness are critical, for example in inflatable rafts. The Graflyte product is waterproof, UV resistant, and puncture resistant. This fabric is ideal for use in applications where lightness and strength are important, for example with ultralight packs.

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

SECOND QUARTER IN REVIEW

Strategic refocus and team restructure

During the three months ended April 30, 2024, the Company finalized its updated strategic plan lead by its incoming President and now CEO. A foundational component to the strategic plan was the decision to focus Company assets and resources on areas with the highest growth potential. This focus has resulted in the following action being taken during the quarter:

- Discontinue Ocean Rodeo operations to enable Aluula to capitalize on its growing leadership position as a preferred input material supplier to a growing number of high-performance kite and wing brands without any perceived conflict of interest.
- Identify assets that are not core to ALUULA's business and where possible seek buyers for those assets.
- Create a patent roadmap highlighting key patents and trade secrets required to support ALUULA's competitive position while divesting of those patents that no longer align with the strategic plan.
- Restructure the organization and team to support the Company's evolution and future growth.

Market share expansion in the Performance Outdoor channel

- ALUULA continues to gain momentum in the windsport market, which represents the nearest term at-scale sales opportunity. Over the past two fiscal years, ALUULA commercialized with a limited number of brand partners to showcase its materials' competitive advantages. With the Gold product's superior performance now successfully demonstrated, ALUULA continues to secure commitments from additional windsport brands. At the end of April 2024, ten windsport brands had launched products with the Gold material and a further six have purchased materials but not yet launched their products.
- ALUULA has sold material to twelve bag and pack brands. Six of these brands have commercialized or are expected to go to market with new products within the next three months. All twelve brands are expected to commercialize products by early 2025.
- Aluula continues to collaborate with industry leaders to field test spinnaker and gennaker sail applications, where light, strong and recyclable materials are highly valued.

New partnerships announced in the Commercial Industrial channel

- ALUULA announced a research and development collaboration with Michelin Inflatable Solutions to maximize the construction potential of more environmentally sustainable composite materials.
- ALUULA announced that Max Space, an American company developing expandable space habitats, is incorporating ALUULA's materials in their space habitat. Max Space showcased its expandable space habitat at the 39th Space Symposium on April 9, 2024.

Increase exposure through trade show attendance

- ALUULA attended the bi-annual Tech Textil trade show in Frankfurt, Germany. Tech Textil is a leading international trade fair for technical textiles and manufacturing processes. ALUULA materials were successfully showcased during the course of the show resulting in new sales leads.

LEGAL AND REGULATORY ENVIRONMENT

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

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

FINANCIAL PERFORMANCE

The following table is a management level summary of the Company's financial results for the three and six months ended April 30, 2024 and 2023 with relevant variance analysis below. Certain balances included in the April 30, 2023 financial results have been restated for comparative purposes, see Note 19 to the Interim Consolidated Financial Statements for details.

	For the three-month period ended		For the six-month period ended	
	April 30 2024	April 30 2023	April 30 2024	April 30 2023
Sales	$ 1,403,151	$ 1,598,392	$ 3,400,430	$ 2,313,925
Cost of sales	841,600	1,037,196	1,937,252	1,604,265
Gross profit	561,551	561,196	1,463,178	709,660
Gross profit %	40%	35%	43%	31%
Operating expenses:				
Salaries and benefits	974,347	372,518	1,350,617	650,335
General and administrative	469,239	313,771	640,876	459,909
Marketing	66,178	23,941	143,700	53,750
Research and development	48,670	(9,583)	75,435	(4,162)
Share-based compensation	(1,941)	390,317	28,897	395,254
	1,556,493	1,090,964	2,239,525	1,555,086
Loss before interest, tax and amortization	(994,942)	(529,768)	(776,347)	(845,426)
Other income	752,379	42,058	760,176	113,940
Listing expense	-	(1,640,538)	-	(1,640,538)
Interest expense	(41,049)	(63,606)	(62,841)	(125,822)
Depreciation of property and equipment	(47,582)	(44,077)	(94,156)	(87,001)
Amortization of intangible assets	(66,395)	(65,725)	(132,695)	(131,257)
Loss before tax	(397,589)	(2,301,656)	(305,863)	(2,716,104)
Deferred tax recovery	27,909	132,025	53,768	52,371
Net comprehensive loss from continued operations	(369,680)	(2,169,631)	(252,095)	(2,663,733)
Net comprehensive loss from discontinued operations	(394,680)	(442,514)	(741,237)	(1,113,563)
Net loss and comprehensive loss	$ (764,360)	$ (2,612,145)	$ (993,332)	$ (3,777,296)
Loss per share:				
Basic and diluted loss per share - discontinued operations	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.02)
Basic and diluted loss per share - continued operations	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.01)
Weighted average shares oustanding, basic and diluted	250,574,612	163,911,260	250,570,043	156,931,713

For the three month periods ended April 30, 2024 ("Q2 2024"), and April 30, 2023 ("Q2 2023"):

Sales
Q2 2024 sales were $1,403,151 compared to $1,598,392 during Q2 2023, which represents a 12% quarter over quarter decrease.

The decline in Q2 2024 sales compared to Q2 2023 was due to a spike in sales that occurred during Q2 2023 after the Company experienced a working capital shortage in Q1 2023. The working capital shortage caused delays fulfilling sales orders during Q1 2023, pushing product shipment and revenue recognition into Q2 2023.

ALUULA considers companies purchasing more than 1000 square meters of material as commercialized. During Q2 2024, ALUULA had eight commercialized customers compared to four in Q2 2023. During Q2 2024, ALUULA sold materials to twenty-eight customers who pre-commercialization but in various stages of testing materials, which was consistent with Q1 2023.

Cost of sales and gross margin
Q2 2024 cost of sales decreased to $841,600 compared to $1,037,196 for Q2 2023 while gross margin increased to 40% in Q2 2024 from 35% in Q2 2023.

Q2 2023 gross margin percentage was negatively impacted by discounts offered to initial adapters in the windsport vertical market as well as adjustments booked following a physical inventory count. Q2 2024 gross margin percentage improved over the comparative period and aligned with ALUULA's target gross margin range of 40%-45%.

Salaries and benefits
Salaries and benefits expense was $974,347 in Q2 2024 compared to $372,518 in Q2 2023 representing a quarter over quarter increase of $601,829. Approximately $390,000 of the increase relates to accrued restructuring payments and legal fees associated with the organizational changes implemented as part of ALUULA's strategic refocus. Also contributing to the quarter over quarter increase was the addition of individuals to new leadership roles (President, CFO, Director of Production, board of directors) during Q2 2024 that were not in place throughout Q2 2023.

General and administrative
General and administrative ("G&A") expense was $469,239 in Q2 2024 compared to $313,771 in Q2 2023 representing an increase of $155,468. G&A expenses are comprised primarily of professional fees, rent, commercial insurance, bad debt provision, warranty costs, freight, bank charges and license fees paid for the Company's ERP system.

The quarter over quarter increase in G&A expenses are due to additional costs incurred to engage an investor relations firm, as well as an increase in warranty provision for older GC-82 material at a customer site, an increase in bad debt provision associated with receivables over 90 days and the write off of patents and trademarks no longer needed to support the Company's evolution and future growth.

Marketing
Marketing expense was $66,178 in Q2 2024 compared to $23,941 in Q2 2023 representing a quarter over quarter increase of $42,237. The increase in marketing expense was primarily due to the cost of sample materials sent to prospective customers met at various trade show as well as the cost to exhibit at the Tech Textil trade show in Frankfurt Germany in April 2024.

Research and development ("R&D")
R&D expense was $48,670 in Q2 2024 compared to $(9,583) in Q2 2023 representing a quarter over quarter increase of $58,253. R&D expense was negative in Q2 2023 due to a physical inventory count that resulted in a positive variance to true-up the amount of materials consumed by the department. The increase in R&D costs during Q2 2024 is due to the purchase and utilization of new raw input materials that

the R&D team tests as they continue to refine and enhance ALUULA materials' properties and performance to meet customer needs.

Share based compensation

Share based compensation was $(1,941) in Q2 2024 compared to $390,317 in Q2 2023 representing a quarter over quarter decrease of $392,258. Share-based compensation was negative in Q2 2024 due to actual stock option forfeiture rates exceeding expected forfeiture rates resulting in the reversal of previously recognized compensation expense for stock options that did not vest. The Q2 2023 share based compensation expense is primarily the result of stock options granted during RTO that vested immediately.

Other income

Other income was $752,379 in Q2 2024 compared to $42,052 for Q2 2023. The $710,327 increase to other income is primarily due to the fair value adjustment recorded on ALUULA's investment in Xlynx Materials Inc. ("Xlynx"). The fair value adjustment was calculated by subtracting the cost base of the Xlynx shares from the estimated fair value, which was based on the sale price of the shares as negotiated in a May 2024 purchase and sale agreement. See Note 21 to the Interim Consolidated Financial Statements for additional information on this transaction.

Listing expense

During Q2 2023, the Company recognized a listing expense of $1,640,538 associated with its April 2023 RTO as outlined in Note 4 to the Interim Consolidated Financial Statements. The listing expense was the deemed cost to the Company of obtaining its public listing on the TSX Venture Exchange and was calculated by subtracting the net assets of the Company acquired during the RTO by the deemed consideration paid for BSP's common shares.

Interest expense

Interest expense for Q2 2024 was $41,049 compared to $63,606 for Q2 2023. The $22,557 quarter over quarter decrease was due to the July 2023 repayment of interest-bearing credit facilities with Scotia Bank, the majority of which had been drawn on during the Q2 2023 period. On December 29, 2023, the Company entered into a $1,000,000 short-term loan agreement with 0876991 B.C. Ltd., a related party. The loan bears interest at a rate of 12% per annum.

Depreciation and Amortization

Depreciation and amortization expense for Q2 2024 was $113,977 which is consistent with the Q1 2023 expense of $109,802.

Deferred taxes

Deferred tax recovery for Q2 2024 was $27,909 compared to $132,025 in Q2 2023. The Q2 2023 deferred tax recovery was primarily due to recording of deferred tax assets from tax loss carryforward while the Q2 2024 deferred tax recovery is due to a reduction in the deferred tax liability recognized as intangible assets are amortized for accounting purposes.

Net and comprehensive loss from discontinued operations

Net loss from Ocean Rodeo's discontinued operations was $394,680 in Q2 2024 compared to $442,514 in Q2 2023 representing a quarter over quarter decrease of $47,834.

Q2 2024 sales decreased by $97,198 compared to Q2 2023 as a result of the decision not to invest in new product launches in light of the strategic conclusion to hibernate Ocen Rodeo's operations.

Q2 2023 gross margins were 9% while Q2 2024 gross margins decreased to (1)%. Gross margins in both quarterly periods were negatively impacted by the accounting treatment of ALUULA's October 31, 2022 acquisition of Ocean Rodeo. When ALUULA acquired Ocean Rodeo, accounting standards required that ALUULA value Ocean Rodeo's inventory on hand (the "Acquisition Inventory") at its fair market value, which was deemed to be the sales price for those finished goods. Therefore, as Acquisition Inventory is sold, it generates a zero margin (as the cost equals fair value which equals the sales price). Acquisition Inventory sold during Q2 2023 resulted in a negative impact to normalized margins of approximately 11%. Acquisition Inventory sold or written down during Q2 2024 resulted in a negative impact to normalized margins of approximately 14%. Q2 2024 gross margins were also impacted by approximately 27% due to the write down of inventory to net realizable value.

G&A increased quarter over quarter to $522,556 for Q2 2024 compared to $126,269 in Q2 2023 as a result of the write down of accounts receivable and patents and trademarks to net realizable value.

Marketing expense was $105,311 for Q2 2024 compared to $79,882 representing a quarter over quarter increase of $25,429. This increase was driven by the decision to outsource marketing to an agency rather than staff in-house. This decision also contributed to the decrease in Salaries and Benefits in Q2 2024 compared to Q2 2023.

Other income recognized in Q2 2024 is from a SRED refund received.

For the six month periods ended April 30, 2024 ("YTD Q2 2024"), and April 30, 2023 ("YTD Q2 2023"):

Sales

YTD Q2 2024 sales were $3,400,430 compared to $2,313,925 during YTD Q2 2023, which represents a 47% increase.

The $1,086,505 increase in sales for YTD Q2 2024 compared to YTD Q2 2023 was primarily due to an increase in sales to the windsport vertical market as manufacturing customers increased purchase orders to support the growing list of windsport brands launching products featuring ALUULA materials. During the YTD Q2 2023 period, ALUULA had three commercialized customers compared to twelve during the YTD Q2 2024 period.

Cost of sales and gross margin

YTD Q2 2024 cost of sales increased to $1,937,252 compared to $1,604,265 for YTD Q2 2023 and gross margin increased to 43% in YTD Q2 2024 from 31% in YTD Q2 2023.

YTD Q2 2023 gross margin percentage was negatively impacted by a production slowdown due to a working capital shortage in Q1 2023. ALUULA did not face those same constraints in YTD Q2 2024 and margins for the period were within the current expected range of 40%-45%.

Salaries and benefits

Salaries and benefits expense was $1,350,617 in YTD Q2 2024 compared to $650,335 in YTD Q2 2023 representing an increase of $700,282. Approximately $390,000 of the increase relates to accrued restructuring payments and legal fees associated with the organizational changes implemented as part of ALUULA's strategic refocus as well as the addition of leadership roles (CFO, Director of Production, board of directors) in place during YTD Q2 2024 that were not in place during the same period in the prior year.

General and administrative

General and administrative ("G&A") expense was $640,876 in YTD Q2 2024 compared to $459,909 in YTD Q2 2023 representing an increase of 39%. G&A expenses are comprised primarily of professional fees, rent, commercial insurance, bad debt provision, warranty costs, freight, bank charges and license fees paid for the Company's ERP system.

YTD Q2 2024 G&A costs were $180,967 higher than YTD Q2 2023 due to additional costs incurred to engage an investor relations firm, as well as an increase in warranty provision for older GC-82 material at a customer site, an increase in bad debt provision associated with receivables over 90 days and the write off of patents no longer needed to support the Company's evolution and future growth.

Marketing

Marketing expense was $143,700 in YTD Q2 2024 compared to $53,750 in YTD Q2 2023 representing an increase of $89,950. The increase in marketing expense was primarily due to the cost of sample materials sent to prospective customers met at various trade shows, as well as the cost to exhibit at the November 2023 ISPO trade show and April 2024 Tech Textil trade show, both held in Germany.

Research and development ("R&D")

R&D expense was $75,435 in YTD Q2 2024 compared to $(4,162) in YTD Q2 2023 representing an increase of $79,597. R&D expense was negative in YTD Q2 2023 due to adjustments made to R&D inventory after a physical inventory count as outlined earlier in this MD&A. The increase to R&D during YTD Q2 2024 is due to the purchase and utilization of new raw input materials that the R&D team tests as they continue to refine and enhance ALUULA materials' properties and performance to meet customer needs.

Share based compensation

Share based compensation was $28,897 in YTD Q2 2024 compared to $395,254 in YTD Q2 2023 representing a decrease of $366,357. Share-based compensation recognized YTD Q2 2023 was higher than YTD Q2 2024 due to a higher number of options granted during the YTD Q2 2023 period that vested immediately.

Other income

Other income was $760,176 in YTD Q2 2024 compared to $113,940 in YTD Q2 2023. The $646,236 increase to other income is primarily due to the fair value adjustment recorded on ALUULA's investment in Xlynx shares outlined earlier in this MD&A offset by lower license revenue recognized in YTD Q2 2024.

Listing expense

During YTD Q2 2023, the Company recognized a listing expense of $1,640,538 associated with its April 2023 RTO as outlined in Note 4 to the Interim Consolidated Financial Statements. The listing expense was the deemed cost to the Company of obtaining its public listing on the TSX Venture Exchange and was calculated by subtracting the net assets of the Company acquired during the RTO by the deemed consideration paid for BSP's common shares.

Interest expense

Interest expense for YTD Q2 2024 was $62,841 compared to $125,822 for YTD Q2 2023. The $62,981 decrease was due to the July 2023 repayment of interest-bearing credit facilities with Scotia Bank, the majority of which had been drawn on during the YTD Q2 2023 period. On December 29, 2023, the Company entered into a $1,000,000 short-term loan agreement with 0876991 B.C. Ltd., a related party. The loan bears interest at a rate of 12% per annum.

Depreciation and Amortization

Depreciation and amortization expense for YTD Q2 2024 was $226,851 which is consistent with the YTD Q2 2023 expense of $218,258.

Deferred taxes

Deferred tax recovery for YTD Q2 2024 was $53,768 and is primarily due to a reduction in the deferred tax liability recognized as intangible assets are amortized for accounting purposes.

Net and comprehensive loss from discontinued operations

Net loss from Ocean Rodeo's discontinued operations was $741,237 in YTD Q2 2024 compared to $1,113,563 in YTD Q2 2023 representing a decrease of $249,696.

YTD Q2 2024 sales decreased by $458,757 compared to YTD Q2 2023 due to a combination of sales declines in Q1 2024 as more windsport brands commercialized competitive products with ALUULA materials and management's decision not to invest in new product launches previously noted in this MD&A.

YTD Q2 2023 gross margins were 7% while YTD Q2 2024 gross margins were 9%. Gross margins in both fiscal year to date periods were negatively impacted by the accounting treatment of ALUULA's October 31, 2022 acquisition of Ocean Rodeo. When ALUULA acquired Ocean Rodeo, accounting standards required that ALUULA value Ocean Rodeo's inventory on hand (the "Acquisition Inventory") at its fair market value, which was deemed to be the sales price for those finished goods. Therefore, as Acquisition Inventory is sold, it generates a zero margin (as the cost equals fair value which equals the sales price). Acquisition Inventory sold during YTD Q2 2023 resulted in a negative impact to normalized margins of approximately 16%. Acquisition Inventory sold or written down during YTD Q2 2024 resulted in a negative impact to normalized margins of approximately 11%. YTD Q2 2024 gross margins were also impacted by approximately 12% due to the write down of inventory to net realizable value.

G&A increased from $412,530 in YTD Q2 2023 to $727,565 in YTD Q2 2024 as a result of the write down of accounts receivable and patents and trademarks to net realizable value. Other operating expenses decreased in YTD Q2 2024 compared to Q2 2023 as spending controls were implemented in light of Ocean Rodeo's sales decline.

Other income recorded relates to a SRED refund received.

SUMMARY OF QUARTERLY RESULTS

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

	April 30, 2024 ("Q2 2024")	January 31, 2024 ("Q1 2024")	October 31, 2023 ("Q4 2023")	July 31, 2023 ("Q3 2023")	April 30, 2023 ("Q2 2023")	January 31, 2023 ("Q1 2023")	October 31, 2022 ("Q4 2022")	July 31, 2022 ("Q3 2022")
Sales *	$ 1,403,151	$ 1,997,279	$ 881,198	$ 966,565	$ 1,598,392	$ 715,532	$ 693,150	$ 832,569
Net and comprehensive income (loss) from continued operations	(369,680)	117,585	(356,710)	(411,411)	(2,169,631)	(494,102)	359,812	(111,575)
Net and comprehensive income (loss)	(764,360)	(228,972)	(844,251)	(533,880)	(2,612,145)	(1,165,151)	359,812	(111,575)
Loss per share basic and diluted **	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.02)	$ (0.01)	$ (0.00)	$ (0.00)

* Restated for reclassification of shipping revenue and warranty expense as outlined in Note 19 to the Interim Consolidated Financial Statements. Excludes sales from discontinued operations.

** Through the reverse takeover transaction described in Notes 1 and 4 to the Consolidated Financial Statements, the holders of common shares of Aluula received 16.05 common shares in the Company for each Aluula share held immediately prior to the amalgamation. All per share amounts presented in these tables have been adjusted to reflect this ratio. 31,808 -

	July 31, 2023	April 30, 2023	January 31, 2023	October 31, 2022	July 31, 2022
Sales - as originally reported	975,939	1,577,807	715,532	700,382	862,253
Restatement - shipping revenue	(9,374)	(11,223)	-	(7,232)	(31,146)
Restatement - warranty expense	-	31,808	-	-	1,462
Sales - restated	966,565	1,598,392	715,532	693,150	832,569

Sales

Sales revenue for the fiscal 2022 year averaged approximately $685,870 per quarter. Sales during the Q4 2022 were $693,150 which was above the fiscal year average.

Sales for the fiscal 2023 year averaged $1,040,422 per quarter which represents a 52% increase over the fiscal 2022 average. Q1 2023 sales were the lowest during the fiscal year due to a working capital shortage that impacted ALUULA's ability to fulfill sales orders. With the completion of the RTO in April 2023, the Company's working capital supported the purchase of raw materials needed to fulfill sales orders resulting in a 124% increase to sales for the Q2 2023 period.

Year to date sales for fiscal 2024 are averaging $1,700,215 per quarter, which represents a 63% increase over the fiscal 2023 average. ALUULA sales increased by $1,114,972 in Q1 2024 compared to Q4 2023 due to existing windsport customers ordering more materials during the quarter, in addition to several new windsport brands purchasing materials to support product launches. Also contributing to the Q1 2024 increase in sales were approximately $200,000 in material orders from new customers in the outdoor market.

The trend of decreasing sales from Q1 to Q2 aligned with budget and was due to the seasonality of purchase orders within the windsport vertical market. This seasonality of ordering was experienced in fiscal 2022 but masked in fiscal 2023 due to the Q1 2023 working capital shortage that impacted fulfilment timelines as outlined above.

<u>Net and comprehensive loss from continued operations</u>
The Company's net and comprehensive income for Q4 2022 was $359,812 due to approximately $600,000 of Other income recognized during the quarter. The Other income was generated from licenses fees and the cancellation of a lease liability attached to a license agreement.

The $2,169,631 net and comprehensive loss for Q2 2023 included certain expenses incurred as a result of the Company's April 2023 RTO including a listing expense ($1,640,538) and stock compensation expense ($390,317). If those expenses were excluded, the adjusted net and comprehensive loss for Q2 2023 would have been $138,776 (the "Adjusted Q2 2023 Net and Comprehensive Loss). Q3 2023 and Q4 2023 net and comprehensive loss were higher than the Adjusted Q2 2023 Net and Comprehensive Loss due to a decline in quarterly sales which impacted gross profit and net and comprehensive loss reported.

The Company reported net and comprehensive income for Q1 2024 as both sales and gross margins increased while operating costs remained consistent. Q2 2024 net and comprehensive loss was impacted by the various restructuring costs incurred including approximately $390,000 in accrued restructuring costs associated with organizational changes and write downs associated with patents and trademark no longer needed to support the Company's growth. If these restructuring costs were excluded, the Company would have reported net and comprehensive income for the three months ended April 30, 2024.

<u>Net and comprehensive loss</u>
The net and comprehensive loss includes the net and comprehensive loss from both continued and discontinued operations. The decision to sell ALUULA materials to an increasing number of windsport brands had a negative impact on Ocean Rodeo's competitive advantage resulting in sales declines and ongoing quarterly net and comprehensive losses. Because Ocean Rodeo reported consistent quarterly net and comprehensive loss, the net and comprehensive loss balances exceed net and comprehensive loss from continued operations.

BALANCE SHEET ANALYSIS, LIQUIDITY, AND CAPITAL RESOURCES

ANALYSIS OF STATEMENT OF FINANCIAL POSITION

The following table presents selected information from the April 30, 2024 Interim Consolidated Financial Statements and the October 31, 2023 Consolidated Financial Statements, followed by a variance analysis below:

	April 30 2024	October 31 2023
Selected assets		
Cash and cash equivalents	$ 1,135,593	$ 773,368
Trade and other receivables	1,653,095	1,969,008
Inventory	1,219,867	1,560,222
Intangible assets	3,763,443	4,092,477
Investments	750,000	50,796
Goodwill	4,037,139	4,037,139
Selected liabilities		
Trade and other payables	1,388,110	983,311
Short-term loan from related party	1,000,000	-
Debt *	714,559	818,351
Lease obligations *	339,828	406,657

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

<u>Cash and cash equivalents</u>

Cash and cash equivalents balance at April 30, 2024 was $1,135,593, which is $362,225 higher than the balance at the end of October 2023. The increase in cash is a result of the Company securing a $1,000,000 short-term loan from a related party. Funds have been deployed to finance operations and working capital needs as the Company's planned production increases to meet forecasted order volumes and sales.

<u>Trade and other receivables</u>

Trade and other receivables decreased from $1,969,008 at the end of October 2023 to $1,653,095 at April 30, 2024. Under IFRS 5- *non-current assets held for sale and discontinued operations,* the Company is required to report Ocean Rodeo's trade and other receivable balance on the statement of financial position at April 30, 2024 under the caption "assets held for sale", without prior period restatement, which is the primary cause of the decrease. ALUULA's standalone trade and other receivable balance was $1,429,491 at October 31, 2023 compared to $1,653,095 at April 30, 2024. The $223,604 increase is primarily due to higher trade accounts receivable balances arising in the normal course of business as sales increase.

The Company's current account receivables comprise 47% of the balance owing (net of credit losses) while 39% or $562,849 is over 90 days. Of the balance over 90 days, the majority is due from Ocean Rodeo's third-party production factory for ALUULA materials purchased during fiscal 2022.

<u>Inventory</u>

Inventory balance as at April 30, 2024 was $1,219,867, representing a decrease of $340,355 compared to the balance at October 31, 2023. Under IFRS 5- *non-current assets held for sale and discontinued operations,* the Company is required to report Ocean Rodeo's inventory balance on the statement of financial position at April 30, 2024 under the caption "assets held for sale", without prior period restatement, which is the primary cause of the decrease in the Inventory balance. ALUULA's standalone inventory balance was $990,802 at October 31, 2023 compared to $1,219,867 at April 30, 2024. The $229,065 increase to inventory is due to the purchase of raw materials to support higher sales order volumes.

Intangible Assets

Intangible assets are primarily comprised of patents and trademarks. ALUULA acquired Ocean Rodeo on October 31, 2022 to support its efforts in product innovation and testing within the windsport market. At that time, Ocean Rodeo's patent portfolio was valued at $4,296,834. On October 31, 2023, certain key patents held by Ocean Rodeo were transferred to Aluula to ensure all patents supporting the Company's windsport cash generating unit were in one legal entity. The decision to discontinue Ocean Rodeo's operations raised the question of potential impairment of the intangible asset. An impairment analysis was performed on the Company's windsport cash generating unit (which is comprised of the Ocean Rodeo and ALUULA's windsport business) in accordance with IAS 36 – *Impairment of Assets*. The continued growth in ALUULA's customer base and income generated by patents utilized within the windsport cash generating unit supported the conclusion that there was no impairment at April 30, 2024.

Investment

The investment balance is comprised of ALUULA share ownership in Xlynx Materials Inc. and Ocean Rodeo's share ownership in GKA Event GmbH. For additional details on these investments, see Note 9 to the Consolidated Financial Statements. At April 30, 2024, Ocean Rodeo's investment in GKA Event GmbH was reclassified to "assets held for sale" in accordance with IFRS 5 while ALUULA's share ownership in Xlynx Materials Inc. was written up to fair market value ($750,000) based on the per share sale price negotiated in a May 2024 share purchase agreement with an arm's length third party. See Note 21 to the Interim Consolidated Financial Statements for additional information on this transaction.

Goodwill

The Company recorded $4,037,139 of goodwill when ALUULA acquired Ocean Rodeo on October 31, 2022. The decision to discontinue Ocean Rodeo's operations raised the question of potential impairment of goodwill. An impairment analysis was performed on the Company's windsport division, which is comprised of the Ocean Rodeo and ALUULA's windsport business in accordance with IAS 36 – *Impairment of Assets.* The continued growth in ALUULA's customer base and income generated by windsport customers was a key factor contributing to the conclusion that there was no impairment to goodwill at April 30, 2024

Trade and other payables

Trade and other payables balance was $1,388,110 at April 30, 2024 compared to $983,311 at October 31, 2023. The $404,799 increase is primarily due to accrued restructuring costs recorded at April 30, 2024 net of the reclassification of Ocean Rodeo liabilities for the same period end to "liabilities related to assets held for sale", without prior period restatement. ALUULA's standalone Trade and other payables at October 31, 2023 were $698,314 compared to $1,388,110 at April 30, 2024 representing an increase of $689,796. Approximately $390,000 of the increase is due to accrued restructuring costs noted above while the remaining increase is primarily due to growth in trade accounts payable resulting from purchase orders issued to raw input material suppliers as ALUULA manages inventory levels to support sales orders and forecasted growth

Short-term loan from related party

On December 29, 2023, the Company entered into a $1,000,000 short-term loan agreement with 0876991 BC Ltd, a related party. The loan bears interest at a rate of 12% per annum and is due on July 1, 2024. On June 21, 2024, the terms of the loan were amended to revise the due date to January 1, 2025. See Note 21 to the Interim Consolidated Financial statements.

Debt

As at April 30, 2024, the Company had $714,559 of debt which is $103,792 lower than the fiscal year ended October 31, 2023 balance of $818,351. The reduction in debt was due to repayments made in accordance with terms of the debt, which included the repayment of a $40,000 loan from Western Economic Development Canada. See Note 11 to the Interim Consolidated Financial statements for additional information.

Lease obligations

The Company's lease obligations consist of right-of-use lease obligations for the rental of office and production space. Lease obligations at the end of April 2024 were $339,828, a decrease of $66,829 compared to October 31, 2023. This decrease is a result of lease payments in the normal course of operations.

Off-balance sheet arrangements

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

CASH FLOW FROM OPERATING, INVESTING, AND FINANCING ACTIVITES

Analysis of cash flows:

For the six months ended		April 30 2024		April 30 2023
Cash used in operating activities - continued operations	$	(347,295)	$	(489,124)
Cash used in operating activities - discontinued operations		(55,608)		(926,892)
Cash provided by (used in) investing activities - continued operations		(71,762)		1,314,856
Cash provided by (used in) investing activities - discontinued operations		27,864		(25,519)
Cash provided by financing activities - continued operations		809,026		2,780,117
Cash provided by financing activities - discontinued operations		-		(5,333)
Increase in cash and cash equivalents	$	362,225	$	2,648,104

Operating activities

Cash used in operating activities from continued operations was $347,295 during YTD Q2 2024 compared to $489,124 during YTD Q2 2023 representing a $141,829 decrease. The primary reason for the reduction in cash used in operations compared to the prior year period is due to an increase in customer deposits held and increase in trade and other payables.

Cash used in operating activities from discontinued operations was $55,608 during YTD Q2 2024 compared to $926,892 during YTD Q2 2023. The primary reason for the reduction in cash used in discontinued operations compared to the prior year period is an increase in trade and accounts payable combined with the receipt of a SRED refund.

Investing activities

Cash used in investing activities from continued operations was $71,762 during YTD Q2 2024 compared to positive cash flow from investing activities of $1,314,856 during YTD Q2 2023. The cash flow from investing activities in YTD Q2 2023 was generated through the RTO transaction. The cash flow used in investing activities in YTD Q2 2024 is due to the acquisition of equipment and intangible assets.

Cash generated by investing activities from discontinued operations was $27,864 during YTD Q2 2024 compared to cash used in investing activities of $25,519 during YTD Q2 2023. The cash flow from investing activities in YTD Q2 2024 was due to a $36,298 repayment of a capital reserve account from GKA Event GmbH. The cash flow used in investing activities in YTD Q2 2023 is due to the acquisition of equipment and intangible assets.

Financing activities

During YTD Q2 2024, the Company generated $809,026 of cash flow from financing activities compared to $2,780,117 in YTD Q1 2023. The inflow of funds in YTD Q2 2024 was a result of the Company entering into a $1,000,000 short-term loan with a related party. YTD Q2 2023 cash flow from financing activities was due to the combination of proceeds received from the Company's RTO less repayment of debt.

Cash used in financing activities from discontinued operations was $nil in YTD Q2 2024 compared to $5,333 in YTD Q2 2023. The cash flow used in financing activities in YTD Q2 2023 was due to the repayment of lease liabilities.

WORKING CAPITAL AND DEBT MANAGEMENT

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

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

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

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

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

On July 12, 2023, the Company completed a bought deal and private placement led by Haywood Securities Inc. ("Haywood") for gross proceeds of $3,673,493 (The "Offering") through the issuance of 24,489,953 units (the "Units"), at a price of $0.15 each, which are comprised of one common share of the Company and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one common share of the Company at a price of $0.25 per share for a period of 24 months ended July 12, 2025. In connection with the Offering, the Company paid Haywood a cash commission of $220,410, issued to Haywood 1,469,397 broker warrants which are exercisable to acquire Units at the issue price, and paid Haywood a corporate finance fee comprised of $45,918 in cash and $137,756 payable in Units (918,375 Units).

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

The Company retains a credit card facility with the Bank of Nova Scotia which is used for purchasing efficiency.

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

On December 29, 2023, the Company entered into a $1,000,000 short-term loan agreement with 0876991 BC Ltd, a related party. The loan bears interest at a rate of 12% per annum and is due on July 1, 2024. On June 21, 2024, the Company and 0876991 amended the terms of the promissory note to extend the due date to January 1, 2025. All other terms remain unchanged.

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

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

CONTRACTUAL OBLIGATIONS

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

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

PRODUCTION CAPACITY AND CAPITAL EXPENDITURES

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

During Q2 2024, a second fusion pod was put into production to assist ALUULA meeting increasing customer demand for its various materials. ALUULA has dedicated this one pod to the exclusive production of the Gold material, while the second pod is used to manufacture other materials, such as Durlyte and Graflyte.

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

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

Patents

Where management feels it is warranted, patents are sought out to protect both designs and processes in certain global jurisdictions. The legal costs of acquiring these patents are capitalized as intangible assets where appropriate.

RESEARCH AND DEVELOPMENT ("R&D")

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

Customization of the ALUULA process

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

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

A production pod can produce approximately 25,000 square meters in a month of production of Gold material. Management estimates the volume can be increased to as much as 42,000 meters per month, with additional costs for employees to run multiple shifts per day and on weekends. As the Company commences commercial scale manufacturing of its new materials, production capacity may change.

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

Quality control and improvements to the ALUULA process

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

EQUITY

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

As of April 30, 2024, the Company had 250,615,623 shares issued and outstanding, 27,104,795 warrants outstanding and 21,866,905 stock options outstanding.

More detail on these transactions can be found in Notes 16 and 17 of the Interim Consolidated Financial Statements.

TAX MATTERS

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

ACCOUNTING POLICIES AND ESTIMATES

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

CRITICAL ACCOUNTING ESTIMATES

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

FUTURE ACCOUNTING PRONOUNCEMENTS

No new significant accounting standards were adopted during three and six months ended April 30, 2024. Future accounting pronouncements are disclosed in Note 3 of the Consolidated Financial Statements.

FAIR VALUE MEASUREMENTS

A number of the Company's financial instruments are recognized at fair value. Fair value is discussed in detail in the Interim Consolidated Financial Statements. There have been no changes to the fair value policies during the three months and six months ended April 30, 2024.

KEY RISKS AND RISK MANAGEMENT

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

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

STRATEGIC RISKS

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

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

<u>New Markets</u>
We are actively working to expose the Company's composite materials to markets outside windsport with an expectation of future commercialization within these other markets. There is risk that this may not be

successful, or that it will take longer than expected, delaying expected scaling of the Company's production levels and associated revenues.

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

OPERATIONAL RISKS

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

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

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

Management mitigates supply chain risk in the following ways:

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

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

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

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

Cyber security
The Company relies on a number of electronic systems to store and process data. There is risk of data loss if one of our providers experiences a data breach or loss of backups. Management has implemented

contracts with and uses the services of well-established or off-the-shelf service providers to meet these needs, such as Microsoft 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.

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 15 the Interim Consolidated 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 obtain customer deposits, where possible, where the Company is incurring out-of-pocket costs that cannot be recovered through retention and sale of the product being manufactured.
- We obtain payment prior to shipping for customers who are not subject to credit terms.

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, and proactively 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. As the Company's cash flows become more predictable, it will explore the implementation of a formal hedging policy.

Interest rate risk

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

INTERNAL CONTROLS AND PROCEDURES

QUALITY CONTROLS

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

ALUULA composite materials

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

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

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

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 executives with signing authority. Generating transfers of cash outside of the Company's bank requires a minimum of three people to create and authorize payments.

Use of Enterprise Reporting Planning ("ERP") software

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

External review and tax preparation

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

ENVIRONMENTAL SUSTAINABILITY

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

OUTLOOK

The Company is focused on working with its growing list of brand partners, developing products that are lighter, stronger, and more sustainable. These partnerships are built on the mutual understanding that performance and sustainability can be synonymous in the outdoor industry and beyond. The Products that are born from these partnerships work to change the industry for the better.

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

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

Product innovation, strength, weight, and sustainability are key areas of focus for ALUULA and its brand partners. Focusing on these areas as well as continued improvements to the patented manufacturing process will continue to improve efficiencies and profitability in the technical performance category in fiscal 2024.

RELATED PARTY TRANSACTIONS

Director related transactions:

The Company has a royalty agreement with Epic Ventures Inc. ("Epic"), 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's assignment of the applicable patents to the Company. Royalties of $57,601 and $93,952 were paid during the three and six months ended April 30, 2024 respectively (three and six months ended April 30, 2023 - $275,000 and $275,000).

Related parties:

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

Key management compensation:

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

Total compensation expense paid to the Executive Leadership Team for the three and six months ended April 30, 2024 was $286,691 and $457,339 respectively (three and six months ended April 30, 2023 - $297,388 and $404,515), which includes $34,156 and $34,156 (three and six months ended April 31, 2023 - $175,326 and $178,949) 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 $322,000 (April 30, 2023 - $328,000). Restructuring payments accrued and owing to key management personnel for the three and six months ended April 30, 2024 were $346,201 and $346,201 respectively (three and six months ended April 30, 2023 - $nil and $nil). The restructuring payments are recorded as salaries and benefits expense on these Interim Condensed Consolidated Financial Statements.

SUBSEQUENT EVENTS

Customer claim:

In June 2019, Ocean Rodeo signed a contract (the 'Contract") with a third-party customer (the "Customer") outlining the terms under which Ocean Rodeo would supply kites and bars (the "Products') to the Customer. Subsequent to year end, Ocean Rodeo received correspondence from the Customer claiming certain Products purchased under the terms of the Contract had quality issues which resulted in higher-than-expected return rates and the Customer's eventual withdrawal of those Product from their sales channels. The Customer is seeking reimbursement for Product return and recall costs totaling approximately $225,000. The Customer has also requested the right to return Products purchased and shipped at the end of fiscal totaling approximately $65,000. The Company has reviewed the Contract, facts and circumstances, and historical correspondence surrounding the Customer's claim and is of the opinion that the claim is not supported. The Company believes the claim meets the definition of a contingent liability under IAS 37 and no amount has been recorded in these unaudited interim condensed consolidated financial statements.

Sale of Xlynx Materials Inc. shares:

On May 31, 2024, the Company entered into a purchase and sale agreement (the "Agreement") with an arm's length third party to sell 176,470 Class A common shares in Xlynx Materials Inc., representing 50% of its shareholdings, for cash consideration of $375,000. Under the terms of the Agreement, the Buyer has the option to purchase the Company's remaining 176,471 shares (the "Additional Shares") on or before September 30, 2024 for cash consideration of $375,000. Both the Company and the Buyer can terminate the option to purchase the Additional Shares at any time by delivery of written notice to the other party confirming the termination.

Promissory note extension:

On December 29, 2023, the Company entered into a $1,000,000 short-term loan agreement with 0876991 B.C. Ltd. ("0876991"), a related party. The loan bears interest at a rate of 12% per annum and is due on July 1, 2024. On June 21, 2024, the Company and 0876991 amended the terms of the promissory note to extend the due date to January 1, 2025. All other terms remain unchanged.