Management's Discussion and Analysis of

ALUULA COMPOSITES INC.

For the fiscal years ended October 31, 2024 and 2023

NOTICE

The following Management Discussion and Analysis ("MD&A") provides information concerning Aluula Composites Inc.'s (the "Company") financial condition for the three months and fiscal years ended October 31, 2024 and 2023. This MD&A should be read in conjunction with the Company's audited Consolidated Financial Statements and notes thereto for the years ended October 31, 2024 and 2023 (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 February 7, 2025. 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.

"2023" 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, 2024 and 2023 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 that are referred to without the TM symbol. However, these trademarks and trade names are the property of their respective owners.

FORWARD-LOOKING INFORMATION

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

COMPARATIVE INFORMATION

Unless indicated otherwise, all comparative figures for the three months and fiscal year ended October 31, 2024, are referring to the results for the three months and fiscal year ending October 31, 2023.

ACCOUNTING FRAMEWORK

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

This MD&A may make reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, 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 Consolidated Financial Statements in accordance with IFRS. These estimates affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements, and the amounts of reported revenue and expenses during the reporting period.

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 SKUs. 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 Consolidated Financial Statements.

On August 1, 2024, Aluula Composites Inc. was amalgamated with its wholly owned subsidiary Aluula Composites Canada Inc. The amalgamation was completed to simplify the organizational structure. The newly amalgamated entity will carry on business under the legal name Aluula Composites Inc.

CORE BUSINESS

ALUULA

ALUULA's core business is the development, assembly, and sale of a broad range of composite materials to globally recognized industry brand partners 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, pack and bag, tents, bike accessories, 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, more UV resistant than incumbent materials, and recycle-ready at the end of their useful life.

ALUULA's most mature market is the windsport vertical 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.

Starting in fiscal 2023, ALUULA expanded its sales pipeline and onboarded additional customers in the Performance Outdoor and Commercial Industrial channels. Working in partnership with these customers to successfully replace incumbent materials, ALUULA developed additional composite materials including ALUULA Aeris™ ("Aeris"), ALUULA Aeris X™ (Aeris X), ALUULA Durlyte™ ("Durlyte"), and ALUULA Graflyte™ ("Graflyte").

- Aeris features the highest strength-to-weight ratio across all ALUULA materials and supports unique construction capabilities such as heat welding and thermoforming. Aeris has been developed for the windsport and sailing vertical markets.

- Aeris X has all the strength to weight and construction benefits of Aeris but is reinforced with an X-weave which makes the material more durable and stretch and tear resistant. This material is well suited to ultralight tents and aerospace applications.
- Durlyte 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.

Each of the above composite materials is recycle-ready at the end of useful life.

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.

FOURTH QUARTER IN REVIEW

Strategic refocus

During the second quarter 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 resulted in the following action items:

- 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.

During the fourth quarter ended October 31, 2024, the Company continued progress against the above action items by:

- Announcing the sale of certain operating assets of Ocean Rodeo to Bainbridge International Ltd. ("Bainbridge"). This sale ensures the long-standing Ocean Rodeo brand remains active and available for customers in the windsport category while also positioning ALUULA to continue supplying its composite materials to Bainbridge to support their re-launch of the brand.
- Monetizing non-core assets including Aluula's investment Xlynx Materials Inc ("Xlynx"). Aluula sold its investment in Xlynx in three separate tranches (May 31, 2024, September 27, 2024 and December 16, 2024) to arm's length third parties for total consideration of $750,000.
- Recruiting experienced professionals to the senior leadership team and Global Advisory Board (the "Advisory Board") that will support the Company in achieving its strategic and growth objectives.

Performance Outdoor channel update
During the three months ended October 31, 2024:

- ALUULA continued to gain momentum in the Performance Outdoor channel and increased sales by 85% compared to the same period in the prior year.
- Eight windsport brands launched kites and wings featuring Aluula Gold and Aeris materials.
- Two bag and pack companies announced their in-market launch of high performance bags made from Graflyte material.
- A prominent brand in the sailing vertical market continued field testing the Aeris material through vigorous sea trials.
- ALUULA shipped commercial scale orders to nine customers compared to three in the same period in the prior year.
- ALUULA attended key vertical market trade shows to network, showcase materials and solicit feedback from current and potential customers. These tradeshows included Pacific Crest Trail Days, an event that promotes hiking, camping, backpacking and outdoor stewardship, and the Association of Wind and Watersports Industries trade show that brings designers, riders, and wind and watersports enthusiasts together from around the world.

Commercial Industrial channel update

- ALUULA continued to build its sales pipeline within the Commercial Industrial channel.
- During the three months ended October 31, 2024, ALUULA had nine prospects at various sales cycle stages compared to two in prior year same period.
- The research and development partnerships with Michelin Inflatable Solutions and Airseas continued to progress.

ALUULA team update
During the three months ended October 31, 2024:

The Company recruited Dr Tyler Cuthbert to the senior leadership team. Tyler brings a portfolio of scientific achievement in synthetic polymer chemistry, material science and textiles with a number of patents and publications in the area of advanced materials. Tyler has experience developing strategic research and development pathways for sustainable performance-focused material-based products, with an interest in developing material and product strategies for achieving circularity. Tyler will play a key role in as the Company actively pursues a strategy of trade secret development combined with future strategic patent filings associated with its ongoing material science innovation efforts.

The Company also expanded its Advisory Board, a group with the primary purpose of advising on operational growth and efficiency, corporate and product strategy, and the transition into the circular economy. In addition to Alex Kutches, former President for Mystery Ranch, and Christophe Dardel, former President of DSM Dyneema, the Company welcome Ian Yolles to the Advisory Board. Ian is a venture partner at Closed Loop Partner's Venture Group where he's worked with several global brands including The Body Shop, Patagonia and Nike, as well as service as an advisory and board member for several early-stage companies. His experience in the circular economy and outdoor industry will support ALUULA's circularity ambitions.

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 months and fiscal year ended October 31, 2024 and 2023 with relevant variance analysis below.

	For the three month period ended		For the fiscal year ended	
	Oct 31, 2024	Oct 31, 2023	Oct 31, 2024	Oct 31, 2023
Sales	$ 1,666,861	$ 881,196	$ 6,359,229	$ 4,161,686
Cost of sales	1,015,256	657,466	3,756,656	2,893,813
Gross profit	651,605	223,730	2,602,573	1,267,873
Gross profit %	39%	25%	41%	30%
Operating expenses:				
Salaries and benefits	638,459	364,430	2,503,084	1,416,008
General and administrative	82,901	355,888	1,627,168	1,104,483
Marketing	26,562	30,155	210,222	121,331
Research and development	78,470	37,649	213,867	44,783
Share-based compensation	27,108	52,855	113,927	502,384
	853,500	840,977	4,668,268	3,188,989
Loss before interest, tax and amortization	(201,895)	(617,247)	(2,065,695)	(1,921,116)
Other income	7,501	58,373	771,313	211,841
Listing expense	-	-	-	(1,640,538)
Interest expense	(40,690)	(12,275)	(144,944)	(167,940)
Depreciation of property and equipment	(37,286)	(48,016)	(172,372)	(178,432)
Amortization of intangible assets	(66,700)	(67,195)	(266,016)	(264,081)
Loss before tax	(339,070)	(686,360)	(1,877,714)	(3,960,266)
Deferred tax (expense) recovery	(827,301)	159,063	(755,891)	327,450
Net comprehensive loss from continued operations	(1,166,371)	(527,297)	(2,633,605)	(3,632,816)
Net comprehensive loss from discontinued operations	(653,283)	(316,954)	(1,302,590)	(1,522,611)
Net loss and comprehensive loss	$ (1,819,654)	$ (844,251)	$ (3,936,195)	$ (5,155,427)

For the three month periods ended October 31, 2024 ("Q4 2024"), and October 31, 2023 ("Q4 2023"):

Sales

Q4 2024 sales were $1,666,861 compared to $881,196 during Q4 2023, which represents an 89% quarter over quarter increase.

Sales in both the Performance Outdoor and Commercial Industrial channels increased in Q4 2024 compared to Q4 2023. The Performance Outdoor channel reported a sales increase of $656,083 or 85%. Approximately 55% of this increase is attributable to the windsport vertical market as the Company sold materials at commercial scale to six windsport customers in Q4 2024 compared to three in Q4 2023 while the remaining 45% is attributable to sales orders shipped within the bag and pack vertical market where ALUULA manufactured commercial scale orders from three customers in Q4 2024. ALUULA considers companies purchasing approximately 1000 square meters of material at a commercialized scale.

The Commercial Industrial channel also reported increased sales of $129,582 or 120% in Q4 2024 compared to Q4 2023 as ALUULA fulfilled commercial scale orders within the wind power vertical market.

Cost of sales and gross margin

Q4 2024 cost of sales increased to $1,015,256 compared to $657,466 in Q4 2023 while gross margins increased to 39% in Q4 2024 from 25% in Q4 2023.

Q4 2024 gross margin was 39%, slightly lower than the Company's expected range of 40-45%. The shortfall from expectation was primarily due to an inventory adjustment that arose as a result of the year-end inventory count. If this inventory count adjustment was excluded, gross margins for Q4 2024 would have been 42%. Q4 2023 gross margin was 25%, which was also below the above noted expected range. The Q4 2023 shortfall was due to the write off of inventory during the quarter (approximate 12% impact), higher freight costs (approximate 3% impact) and lower production efficiencies as ALUULA manufactured more sample materials and small batches for prototype products to meet demand. Fulfilling these small batch orders across multiple material types is key to securing future commercial scale orders, however it results in lower production efficiency, which negatively impacts gross margins.

Salaries and benefits

Salaries and benefits expense was $638,459 in Q4 2024 compared to $364,430 in Q4 2023 representing a quarter over quarter increase of $274,029. This increase is primarily due to $160,000 of variable compensation accrued in Q4 2024, as well as the addition of new roles that were not in place during Q4 2023, including additions to the sales team, research and development team, and senior leadership team which resulted in a quarter over quarter increase of approximately $114,000.

General and administrative

General and administrative ("G&A") expenses were $82,901 in Q4 2024 compared to $355,888 in Q4 2023 representing a decrease of $272,987. 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.

Q4 2024 G&A expense is below historical levels primarily due a reduction in warranty and bad debt expenses. The Company's warranty expenses were approximately $170,000 lower in Q4 2024 compared to Q4 2023. The Q4 2023 warranty costs included a provision for specific material with a higher than average warranty return rate. The Company issued warranty returns to customers for this material throughout fiscal 2024. This material was not sold in fiscal 2024, resulting in a lower warranty provision and associated expense recorded in Q4 2024 compared to Q4 2023. The Company's Q4 2024 bad debt expense was approximately $91,000 lower than Q4 2023. The quarter over quarter decrease in bad debt is due to a bad debt recovery of approximately $140,000 recognized in Q4 2024 as Aluula finalized the write off of a specific account receivable. This specific account receivable was from Ocean Rodeo's third-party manufacturing facility (the "OR Manufacturer") that purchased ALUULA material for use in the manufacturing of Ocean Rodeo's kites and wings. The decision to discontinue Ocean Rodeo's operations resulted in the unanticipated consequence of this receivable being uncollectible. Subsequent to year end, the Company signed an agreement with OR Manufacturer that resulted in the return of materials sold that made up the accounts receivable balance. As outlined in Note 24 to the Consolidated Financial Statements, the Company is in the process of inspecting the materials to assess resale value. The Company has not recorded any value associated with returned materials on its Consolidated Financial Statements.

Marketing

Marketing expense was $26,562 in Q4 2024 which was consistent with the Q4 2023 expense of $30,155. Q4 2024 marketing expenses were incurred to participate in the tradeshows outlined earlier in this MD&A, distribute sample material, and engage a public relations firm to assist with the preparation and dissemination of promotional product material.

Research and development ("R&D")

R&D expense was $78,470 in Q4 2024 compared to $37,649 in Q4 2023 representing a quarter over quarter increase of $40,821. R&D expense for Q4 2024 was higher than Q4 2023 due to an increase in materials utilized to advance research and development initiatives.

Share based compensation

Share based compensation was $27,108 in Q4 2024 compared to $52,855 in Q4 2023 representing a decrease of $25,747. Share-based compensation expense was lower in Q4 2024 due to the reversal of previously recognized expense associated with forfeited options that had not vested on the date of employee departure.

Other income

Other income was $7,501 in Q4 2024 compared to $58,373 in Q3 2023 representing a quarter over quarter decrease of $50,872. The decrease is due to a reduction in licensing revenue in Q4 2024 compared to Q4 2023.

Interest expense

Interest expense for Q4 2024 was $40,690 compared to $12,275 for Q4 2023. Q4 2024 interest expense is primarily related to interest owing on the Company's $1,000,000 promissory note outstanding with 0876991 B.C. Ltd., a related party. This promissory note bears interest at 12%. Q4 2023 interest expense relates to the accretion expense on ALUULA's government loans and office lease.

Depreciation and Amortization

Depreciation and amortization expense for Q4 2024 was $103,986 which is consistent with the Q4 2023 expense of $115,211.

Deferred taxes

Deferred tax expense for Q4 2024 was $827,301 compared to a deferred tax recovery of $159,063 in Q4 2023. The Q4 2023 deferred tax recovery was primarily due to the recognition of deferred tax assets associated with tax loss carryforwards while the Q4 2024 deferred tax expense is due to the recording of a full allowance for those tax loss carryforwards under IFRS as the Company does not currently meet the required probability threshold for recognizing the tax loss carryforwards as deferred tax assets. As the Company meets its profitability milestones it will revisit whether these deferred tax assets can be recognized in accordance with IFRS.

Net and comprehensive loss from discontinued operations

Net and comprehensive loss from Ocean Rodeo's discontinued operations was $653,283 in Q4 2024 compared to a net and comprehensive loss of $316,954 in Q4 2023 representing a quarter over quarter increase to net and comprehensive loss of $336,329. Additional information on discontinued operations is included in Note 22 of the Consolidated Financial Statements.

Ocean Rodeo’s Q4 2024 sales decreased to $54,959 compared to $894,589 in Q4 2023 as a result of the strategic decision made at the end of Q2 2024 to hibernate Ocean Rodeo’s operations. The focus in Q4 2024 was to sell remaining inventory on an “as is” basis.

Q4 2024 gross margin from discontinued operations was negative compared to 28% for Q4 2023. Q4 2024 gross margin was negative due to a $90,000 stock provision recorded to write remaining inventory down to the lower of cost and net realizable value. If the stock provision were excluded, gross margins for Q4 2024 would have been 16%, which is still lower than Q4 2023. Q4 margins have also been negatively impacted by discounts offered to sell remaining inventory on an “as is” basis.

Q4 2023 gross margins were lower than historical average as they 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 Q4 2023 resulted in a negative impact to normalized margins of approximately 5%.

Ocean Rodeo’s operating expenses decreased by $708,321 in Q4 2024 compared to Q4 2023 as spending controls and employee terminations were implemented in light of Ocean Rodeo’s sales decline and discontinued operations.

Ocean Rodeo recognized a $591,592 deferred income tax expense in Q4 2024 compared to a deferred income tax recovery of $264,398 in Q4 2023. The Q4 2023 deferred tax recovery was primarily due to the recognition of deferred tax assets associated with tax loss carryforward while the Q4 2024 deferred tax expense is due to the recording of a full allowance for those tax loss carryforwards under IFRS as the Company does not currently meet the required probability threshold for recognizing the tax loss carryforwards as deferred tax assets.

For the fiscal year ended October 31, 2024 (“FY 2024”) and October 31, 2023 (“FY 2023”):

Sales

FY 2024 sales were $6,359,229 compared to $4,161,686 during FY 2023 period, which represents a 53% year over year increase.

The increase in sales was primarily due to the Performance Outdoor channel. Within this channel, the windsport vertical market reported a 36% increase in sales as a growing number of brands commercialized kites and wings featuring ALUULA material. The pack and bag vertical market reported an increase in sales of approximately $800,000 which represents a 16.5x increase over the prior year as customers moved from field testing and prototype production to commercial scale. Sales to the sailing vertical market more than doubled year over year as customers purchased material to support prototype production and field testing.

Cost of sales and gross margin

FY 2024 cost of sales increased to $3,756,656 compared to $2,893,813 for FY 2023, and gross profit increased to 41% in FY 2024 from 30% in FY 2023.

FY 2024 gross margin was within the Company’s expected range of 40-45%. FY 2023 gross margin lagged the expected range due to the write off of inventory (5% impact) and lower production efficiencies as ALUULA manufactured more sample materials and small batches for prototype products to meet demand. Fulfilling these small batch orders across multiple material types is key to securing future commercial scale orders, however it results in lower production efficiency, which negatively impacts gross margins.

Salaries and benefits

Salaries and benefits expense was $2,503,084 in FY 2024 compared to $1,416,008 in FY 2023 representing an increase of $1,087,076. Approximately $410,000 of the increase relates to accrued restructuring payments associated with the organizational changes implemented as part of ALUULA's strategic refocus. Also contributing to the year over year increase is approximately $160,000 related to variable compensation as well as $517,000 in additional costs associated with the addition of individuals to new roles that were not in place during the full FY 2023 year, including additions to the sales team, research and development team, and senior leadership team.

General and administrative

General and administrative ("G&A") expense was $1,627,168 in FY 2024 compared to $1,104,483 in FY 2023 representing an increase of $522,685. 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 year over year increase to G&A is primarily due to a $636,309 bad debt expense, a $51,340 increase in investor relations costs and a $132,000 increase in professional fees, offset by a reduction of approximately $200,000 in product warranty expense. The $636,309 bad debt primarily relates to a specific account receivable from Ocean Rodeo's third-party manufacturing facility detailed earlier in this MD&A. The increase in investor relations costs was due to a six-month contract entered into with an investor relations firm which ended in July 2024. Professional fees incurred during FY 2024 were higher than FY 2023 primarily due to legal fees incurred associated with organizational changes, patent strategy and drafting of standard corporate and customer facing contracts. Key drivers for the reduction in warranty expense were outlined earlier in this MD&A.

Marketing

Marketing expense was $210,222 in FY 2024 compared to $121,331 in FY 2023 representing an increase of $88,891. The increase in marketing expense was primarily due to the cost of sample materials sent to prospective customers, 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 $213,867 in FY 2024 compared to $44,783 in FY 2023 representing an increase of $169,084. R&D expense was low during the FY 2023 period as a result of adjustments made to R&D inventory after a physical inventory count. R&D expense was higher in FY 2024 due to the purchase of raw input materials for use in testing manufacturing at the 1.5m width, as well as 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 $113,927 in FY 2024 compared to $502,384 in FY 2023 representing a decrease of $388,457. Share-based compensation recognized FY 2023 was higher than FY 2024 due to the number of options granted during the period that vested immediately.

Other income

Other income was $771,313 in FY 2024 compared to $211,841 in FY 2023. The $559,472 increase to other income is primarily due to the fair value adjustment and realized gain recorded on ALUULA's investment in Xlynx. See Note 9 to the Consolidated Financial Statements for additional information.

Listing expense

During FY 2023, the Company recognized a listing expense of $1,640,538 associated with its April 2023 RTO as outlined in Note 4 to the 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. No such expense was incurred in FY 2024.

Interest expense

Interest expense for FY 2024 was $144,944 compared to $167,940 for FY 2023. Interest expense was $22,996 higher in FY 2023 due to interest paid on outstanding Scotia Bank facilities during the 2023 fiscal year exceeding interest paid on the related party loan outstanding during the fiscal 2024 year.

Depreciation and Amortization

Depreciation and amortization expense for FY 2024 was $438,388 which was consistent with the FY 2023 expense of $442,513.

Deferred taxes

Deferred tax expense for FY 2024 was $755,891 compared to a deferred tax recovery of $327,450 in FY 2023. The FY 2023 deferred tax recovery was primarily due to the recognition of deferred tax assets resulting from tax loss carryforward while the FY 2024 deferred tax expense is due to the recording of a full allowance for those tax loss carryforwards under IFRS as the Company does not currently meet the required probability threshold for recognizing the tax loss carryforwards as deferred tax assets. As the Company meets its profitability milestones, it will revisit whether these deferred tax assets can be recognized in accordance with IFRS.

Net and comprehensive loss from discontinued operations

Net and comprehensive loss from Ocean Rodeo's discontinued operations was $1,302,590 in FY 2024 compared to $1,522,611 in FY 2023 representing a decrease of $220,021.

Ocean Rodeo's FY 2024 sales decreased by $2,306,695 from $3,185,614 in FY 2023 to $878,919 in FY 2024 due to a combination of sales declines in Q1 and Q2 2024 as more windsport brands commercialized competitive products with ALUULA materials combined with the Company's decision at the end of Q2 2024 to discontinue Ocean Rodeo's operations as outlined earlier in this MD&A.

Ocean Rodeo's FY 2024 gross margins were 12% while FY2023 gross margins were 19%. Gross margins for FY 2024 were lower than normalized gross margins due to the write down of inventory to net realizable value (approximate 12% impact on gross margins) and the discounting of inventory sold on an "as is" basis. Gross margins in both fiscal year periods were also 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 FY2023 resulted in a negative impact to normalized margins of approximately 9%. Acquisition Inventory sold or written down during FY 2024 resulted in a negative impact to normalized margins of approximately 8%.

Operating expenses decreased by $973,030 in FY 2024 compared to FY 2023 as spending controls and employee terminations were implemented in light of Ocean Rodeo's sales decline and discontinued operations.

Other income of $507,597 relates primarily to a SRED refund received.

Ocean Rodeo's deferred tax expense for FY 2024 was $591,592 compared to a deferred tax recovery of $264,398 in FY 2023. The FY 2023 deferred tax recovery was primarily due to the recognition of deferred tax assets resulting from tax loss carryforward while the FY 2024 deferred tax expense is due to the recording of a full allowance for those tax loss carryforwards under IFRS as the Company does not currently meet the required probability threshold for recognizing the tax loss carryforwards as deferred tax assets.

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:

	October 31, 2024 ("Q4 2024")	July 31, 2024 ("Q3 2024")	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")
Sales *	$ 1,666,861	$ 1,291,938	$ 1,403,151	$ 1,997,279	$ 881,198	$ 966,565	$ 1,598,392	$ 715,532
Net and comprehensive income (loss) from continued operations	(1,166,371)	(1,215,139)	(369,680)	117,585	(356,710)	(411,411)	(2,169,631)	(494,102)
Net and comprehensive loss	(1,819,654)	(1,123,209)	(764,360)	(228,972)	(844,251)	(533,880)	(2,612,145)	(1,165,151)
Loss per share basic and diluted **	$ (0.01)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.02)	$ (0.01)

* Excludes sales from discontinued operations and includes reclassifications outlined below.

** Through the reverse takeover transaction described in Notes 1 and 4 to the Consolidated Financial Statements, the holders of common shares of Aluula received 26.05 common shares in the Company for each Aluula share held immediately prior to the amalgamation. All per share amounts presented in these tables have been adjusted to reflect this ratio.

	July 31, 2023	April 30, 2023	January 31, 2023
Sales - as originally reported	975,939	1,577,807	715,532
Restatement - shipping revenue	(9,374)	(11,223)	-
Restatement - warranty expense	-	31,808	-
Sales - restated	966,565	1,598,392	715,532

Sales

Sales for the fiscal 2023 year averaged $1,040,422 per quarter which represents a 52% increase over the fiscal 2022 average of $685,870. 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 123% increase to sales for the Q2 2023 period.

FY 2024 sales averaged $1,589,807 per quarter, which represents a 53% increase over the FY 2023 average. ALUULA sales increased by $1,116,081 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 pack and bag vertical market.

The decreasing in sales from Q1 2024 to Q2 2024 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.

Sales declined again from Q2 2024 to Q3 2024 due to the timing of receipt of orders from customers in the windsport vertical market as well as sales cycles taking longer than originally expected in new vertical markets. Longer sales cycles are materializing primarily due to additional time needed to collaborate with customers in new vertical markets on technical developments required to ensure ALUULA materials meet specifications and longer time periods needed to test prototype products prior to moving into commercial production.

Sales increased by $374,923 or 29% in Q4 2024 compared to Q3 2024 as customers in the windsport vertical market scaled up order volumes in preparation for 2025 product launches and a large material shipment made to a customer in the wind power vertical market.

Net and comprehensive loss from continued operations

The Company's net and comprehensive loss from continued operations for Q2 2023 was $2,169,631, higher than other reported quarters, because it 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 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.

Net and comprehensive loss in Q3 2024 was $1,215,139 as sales and gross margins decreased for the three month period, the Company allowed for approximately $700,000 in accounts receivables, and wrote -off approximately $70,000 of raw input materials that did not pass quality control testing when utilized in the manufacturing of ALUULA finished good materials.

Net and comprehensive loss was $1,166,371 in Q4 2024 due to the recognition of a deferred tax expense of $827,301 as previously outlined in this MD&A. If this non-cash deferred tax expense was excluded, the net and comprehensive loss would have been $339,070.

Net and comprehensive loss

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. The decision was made to discontinue Ocean Rodeo operations in Q2 2024 and as a result, its operating expenses were significantly reduced. The Company continued efforts to sell inventory in stock on an "as is" basis which combined with reduced operating costs resulted in net income from discontinued operations for the Q3 2024 period. Other than this Q3 2024 period, the Company has reported quarterly losses from Ocean Rodeo in seven of the eight previous quarters.

BALANCE SHEET ANALYSIS, LIQUIDITY, AND CAPITAL RESOURCES

ANALYSIS OF STATEMENT OF FINANCIAL POSITION

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

	October 31 2024	October 31 2023
Selected assets		
Cash and cash equivalents	$ 857,011	$ 773,368
Trade and other receivables	1,032,754	1,969,008
Inventory	1,098,320	1,560,222
Intangible assets	3,618,375	4,092,477
Investments	187,500	50,796
Goodwill	4,037,139	4,037,139
Selected liabilities		
Trade and other payables	981,067	983,311
Loan from related party *	1,000,000	-
Debt *	556,675	818,351
Lease obligations *	271,523	406,457

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

<u>Cash and cash equivalents</u>

Cash and cash equivalents balance at October 31, 2024 was $857,011 which is $83,643 higher than the balance at the end of October 2023. The increase in cash is primarily a result of the Company securing a loan from a related party in December 2023. Funds have subsequently 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 October 31, 2023 to $1,032,754 at October 31, 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 October 31, 2024 under the caption "assets held for sale", without prior period restatement, which is one cause for the decrease. ALUULA's standalone trade and other receivable balance was $1,429,491 at October 31, 2023 compared to $1,032,754 at October 31, 2024. The $396,737 decrease is due to the write down of aged amounts receivable outlined earlier in this MD&A, offset by a general increase in accounts receivable due to the year over year increase in sales.

The Company's current account receivables comprise 90% of the balance owing (net of credit losses) while 2% or $16,686 is over 90 days.

<u>Inventory</u>

Inventory at October 31, 2024 was $1,098,320, representing a decrease of $461,902 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 October 31, 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 $1,098,320 at October 31, 2024. The $107,518 increase to inventory is due to the purchase of raw materials in anticipation of 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 vertical 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 sales generated by patents utilized within the windsport cash generating unit supported the conclusion that there was no impairment at October 31, 2024.

Investment

The investment balance is comprised of ALUULA's share ownership in Xlynx and Ocean Rodeo's share ownership in GKA Event GmbH. As at October 31, 2024, Ocean Rodeo's investment in GKA Event GmbH has been reclassified to "assets held for sale" in accordance with IFRS 5 while ALUULA's share ownership in Xlynx Materials Inc. has been written up to fair market value based on the per share sale price negotiated during fiscal 2024 in share purchase agreements with an arm's length third parties. See Notes 9 and 24 to the Consolidated Financial Statements for additional information on these transactions.

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 sales generated by windsport customers was a key factor contributing to the conclusion that there was no impairment to goodwill at October 31, 2024

Trade and other payables

Trade and other payables balance was $981,067 at October 31, 2024 compared to $983,311 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 trade and other payables balance on the statement of financial position at October 31, 2024 under the caption "liabilities related to assets held for sale", without prior period restatement, which is the primary cause of the decrease. ALUULA's standalone trade and other payables at October 31, 2023 were $698,314 compared to $981,067 at October 31, 2024 representing an increase of $282,753. Approximately $189,000 of the increase is due to accrued severance associated with organizational changes made to support the strategic refocus while $160,000 of the increase is due to accrued variable compensation. Offsetting these increases is a $68,317 decrease in warranty provisions as previously discussed in this MD&A.

Loan from related party

On December 29, 2023, the Company entered into a $1,000,000 short-term loan agreement (the "Loan Agreement") with 0876991 B.C. Ltd., a related party. The loan bears interest at a rate of 12% per annum.

In June 2024, the parties agreed to amend the Loan Agreement and extend the repayment date from July 1, 2024 to January 1, 2025. On October 16, 2024, the parties entered into a second amendment to the Loan Agreement pursuant to which: (i) $200,000 of the loan remains payable on January 1, 2025 and the due date for repayment of the balance of $800,000 of the loan was extended to January 1, 2026; and (ii) the Company was affirmed as the debtor due to the corporate amalgamation with its wholly-owned subsidiary on August 1, 2024. All other terms of the Loan Agreement remain unchanged.

Debt

As at October 31, 2024, the Company had $556,675 of debt which is $261,676 lower than the fiscal year ended October 31, 2023 balance of $818,351. Under IFRS 5 - *Non-current assets held for sale and discontinued operations,* the Company is required to report Ocean Rodeo's debt balance on the statement of financial position at October 31, 2024 under the caption "liabilities related to assets held for sale", without prior period restatement. ALUULA's standalone debt at October 31, 2023 was $686,496 compared to $556,675 at October 31, 2024 representing a decrease of $129,821. 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. See Note 11 to the 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 October 31, 2024 were $271,523, a decrease of $134,934 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 fiscal year ended		Oct 31 2024		Oct 31 2023
Cash used in operating activities - continued operations	$	(928,463)	$	(1,873,669)
Cash used in operating activities - discontinued operations		(129,239)		(1,297,306)
Cash provided by investing activities - continued operations		487,662		1,251,452
Cash provided by (used in) investing activities - discontinued operations		22,872		(76,984)
Cash provided by financing activities - continued operations		734,111		5,275,515
Cash used in financing activities - discontinued operations		(103,300)		(56,320)
Increase in cash and cash equivalents	$	83,643	$	3,222,688

Operating activities

Cash used in operating activities from continued operations was $928,463 during FY 2024 compared to $1,873,669 during FY 2023 representing a $945,206 decrease. The primary reason for the reduction in cash used in operations compared to the prior fiscal year was the collection rate of accounts receivable.

Cash used in operating activities from discontinued operations was $129,239 during FY 2024 compared to $1,297,306 during FY 2023. The primary reasons for the reduction in cash used in discontinued operations compared to the prior year include a reduction in operating losses stemming from the decision to discontinue operations, the collection of accounts receivable, and the receipt of a SRED refund.

Investing activities

Cash provided by investing activities from continued operations was $487,222 during FY 2024 compared $1,251,452 during FY 2023. The cash flow from investing activities in FY 2023 was generated through the RTO transaction. The cash flow provided by investing activities in FY 2024 is primarily due to the sale of Xlynx shares as outlined in Notes 9 and 24 of the Consolidated Financial Statements.

Cash provided by investing activities from discontinued operations was $22,872 during FY 2024 compared to cash used in investing activities of $76,984 during FY 2023. The cash flow from investing activities in FY 2024 was due primarily to a $36,298 repayment of a capital reserve account from GKA Event GmbH. The cash flow used in investing activities in FY 2023 is due to the acquisition of equipment and intangible assets.

Financing activities

During FY 2024, the Company generated $734,111 of cash flow from financing activities compared to $5,275,515 in FY 2023. The inflow of funds in FY 2024 was primarily due to the Company entering into a $1,000,000 loan agreement with a related party. FY 2023 cash flow from financing activities was due to the combination of proceeds received from the Company's RTO and July 2023 private placement less repayment of debt.

Cash used in financing activities from discontinued operations was $103,300 in FY 2024 compared to $56,320 in FY 2023. The cash flow used in financing activities in FY 2024 was due to the repayment of third party debt while the cash flow used in financing activities in FY 2023 was due to the repayment of lease liabilities and long-term debt.

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. Interest free and partially forgivable loans have been received from PacifiCan. The Company is currently funding its operations through debt, promissory notes and equity issuances and is continuously explores other sources of additional capital. Below is a summary of transactions from the fiscal 2023 and 2024 years.

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 had an interest at 7% per annum, compounded monthly. The GCC loan and interest was repaid in April 2023.

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.

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, 2024, the Company's only third-party debt includes non-interest-bearing loans from Western Economic Diversification Canada, a Canadian government program recently renamed Pacific Economic Development Canada ("PacifiCan").

On December 29, 2023, the Company entered into a $1,000,000 short-term loan agreement (the "Loan Agreement") with 0876991 B.C. Ltd., a related party. The loan bears interest at a rate of 12% per annum.

In June 2024, the parties agreed to amend the Loan Agreement and extend the repayment date from July 1, 2024 to January 1, 2025. On October 16, 2024, the parties entered into a second amendment to the Loan Agreement pursuant to which: (i) $200,000 of the loan remains payable on January 1, 2025 and the due date for repayment of the balance of $800,000 of the loan was extended to January 1, 2026; and (ii) the Company was affirmed as the debtor due to the corporate amalgamation with its wholly-owned subsidiary on August 1, 2024. All other terms of the Loan Agreement 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, promissory notes owing to related parties, 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

Fusion Pods

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.

ALUULA currently has two fusion pods that are utilized in the production of various materials. One pod is used for the production of the materials at commercial scale, while the second pod manufactures R&D materials and smaller batch samples.

The Company is in the process of assessing the most efficient and effective way to manufacture at a width of 1.5 meters. Transitioning the Company's method of manufacturing to a wider width is a significant project with a long term multi-stage project plan. ALUULA has completed the stage of identifying suitable options for manufacturing at this wider width. The next stage involves manufacturing specific ALUULA SKUs at

1.5m width and analyzing material properties of the finished goods to ensure consistency with existing SKUs.

Other Equipment
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 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 manufacturing composite materials. R&D activities are key to the Company's success and are separated into two main areas:

Customization of the ALUULA process to support sales opportunities
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, the Company determines material specifications required and applies its 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 brand partner needs. Once finalized, ALUULA works with the brand partner's manufacturer to ensure smooth integration of our materials into their processes.

Ongoing product and process innovation
The R&D team is also engaged in various long projects including but not limited to transitioning ALUULA's materials into the circular economy and ongoing composite material innovation.

MANUFACTURING

The Company manufactures its composite materials using batch process production pods which are custom designed and proprietary equipment. A production pod can produce approximately 25,000 square meters in a month of production of Gold material. As the Company commences commercial scale manufacturing of its various other materials, production capacity may change.

Based on brand partner feedback, the Company commenced the process of exploring production at a 1.5 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. As noted earlier in this MD&A, the Company plans to transition to the wider 1.5 meter width as it allows customers to create their products with better nesting of the material, less waste, and fewer seams, reducing labour and assembly time.

EQUITY

As outlined in Note 4 to the 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 October 31, 2024, the Company had 250,615,623 shares issued and outstanding, 26,877,725 warrants outstanding and 20,823,155 stock options outstanding.

More detail on these transactions can be found in Notes 17 and 18 of the 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 Consolidated Financial Statements are described in Note 2 of those financial statements, with the associated accounting policies described in Note 3.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

FAIR VALUE MEASUREMENTS

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

KEY RISKS AND RISK MANAGEMENT

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

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

STRATEGIC RISKS

Reputation

As an early-stage commercial manufacturing 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 of controls and processes as outlined later in this MD&A.

New markets

We are actively working to expose the Company's composite materials to vertical 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, based on pipeline sales opportunities, with the understanding that not all opportunities will materialize within the expected timelines.

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 non-disclosure agreements 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.

<u>Excess production</u>
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 primarily producing to meet the demand of those confirmed purchase orders.

<u>Cyber security</u>
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, requiring verbal confirmation with a known party prior to making any changes to wire instructions and having open discussions with other staff when attacks occur ensuring the office is aware of the attempt.

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

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

Management looks to retain employees by offering fair and equitable compensation packages which include competitive salaries with performance-based upside, an employee stock option plan, an optional benefits package, and ensuring a strong work-life balance. The senior 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.

<u>Tariffs and taxes</u>
The Company participates in a global market and can be impacted by changing taxes, tariffs, and import and export duties (the "Tariffs and Taxes"). The Company analyzes the financial impact of changing Tariffs & Taxes on the business and where possible, mitigates exposure through geographical diversification of its supply chain.

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 16 the 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 and CIBC, which are both chartered Canadian banks.
- 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 occurs during the re-rolling and packaging stage to check for imperfections and contaminates, and a 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:

<u>Segregation of cash</u>
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 two people to create and authorize payments.

<u>Use of Enterprise Reporting Planning ("ERP") software</u>
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.

<u>External review and tax preparation</u>
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 SRED 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 recyclable 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 continues to work with its growing list of brand partners, developing products that are lighter, stronger, and recycle-ready. These partnerships are built on the mutual understanding that performance and circularity 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.

The windsports and performance outdoor categories are still the core drivers of ALUULA's growth as more new companies move from concept into commercialization launching new ALUULA enabled products in these areas. Collaborative research and development programs with other industrial partners, such as Michelin Inflatable Solutions and AirSeas, continue to advance the materials' development as these opportunities move closer to commercial viability.

Product innovation, strength, weight, and circularity 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. The Company continues to focus on stabilizing the corporate foundation to enable a strong base for future sales pipeline, revenue and gross margin growth.

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. The Company has recorded royalties of $191,272 for the year ended October 31, 2024 (2023 - $295,891).

Loan from related parties:
On December 29, 2023, the Company entered into a $1,000,000 short-term loan agreement (the "Loan Agreement") with 0876991 B.C. Ltd., a related party. The loan is guaranteed by the Company and secured against all present and after acquired personal property pursuant to a general security agreement. The loan bears interest at a rate of 12% per annum. Total interest paid for the year ended October 31, 2024 was $99,945 and is recorded in interest expense on the consolidated statement of loss and comprehensive loss.

In June 2024, the parties agreed to amend the Loan Agreement and extend the repayment date from July 1, 2024 to January 1, 2025. On October 16, 2024, the parties entered into a second amendment to the Loan Agreement pursuant to which: (i) $200,000 of the loan remains payable on January 1, 2025 and the due date for repayment of the balance of $800,000 of the loan was extended to January 1, 2026; and (ii) the Company was affirmed as the debtor due to the corporate amalgamation with its wholly-owned subsidiary on August 1, 2024. All other terms of the Loan Agreement remain unchanged.

Key management compensation:
The Company's key management personnel include the Executive Leadership Team, which is comprised of the Chief Executive Officer, Chief Financial Officer, and until June 30, 2024 a 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 relating to the Executive Leadership Team for the year ended October 31, 2024 was $857,315 (2023 - $725,371), which includes $114,730 (2023 - $203,571) in share-based compensation. Employment agreements with the members of the Executive Leadership Team provide for severance payments if the executive is terminated without cause totaling $nil (2023 - $280,000). Restructuring costs recorded on the consolidated statement of loss and comprehensive loss for key management personnel for year ended October 31, 2024 were $346,201 (2023- $nil). Remaining amounts owing for restructuring payments to key management personnel at October 31, 2024 were $189,318 (2023 - $nil). The restructuring costs are recorded as salaries and benefits expense on these consolidated financial statements.

SUBSEQUENT EVENTS

Settlement Agreement

On November 4, 2024, ALUULA and Ocean Rodeo signed an agreement (the "Agreement") with L.M.S. Manufactory Ltd. ("LMS") and A Lam Sails Limited ("A LAM") that outlined terms for settling transactions between the parties. LMS was a customer of ALUULA's that received shipments of composite materials (the "Aluula Materials") between 2020 and 2024. A LAM, a company related to LMS, was the legal entity responsible for manufacturing kites and wings for Ocean Rodeo and utilized Aluula Materials in this process. The decision to discontinue Ocean Rodeo's operations meant that A LAM would no longer be required to produce kites and wings for the company using Aluula Materials. During the fiscal year ended October 31, 2024, ALUULA wrote off $615,245 of accounts receivable from LMS as the balance was deemed uncollectible. Under the terms of the Agreement, LMS agreed to return the Aluula Materials to ALUULA at the Company's sole cost. On January 7, 2025, Company received the Aluula Materials at its warehouse and began the process of inspecting the materials to determine what could be resold. As at October 31, 2024, the Company has not recorded any value associated with the returned Aluula Materials.

Sale of Xlynx Comon Shares:

On December 2, 2024, the Company entered into a Purchase and Sale Agreement with an arm’s length third party to sell its remaining 88,236 shares in Xlynx for cash consideration of $187,500 (the “Transaction”). The Transaction closed on December 16, 2024.

Repayment of Western Economic Diversification Canada loan (the “PacifiCan Loan”):

On December 6, 2024, the Company repaid the remaining $68,675 PacifiCan Loan balance as described in Note 11 (b). The PacifiCan Loan was originally advanced to Ocean Rodeo under the RRRF program to offset business expansion costs. The repayment obligation arose as a result of the decision to discontinue Ocean Rodeo’s operations.

Rights Offering:

On December 16, 2024, the Company announced it was offering rights (the “Rights Offering”) to raise proceeds of up to approximately $2,500,000 with a $1,500,000 standby commitment.

Pursuant to the Rights Offering, each holder of the Company's common shares (the "Shares") of record at the close of business on December 30, 2024 resident in Canada will receive one transferable right (a "Right") for each one Share held. Each Right will entitle the holder to subscribe for one Share of the Company at a subscription price of $0.01 per Share (the "Basic Subscription Privilege").

The Rights Offering includes an additional subscription privilege (the “Additional Subscription Privilege”) under which eligible holders of Rights who fully exercise their Basic Subscription Privilege will be entitled to subscribe for additional available Shares on a *pro-rata* basis that are not otherwise subscribed for under the Basic Subscription Privilege.

Additionally, in connection with the Rights Offering, the Company has entered into a $1,500,000 standby purchase agreement with certain directors and officers of the Company (the "Standby Purchasers"), who have agreed to: (i) fully exercise their Basic Subscription Privilege to purchase 58,256,014 Shares; and (ii) to purchase up to an additional 150,000,000 Shares not otherwise subscribed for under the Rights Offering (the "Standby Commitment").

As consideration for the Standby Commitment, the Company has agreed to issue up to 26,250,000 bonus warrants to the Standby Purchasers. Each bonus warrant will be exercisable into one Share at a price of $0.10 per Share for a period of five years after issuance.

On January 21, 2025, the Rights Offering closed and the Company raised the maximum amount permitted under the Rights Offering of $2,506,156.17. At closing, the Company issued a total of 250,615,617 Shares, with 240,982,385 Shares issued pursuant to exercise of Basic Subscription Privilege and 9,633,232 Shares issued pursuant to the exercise of Additional Subscription Privileges. Because the Company raised the maximum amount permitted under the Rights Offering, the Standby Purchasers were not required to purchase additional Shares under the terms of the Standby Commitment.

Partial repayment of related party loan

On January 1, 2025, the Company repaid $200,000 of the $1,000,000 related party loan described in Note 13 (b). The remaining balance of $800,000 is due on January 1, 2026.