Management’s Discussion and Analysis of

ALUULA COMPOSITES INC.

For the three months ended January 31, 2025 and 2024

NOTICE

The following Management Discussion and Analysis ("MD&A") provides information concerning Aluula Composites Inc.'s (the "Company") financial condition for the three months ended January 31, 2025 and 2024 (the "Interim Consolidated Financial Statements"). 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 March 26, 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 ended January 31, 2025, are referring to the results for the three months ended January 31, 2024.

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 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 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 these Interim 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.

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 brand partners 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 brand partner is validated, the process starts with a needs analysis where ALUULA gathers information on what product characteristics are important to the brand partner. This is followed by collaboration on product development, advising on ideal manufacturing techniques and field testing. Once field testing has successfully concluded, ALUULA works with the brand partner and/or their manufacturer to launch full scale commercialization, which the Company defines as ordering approximately 1,000 square meters of material. Upon the completion of commercialization, brand partners 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.

FIRST QUARTER IN REVIEW

ALUULA started fiscal 2025 focused on goals that build on the momentum gained during fiscal 2024 and support the Company's achievement of its broader, long term strategic plan. These goals include:

- Continue sales growth and customer diversification across Performance Outdoor and Commercial Industrial sales channels.
- Manufacture specific ALUULA materials at a wider width to support increased sales to existing customers and expansion into new vertical markets.
- Engage with existing customers to ensure they are benefiting from innovative construction techniques unique to the ALUULA materials.
- Build greater brand awareness within the Performance Outdoor channel to highlight the performance advantages and circularity of ALUULA's materials.
- Focus on operational efficiencies to ensure gross margins align with expectation as the Company continues to advance against key financial milestones.

During the three months ended January 31, 2025, the Company:

- Completed an oversubscribed rights offering raising gross proceeds of $2,506,156.
- Assembled the Global Advisory Board to discuss competitive positioning, market opportunities, and success criteria for fiscal 2025.
- Reduced sales concentration in windsport vertical market to 80% in Q1 2025 compared to 89% in Q1 2024 with notable increases to the pack and bag and sailing vertical markets as well as the commercial industrial sales channel.
- Increased the number of customers ordering materials in prototype size batches, which range from one roll to commercial sized orders, by 10% in Q1 2025 compared to Q1 2024.
- Achieved greater vertical market diversity in the sales pipeline with 5% of these prototype sized orders being generated by the windsport vertical market in Q1 2025 compared to 39% in Q1 2024.
- Reported gross margin of 45%, which is at the top end of the Company's expected range of 40-45%.

- Continued progress against the project plan to expand manufacturing capabilities at a wider 1.5 meter width by producing specific SKUs that replicate performance attributes of existing SKUs, advancing the project to the next stage.
- Conducted site visits with its largest customers to gain an improved understanding of current manufacturing capabilities and techniques.
- Amplified brand partners Parbat and Hyperlite's product launches with social media and news articles.
- Launched a research and development project that leverages artificial intelligence to improve efficiency of the Company's quality assurance program, with a target completion timeline of Q4 2025.

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 ended January 31, 2025 and 2024 with relevant variance analysis below.

For the three months ended	January 31 2025	January 31 2024
Sales	$ 1,261,529	$ 1,997,279
Cost of sales	693,782	1,095,652
Gross profit	567,747	901,627
Gross margin %	45%	45%
Operating expenses:		
Salaries and benefits	552,840	376,270
General and administrative	170,655	171,637
Marketing	12,117	77,522
Research and development	36,173	26,765
Share-based compensation	47,745	30,838
	819,530	683,032
Income (loss) before interest, tax and amortization	(251,783)	218,595
Other income	7,772	7,797
Interest expense	(38,151)	(21,792)
Depreciation and amortization	(104,801)	(112,874)
Income (loss) from continued operations before tax	(386,963)	91,726
Deferred income tax recovery	17,642	25,859
Net and comprehensive income (loss) from continued operations	(369,321)	117,585
Net loss and comprehensive loss from discontinued operations	(5,395)	(346,557)
Net loss and comprehensive loss	$ (374,716)	$ (228,972)

For the three month periods ended January 31, 2025 ("Q1 2025"), and January 31, 2024 ("Q1 2024"):

Sales

Q1 2025 sales were $1,261,529 compared to $1,997,279 during Q1 2024, which represents a 37% quarter over quarter decrease.

The decrease in sales is due to the Performance Outdoor channel, which reported a sales decline of $770,633 or 39%. The majority of this decline was due to the windsport vertical market, where Q1 2025 sales were $752,859 lower than in Q1 2024. The windsport vertical market continues to recover from post pandemic softness which led to inventory overstocking and resulted in changes to customer ordering patterns. In Q1 2024, ALUULA received and shipped materials associated with large sales orders from a customer that manufactures kites and wings for several of the Company's brand partners. In subsequent fiscal 2024 quarters, this customer's ordering volumes declined significantly. For fiscal 2025, the Company expects this customer to place more consistent sales orders across each quarter.

The Commercial Industrial channel reported a modest sales increase in Q1 2025 compared to Q1 2024, which was due to the fulfillment of a commercial scale order.

Cost of sales and gross margin

Q1 2025 cost of sales decreased to $693,782 compared to $1,095,652 in Q1 2024 while gross margins remained consistent at 45%, which is at the top end of the Company's expected range of 40%-45%.

Salaries and benefits

Salaries and benefits expense was $552,840 in Q1 2025 compared to $376,270 in Q1 2024 representing a quarter over quarter increase of $176,570. This increase is primarily due additional headcount in the sales & marketing, production, R&D and accounting departments as well as severance payments made due to the restructuring of the sales department.

General and administrative

General and administrative ("G&A") expenses were $170,655 in Q1 2025 which is consistent with Q1 2024 expense of $171,637. 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.

During Q1 2025, the Company adjusted its warranty provision to account for the expiry of a warranty term associated materials sold in fiscal 2022 with a higher than average warranty rate as well as an estimated warranty provision for materials that may have been impacted by the production issue outlined in Note 18 of the Interim Consolidated Financial Statements. The overall impact of these adjustments was a quarter over quarter decrease in warranty expense of approximately $30,000. Offsetting this decrease was an increase in legal fees incurred in Q1 2025 compared to Q1 2024.

Marketing

Marketing expense was $12,117 in Q1 2025 compared to $77,522 in Q1 2024 representing a decrease of $65,405. The Q1 2024 marketing expense included costs of approximately $55,000 to attend and exhibit at the ISPO tradeshow in Munich, Germany. Tradeshow attendance is planned annually during the Company's budgeting cycle and is dependent on a number of factors including but not limited to whether new materials are being launched. ALUULA did not attend the ISPO trade show in Q1 2025 as the sales team focused efforts on managing existing customer relationships and nurturing opportunities in the Company's sales pipeline.

Research and development ("R&D")

R&D expense was $36,173 in Q1 2025 compared to $26,765 in Q1 2024 representing a quarter over quarter increase of $9,408. R&D expense for Q1 2025 was higher than Q1 2024 due to an increase in materials utilized to advance research and development initiatives, including methods of manufacturing at a wider width.

<u>Share-based compensation</u>
Share-based compensation was $47,745 in Q1 2025 compared to $30,838 in Q1 2024 representing an increase of $16,907. Share-based compensation expense was higher in Q1 2025 due to an increased number of options outstanding compared to Q1 2024.

<u>Other income</u>
Other income is made up primarily of interest income earned on cash balances and license income earned from a pre-RTO collaborative research and development contract. Interest income was $7,772 in Q1 2025 compared to $3,149 in Q1 2024. License income was $4,648 in Q1 2024 and $nil in Q1 2025 as the Company's pre-RTO contract has run its course.

<u>Interest expense</u>
Interest expense for Q1 2025 was $38,151 compared to $21,792 for Q1 2024 representing a quarter over quarter increase of $16,359. Interest expense in both Q1 2024 and Q1 2025 is primarily due to interest paid on the Company's $1,000,000 loan from related party 0876991 B.C. Ltd. The Q1 2024 interest expense is lower than Q1 2025 as the related party loan was entered into at the end of Q1 2024.

<u>Depreciation and Amortization</u>
Depreciation and amortization expense for Q1 2025 was $104,801 which is consistent with the Q1 2024 expense of $112,874.

<u>Deferred taxes</u>
Deferred income tax recovery for Q1 2025 was $17,642 which is consistent with the Q1 2024 recovery of $25,859. Deferred income tax recoveries recognized in both periods relate to the reduction of the deferred tax liability that occurs as intangible assets are amortized.

<u>Net and comprehensive loss from discontinued operations</u>
Net and comprehensive loss from Ocean Rodeo's discontinued operations was $5,395 in Q1 2025 compared to a net and comprehensive loss of $346,557 in Q1 2024 representing a quarter over quarter decrease of $341,162. Additional information on discontinued operations is included in Note 17 of the Interim Consolidated Financial Statements.

Ocean Rodeo's Q1 2025 sales decreased to $184,089 compared to $336,976 in Q1 2024 as a result of the strategic decision made at the end of Q2 2024 to hibernate Ocean Rodeo's operations.

Q1 2025 gross margin from discontinued operations was 17% compared to 34% for Q1 2024. The decline in gross margin was due to the sale of inventory at a discount and on an "as is" basis.

Ocean Rodeo's operating expenses decreased by $407,122 in Q1 2025 compared to Q1 2024 as spending controls and employee terminations were implemented as a result of the decision to discontinue operations. A marketing expense recovery was recognized in Q1 2025 after the Company successfully negotiated a lower cost to exit a fixed term commitment previously accrued at full contract value.

SUMMARY OF QUARTERLY RESULTS

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

	January 31, 2025 ("Q1 2025")	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")
Sales *	$ 1,261,529	$ 1,666,861	$ 1,291,938	$ 1,403,151	$ 1,997,279	$ 881,198	$ 966,565	$ 1,598,392
Net and comprehensive income (loss) from continued operations	(369,321)	(1,166,371)	(1,215,139)	(369,680)	117,585	(356,710)	(411,411)	(2,169,631)
Net and comprehensive loss	(374,716)	(1,819,654)	(1,123,209)	(764,360)	(228,972)	(844,251)	(533,880)	(2,612,145)
Loss per share basic and diluted **	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.02)

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

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

<u>Sales</u>

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.

Fiscal 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.

Q1 2025 sales of $1,261,529 are below the fiscal 2024 average of $1,589,807 due to the timing of receipt of sales orders from a large customer in the windsport vertical market discussed earlier in this MD&A. The Company is also experiencing longer sales cycles due to time requirements needed to collaborate with customers in new vertical markets on technical developments and prototype testing prior to moving into commercial production.

<u>Net and comprehensive loss from continued operations</u>

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 reverse takeover transaction 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 from continued operations would have been $339,070.

The Company's net and comprehensive loss from continued operations was $369,321 in Q1 2025, which is in line with expectation given sales and gross margins reported.

<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. 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 January 31, 2025 Interim Consolidated Financial Statements and the October 31, 2024 Consolidated Financial Statements, followed by a variance analysis below:

	January 31 2025	October 31 2024
Selected assets		
Cash and cash equivalents	$ 2,918,878	$ 857,011
Trade and other receivables	789,983	1,032,754
Inventory	1,481,036	1,098,320
Intangible assets	3,552,000	3,618,375
Investments	-	187,500
Goodwill	4,037,139	4,037,139
Selected liabilities		
Trade and other payables	1,193,398	981,067
Loan from related party *	800,000	1,000,000
Debt *	528,509	556,675
Lease obligations *	237,152	271,523

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

Cash and cash equivalents

Cash and cash equivalents balance at January 31, 2025 was $2,918,878 which is $2,061,867 higher than the balance at the end of October 2024. The increase in cash is a result of the Company rights offering which closed January 21, 2025 and resulted in cash proceeds after share issuance costs of $2,377,603.

Trade and other receivables

Trade and other receivables decreased from $1,032,754 at October 31, 2024 to $789,983 at January 31, 2025. The $242,771 decrease is due to a combination of lower sales in Q1 2025 compared to Q4 2024 in addition to the collection of outstanding receivables in the normal course of business.

The Company's current account receivables comprise 56% of the balance owing (net of credit losses) while 4% or $31,534 is over 90 days.

Inventory

Inventory at January 31, 2025 was $1,481,036, representing an increase of $382,716 compared to the balance at October 31, 2024. The increase in inventory is due to the purchase of raw materials in anticipation of higher sales order volumes.

The Company disclosed as a subsequent event on the Consolidate Financial statements that 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, 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. The inspection was completed during the quarter and the Company concluded the majority of the materials could not be resold due to age (certain raw inputs utilized in manufacturing process have been subsequently updated) and condition.

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 value of intangible assets continues to decrease as they are amortized over their estimated useful life.

Investment

The investment balance at October 31, 2024 is comprised of ALUULA's share ownership in Xlynx Materials Inc. ("Xlynx"). During Q1 2025, the Company sold its remaining Xlynx shares to an arm's length third party for cash consideration of $187,500.

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 overall growth trend in sales generated by windsport customers was a key factor contributing to the conclusion that there was no impairment to goodwill at January 31, 2025.

Trade and other payables

Trade and other payables balance was $1,193,398 at January 31, 2025 compared to $981,067 at October 31, 2024. The $212,331 increase in trade and other payables is primarily due to an increase in trade payables owing to raw input suppliers for the purchase of materials to support anticipated customer sales orders.

Loan from related party

The loan from related party decreased from $1,000,000 at October 31, 2024 to $800,000 at January 31, 2025 due to a repayment made on January 1, 2025 in accordance with the terms of the loan.

Debt

As at January 31, 2025, the Company had $528,509 of debt which is $28,166 lower than the fiscal year ended October 31, 2024. The decrease in debt is a result of repayments made in accordance with terms of the debt.

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 January 31, 2025 were $237,152, a decrease of $34,371 compared to October 31, 2024. This decrease is a result of lease payments made 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 three months ended	Jan 31 2025	Jan 31 2024
Cash used in operating activities - continued operations	$ (139,397)	$ (82,887)
Cash used in operating activities - discontinued operations	(13,509)	(419,653)
Cash provided by (used in) investing activities - continued operations	182,732	(24,134)
Cash provided by investing activities - discontinued operations	-	30,084
Cash provided by financing activities - continued operations	2,104,560	964,838
Cash used in financing activities - discontinued operations	(72,519)	(55,791)
Increase in cash and cash equivalents	$ 2,061,867	$ 412,457

<u>Operating activities</u>

Cash used in operating activities from continued operations was $139,397 during Q1 2025 compared to $82,887 in Q1 2024. The increase in use of cash can be attributed to the difference in net and comprehensive income (loss) between the two periods.

Cash used in operating activities from discontinued operations was $13,509 during Q1 2025 compared to $419,653 during Q1 2024. Cash used in discontinued operations was lower in Q1 2025 as a result of cost cutting measures implemented.

<u>Investing activities</u>

Cash provided by investing activities from continued operations was $182,732 during Q1 2025 compared to cash used in investing activities of $24,143 during Q1 2024. The cash flow provided by investing activities in Q1 2025 is primarily due to the sale of Xlynx shares discussed earlier in this MD&A and outlined in Note 9 and 24 of the Consolidated Financial Statements.

Cash provided by investing activities from discontinued operations was $nil during Q1 2025 compared to $30,084 during Q1 2024. The cash flow from investing activities in Q1 2024 was primarily due to a $36,297 repayment of a capital reserve account from GKA Event GmbH ("GKA"). Additional information on GKA can be found in Note 9 of the Consolidated Financial Statements.

<u>Financing activities</u>

Cash provided by financing activities from continued operations was $2,104,560 during Q1 2025 compared to $964,838 during Q1 2024. Q1 2025 cash flows were generated by the Company's rights offering as outlined in Note 14 to the Interim Consolidated Financial Statements. The inflow of funds during Q1 2024 was due to receipt of a $1,000,000 loan from a related party detailed in the Working Capital and Debt Management section below.

Cash used in financing activities from discontinued operations was $72,519 in Q1 2025 compared to $55,791 in Q1 2024. The cash flow used in financing activities in both Q1 2025 and 2024 was due primarily to the repayment of third party 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 debt and equity issuances. Where government grants for interest free or forgivable loans are available to the Company, management applies for funding. ALUULA continuously explores sources of additional capital available to companies in their early growth lifecycle stage.

Loans from related parties

On December 29, 2023, the Company entered into a $1,000,000 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. The Company repaid $200,000 on January 1, 2025 in accordance with the loan repayment schedule.

Debt and government funding

On January 29, 2025, the Company signed a Contribution Agreement with the National Research Council of Canada (“NRC”), as representatives of the Industrial Research Assistance Program (“IRAP”). Under the terms of the Contribution Agreement, the NRC has agreed to reimburse the Company up to $75,000 against specific costs incurred in relation to a project aimed at utilizing artificial intelligence to improve the efficiency of the Company’s quality assurance and quality control processes (the “Project”). The Project term is from February 1, 2025 to October 31, 2025. The Company must comply with the terms of the Contribution Agreement in order to qualify for cost reimbursement.

On March 23, 2022, the Company signed an agreement to receive funding up to $737,500 through the Western Economic Diversification Canada (“WD Canada”) Business Scale-up and Productivity program to offset costs of business expansion as prescribed in the funding agreement. This funding is in the form of an interest free loan, repayable in monthly instalments of $12,459. Monthly installments commenced April 1, 2024 and will continue until the loan is repaid on March 1, 2029. As of January 31, 2025, $729,114 (October 31, 2024 - $729,114) of the available funding had been received, and the loan had a discounted balance of $528,509 (October 31, 2024 - $556,676).

On August 24, 2020, Ocean Rodeo signed an agreement to receive up to $190,000 through WD Canada’s Regional Relief and Recovery Fund (“RRRF”) to offset costs of business expansion as prescribed in the funding agreement. This funding is in the form of an interest free loan, repayable in monthly instalments of $5,275 beginning January 31, 2023. On December 6, 2024, the Company repaid the remaining $68,675 balance of this loan therefore as at January 31, 2025, the discounted balance was $nil (October 31, 2024 - $72,307).

Equity issuances

On January 21, 2025, the Company completed a offering of rights (the “Rights Offering”) which resulted in the issuance of 250,615,617 common shares at a price of $0.01 per share for gross proceeds of $2,506,156. 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 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 issued 26,250,000 bonus warrants to the Standby Purchasers. Each bonus warrant is exercisable into one Share at a price of $0.10 per Share for a period of five years. 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. Share issuance costs for the Rights Offering were $665,617 including $537,064 representing the estimated fair value of the warrants. Net proceeds of $2,337,588 were apportioned between share capital ($1,840,540) and contributed surplus ($537,064) based on the relative fair value of the shares and warrants issued in Rights Offering.

A summary of proceeds raised by the Company from the issuance of equity starting in April 2023 at the time of the RTO with BSP is as follows:

Date	Issuance of equity from:	Gross proceeds	Transaction costs	Net proceeds	FMV warrants issued
April 6, 2023	BSP SubCo pre-RTO private placement	$ 2,186,800	$ 12,180	$ 2,174,620	n/a
April 13, 2023	Exercise of employee stock options pre RTO	152,585	-	152,585	n/a
April 13, 2023	Repayment of shareholder loan via share issuance	1,983,002	-	1,983,002	n/a
April 14, 2023	BSP private placement	813,200	21,000	792,200	n/a
May 2023	Warrant exercise	14,793	-	14,793	n/a
July 12, 2023	Brokered private placement	3,673,493	441,154	3,232,339	1,194,566
April 14, 2024	Exercise of employee stock options	6,000	-	6,000	n/a
January 21, 2025	Rights Offering	2,506,156	128,553	2,377,603	537,064

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.

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 larger quantities of specific ALUULA SKUs at 1.5m width for the purpose of manufacturing protype products with the materials.

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

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 certain SKUs 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 of January 31, 2025, the Company had 501,231,240 shares issued and outstanding, 53,127,725 warrants outstanding and 20,823,155 stock options outstanding.

More detail on these transactions can be found in Notes 14 and 15 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 to the Consolidated Financial Statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

No new significant accounting standards were adopted during three months ended January 31, 2025. Future accounting pronouncements are disclosed in Note 3 of the Consolidated Financial Statements.

FAIR VALUE MEASUREMENTS

A number of the Company's financial instruments are recognized at fair value. Fair value is discussed in detail in the Interim Consolidated Financial Statements. There have been no changes to the fair value policies during the three months ended January 31, 2025.

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 developed 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.

Excess production

As ALUULA is early in the growth stage, there is risk attached to producing finished composites in advance of sales 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 sales orders from customers, and by primarily producing to meet the demand of those confirmed sales 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 most 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.

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 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.

Changing international trade policies

Due to the interconnected nature of the global economy, policy changes in one region can have immediate and significant adverse effects on markets worldwide. Amendments to international trade policies—including changes to existing agreements, increased restrictions on free trade, and substantial rises in customs duties and tariffs on goods imported could negatively impact the Company's results of operations.

In early 2025, the United States ("US") administration has announced intentions to implement or increase tariffs. In early 2025, tariffs of 25% were announced on most Canadian and Mexican goods as well as 20% on Chinese products imported into the US. Shortly thereafter, retaliatory tariffs were announced by Canada and China. At this time, specific additional actions and effective date for tariffs remain uncertain. The impact of these potential tariffs on our business and financial condition is influenced by several unknown factors, including the effective date and duration of such tariffs, their scope and nature, the amount imposed, and any further retaliatory measures by the target countries.

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 13 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 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:

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 two 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 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 windsport and other 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 $31,276 for the three months ended January 31, 2025 (January 31, 2024 - $36,351).

Loan from related parties:

On December 29, 2023, the Company entered into a $1,000,000 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 three months ended January 31, 2025 was $28,208 (January 31, 2024 - $9,863) 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. In accordance with the terms of the second amended Loan Agreement, the Company repaid $200,000 on January 1, 2025 resulting in a balance owing of $800,000 on January 31, 2025.

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 Chief Scientific 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 three months ended January 31, 2025 was $207,471 (January 31, 2024 - $170,648), which includes $40,287 (January 31, 2024 - $nil) 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 (January 31, 2024 - $280,000). At January 31, 2025, the remaining balance of accrued restructuring liabilities recorded during the fiscal 2024 year was $112,818 (October 31, 2024 - $189,319).

SUBSEQUENT EVENTS

Share consolidation:

On February 18, 2025, the TSX Venture Exchange ("TSXV") approved the consolidation of the Company's common shares (the "Shares") on the basis of one (1) post-consolidation Share outstanding for every twenty (20) pre-consolidation Shares (the "Consolidation"). On March 12, 2025 (the "Effective Date") the Company's Shares commenced trading on the TSXV on a consolidated basis. As a result of the Consolidation, on the Effective Date, a total of approximately 25,061,562 Shares will be issued and outstanding, subject to adjustments for rounding.

Production Temperature Variance:

Subsequent to January 31, 2025, the Company identified a production variance that occurred as a result of rapid and unforeseen changes in ambient conditions. It was concerned that this variance, which occurred between January 20, 2025 and February 5, 2025, could have led to certain materials with variable mechanical performance. The Company is in the process of testing materials that may have been impacted based on manufacturing timeline, testing and data analysis. Materials tested to-date have demonstrated mechanical performance consistent with the required product specification and customers with orders that may be impacted have been notified. To mitigate any risk of reoccurrence, the Company is conducting a full review and implementing additional quality assurance mitigation.