

Management's Discussion and Analysis of

# **ALUULA COMPOSITES INC.**

For the three- and nine-months ended July 31, 2023, and July 31, 2022

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## NOTICE

The following document provides information concerning the financial condition and results of operations of the Company (as defined below) for the three- and nine-months ended July 31, 2023 ("Q3 2023") and July 31, 2022 ("Q3 2022"), and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three- and nine-months ended July 31, 2023 and July 31, 2022 and with the audited financial statements for the year ended October 31, 2022.

The Board of Directors is responsible for the review and approval of the MD&A and has approved the contents of this MD&A on Sept 28, 2023.

## DEFINITIONS

In this document, the terms "we", "us", "our", and "Company" refer to ALUULA Composites Inc. on a consolidated basis. "ALUULA" refers to the standalone entity ALUULA Composites Inc., and "Ocean Rodeo" refers to the standalone entity Ocean Rodeo Sports Inc. As Ocean Rodeo was acquired by ALUULA on October 31, 2022, consolidated figures from the statement of comprehensive income exclude the results of Ocean Rodeo for the three- and nine-months ended July 31, 2022, by necessity.

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

The term "Consolidated Financial Statements" refers to the Consolidated Financial Statements of ALUULA Composites Inc. dated October 31, 2022, unless indicated otherwise.

The term "Interim Financial Statements" refers to the Interim Condensed Consolidated Financial Statements of ALUULA Composites Inc. dated July 31, 2023, unless indicated otherwise.

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

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

## FORWARD-LOOKING INFORMATION

Certain statements contained in this Management's Discussion and Analysis ("MD&A") are forward-looking and may constitute "forward-looking information" within the meaning of applicable securities legislation. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "expect" or "believe" used by any of the Company's management are intended to identify forward-looking statements. Such statements reflect the Company's forecasts, estimates and expectations as they relate to the management's current views based on their experience and expertise with respect to future events and are subject to certain risks, uncertainties, and assumptions. Many factors could cause the Company's actual results, performance, or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance

on such forward-looking statements. There can be no assurance that it will be completed as proposed or completed at all. The Company does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments unless required by law.

## COMPARATIVE INFORMATION

Unless indicated otherwise, all comparative figures for the three- and nine-month periods ended July 31, 2023, are referring to the results for the three- and nine-month periods ended July 31, 2022.

## ACCOUNTING FRAMEWORK

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

## 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, and Ocean Rodeo was incorporated on January 12, 2001, both under the British Columbia Business Corporations Act. Both legal entities are domiciled in Victoria, BC Canada with registered offices at 300 - 4240 Glanford Avenue. The Company's management and most staff are also located in Victoria.

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

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

ALUULA operates within the composite materials industry selling to customers within a variety of markets, having originally launched in the windsport market. The Company services this market through ALUULA as an ingredient brand and directly by its subsidiary, Ocean Rodeo, as a designer and seller of high-end windsport products.

## CORE BUSINESS

### **ALUULA**

Our core business is the development, assembly, and sale of a broad range of composite materials to globally recognized industry partner brands within a variety of commercial markets. The ALUULA team works directly with brand partners to develop and approve prototype products made from our composite materials, shipping materials directly to globally dispersed design teams for each brand partner until commercialization when we work directly with the brand partner's factory or manufacturing partner.

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

### **Windsport industry update**

While the windsport market experienced a growth surge during the COVID-19 pandemic, starting near the end of 2022 we have seen overstocking in the end markets and this is reflected in a decline in the growth rates at ALUULA. The Company continues to see strong growth in new customers but order volumes within the windsport market have been lower than expected as customers sell through current inventories. The current overstocking is expected to continue to impact order volumes for the remainder of fiscal 2023 and into fiscal 2024.

### **OCEAN RODEO**

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

## THIRD QUARTER IN REVIEW

The Company launched the new Aeris and Aeris X composite materials in the third quarter of 2023 ("Q3 2023"). Both products are made from a single polymer chain which allows for the products to be recycled after use. Aeris X is the same fusion composite material as Aeris but has the addition of a proprietary X weave fused into the material which provides six times higher bias strength. Aeris and Aeris X are intended for use in products that benefit from very strong, lightweight, tear resistant, waterproof, and flexible materials. The Company sold approximately 3,200 meters of Aeris products in the third quarter.

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 pay off interest bearing debt including Bank of Nova Scotia lines of credit, term loans, and manufacturing equipment leases. Proceeds will also be utilized to develop next generation production capabilities at a 1.5 meter width (the benefit of which is outlined on page 16 of this MD&A). As of the balance sheet date, the Company's only debt includes non-interest bearing loans from Western Economic Diversification Canada, a Canadian government program recently renamed Pacific Economic Development Canada ("PacifiCan").

Ocean Rodeo launched the AA-Series Glide wingfoiling wing, the first wing in the windsports market that is built from entirely ALUULA composite materials. The use of the lightweight, yet durable and tear resistant, Aeris and Aeris X materials generates performance while weighing only 3.65 pounds (1.65 kilograms) for the five meter size. In addition, because the wing is composed of the new Aeris and Aeris X composites, the wing can be recycled at the end of its useful life. Ocean Rodeo began shipments of the products in July 2023 which had a positive impact on Q3 2023 sales.

In addition, the Company supplied its highly abrasion resistant, low surface friction Durlyte™ product, through its partner, Incidence Sails, to the Biotherm race boat for The Ocean Race, a leading round-the-world race. The product was used primarily for critical sail reinforcements such as batten pockets and bolt ropes, high wear points such as stanchions and spreaders, but additional applications included sail bags and deck sweepers.

## LEGAL AND REGULATORY ENVIRONMENT

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

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

## FINANCIAL PERFORMANCE

The following table is a management level summary of the financial results of the Company for the three- and nine-month periods ended July 31, 2023, compared to the same periods ended July 31, 2022, with relevant variance analysis below:

	For the three-month period ended		For the nine-month period ended	
	July 31 2023	July 31 2022	July 31 2023	July 31 2022
Sales	\$ 2,174,595	\$ 862,253	\$ 5,560,303	\$ 2,083,700
Cost of sales	1,519,389	569,044	4,174,499	1,267,147
Gross profit	655,206	293,209	1,385,804	816,553
Gross margin %	30%	34%	25%	39%
Expenses				
Employee costs	565,949	216,585	1,645,134	709,254
General and administrative	375,153	340,073	1,187,525	721,276
Marketing	117,597	36,545	403,924	65,193
Research and development	34,516	(7,592)	97,644	106,341
Share-based compensation	54,275	4,937	449,529	14,812
Listing expense	-	-	1,640,538	-
Interest and bank charges	43,883	41,124	226,235	87,746
Depreciation and amortization	123,288	40,828	374,492	106,556
Other income	(9,559)	(162,955)	(159,654)	(214,105)
Deferred tax expense	(116,016)	(104,761)	(168,387)	60,862
Net loss	\$ (533,880)	\$ (111,575)	\$ (4,311,176)	\$ (841,382)
Loss per share:				
Basic loss per share	\$ -	\$ -	\$ (0.03)	\$ (0.01)
Diluted loss per share	\$ -	\$ -	\$ (0.03)	\$ (0.01)

Due to the timing of the acquisition of Ocean Rodeo by ALUULA on October 31, 2022, the condensed consolidated statement of loss and comprehensive loss for the three-months and nine months ended July 31, 2023, contains the results of Ocean Rodeo while the 2022 comparative results do not.

### **For the three-month periods ended July 31, 2023, and July 31, 2022:**

#### Sales

Quarterly sales comparisons are complicated by the combination of Ocean Rodeo and ALUULA, effective October 31, 2022. The Company has also fundamentally altered its sales strategy in the windsport segment to market its products across all the key customers in this segment, including competitors of Ocean Rodeo. The financial statements for all periods in fiscal 2023 include consolidated windsport revenues including Ocean Rodeo.

Overall Q3 2023 sales increased by \$1,312,342 compared to the same period in the prior year primarily due to the inclusion of Ocean Rodeo sales in Q3 2023 results which were \$1,198,656.

ALUULA shipped approximately 31,500 meters of composite fabrics in Q3 2023, up from approximately 23,000 meters of non-warranty shipments in the same period of the prior year. Although volumes increased approximately 37%, the average price lowered by approximately five dollars per meter sold. In August 2023, the Company began informing customers of future price increases which will be implemented in the fiscal 2024 year. Until the price increase in next year, the current period average price is expected to remain consistent with Q3 2023 at least for the remainder of the 2023 year.

ALUULA also shipped samples and test products to 76 customers in Q3 2023 compared to 47 in Q3 2022. These entities are at various stages of evaluating the products, ranging from initial testing to advance development and integration of the ALUULA products into the manufacturing processes.

Ocean Rodeo sales of \$1,198,656 for Q3 2023 came largely through the Company being adequately capitalized from the RTO in April 2023 to acquire inventory needed to generate sales. In addition to the ability to fulfil orders, the Company launched the new AA Glide wings in July 2023 which added \$125,961 in sales within the quarter.

#### Cost of sales and gross margins

For the three months ended July 31, 2023, the Company's gross margin was \$655,206 or 30% compared to \$293,209 or 34% for the same period of the prior year.

The decline in Q3 2023 gross margin compared to the same quarter in the prior year is due to the inclusion of Ocean Rodeo results in the Company's Q3 2023 consolidated statement of loss and comprehensive loss. The Ocean Rodeo stand alone cost of sales was \$926,789 (gross margin of 23%) in Q3 2023. Ocean Rodeo is reporting lower margins through a combination of increased freight costs and the accounting methodology used to record business combinations.

The Company incurred \$141,550 of freight costs to move inventory in the quarter, which was only partially offset by shipping and handling recovery revenue of \$42,175 charged to customers. The higher than expected freight costs were due to the use of air freight to quickly fulfil orders in July 2023. The Company has caught up to the back orders and will be transitioning back to standard freight methods to move inventory from manufacturing to customer delivery.

The accounting methodology impact arose through the merger between ALUULA composites and Ocean Rodeo on October 31, 2022. Under IFRS, inventory acquired in a business combination is valued at net realizable value. When ALUULA acquired Ocean Rodeo, it recorded the purchase of \$1,291,764 of inventory at the estimated net realizable value of \$1,726,893 (the "Opening Inventory"). As net realizable value has not changed significantly since the business combination date, margins recorded on the sale of Opening Inventory are negatively impacted. Margins are expected to be impacted by this accounting treatment until all Opening Inventory is sold. As of July 31, 2023, only \$161,106 of the adjustment to net realizable value remains in the inventory balance.

The ALUULA stand alone gross margin percentage for Q3 2023 increased to 39%, compared to 34% for the same period of the prior year. The changing product mix in the quarter enabled direct margins of 40% to 44% with the balance of adjustment to 39% from overhead to produce the composite materials and freight cost to move the raw materials from vendors around the world.

#### Employee costs

Employee costs increased by \$349,364 in Q3 2023 compared to Q3 2022, in part to the addition of Ocean Rodeo staff to the cost structure and in part due to hiring additional employees. At the end of Q3 2023 the Company's head count was 24 compared to 13 at the end of Q2 2022.

#### General and administrative

General and administrative costs increased by \$35,080 in Q3 2023, compared to Q3 2022, primarily due to the inclusion of Ocean Rodeo general and administrative costs.

#### Marketing

Marketing expenses increased by \$81,052 in Q3 2023 compared to Q3 2022 primarily due to the inclusion of Ocean Rodeo marketing costs in Q3 2023. Ocean Rodeo's marketing costs consist of website maintenance, content creation, advertising purchases, press releases, and financial support for the Ocean Rodeo team riders as they compete in professional windsport events.

#### Interest and bank charges

Q3 2023 Interest expense was consistent with Q3 2022 because the Company had drawn on available credit facilities during each of the three month periods. On July 12, 2023, the Company completed a private placement offering and used a portion of the proceeds to repay interest bearing debt. Although this created a 20 day period without bank interest, the increased interest rate during Q3 2023 (Bank of Canada rate was ~2.5% in July 2022 vs ~5% in July 2023) caused the interest costs of the Company to remain consistent with the Q3 2022.

#### Research and development

Research and Development ("R&D") expense includes the cost of raw materials used by the Company's engineers and scientists to create new materials and develop sample products in cooperation with brand partners. The R&D expense was higher in Q3 2023 compared to Q3 2022 as an adjustment lowering R&D expense by \$25,168 was made in Q3 2022 to move raw materials, that had been previously expensed to R&D, into production inventory for use in saleable products.

#### Loss per share

The \$nil Loss per share reported in Q3 2023 was consistent with Q3 2022. While the overall net loss and comprehensive loss of (\$533,880) was higher in Q3 2023 compared to Q3 2022 (\$111,575), the weighted average number of shares outstanding was also higher, 230,389,095 in Q3 2023 compared to 105,733,720 for Q2 2022. The larger net loss offset the increased weighted average number of shares outstanding, resulting in no change to the loss per share.

### **For the nine-month periods ended July 31, 2023, and July 31, 2022:**

#### Sales

The Company sold approximately 98,000 meters of fabric to customers in the nine-month period ended July 31, 2023 ("YTD Q3 2023"), compared to approximately 77,000 meters in same period of the prior year ("YTD Q3 2022"), increasing sales from rolled fabric to \$3,269,278 for YTD Q3 2023, from \$2,083,700 of sales generated in YTD Q3 2022. In addition to adding new large customers, the Company sold at least one thousand meters of five products in YTD Q3 2023 compared to only one product selling more than one thousand meters in YTD Q3 2022.

The Company sold \$2,291,025 of product through the Ocean Rodeo subsidiary in the YTD Q3 2023. The two Companies merged on October 31, 2022, and as such, the prior year does not have comparable sales amounts from Ocean Rodeo.

#### Cost of sales and gross margin

The cost of goods sold increased to \$4,174,499 for YTD Q3 2023, compared to \$1,267,147 for the same period of the prior year. The increase largely stems from the Company increasing revenue by more than 50% (with no comparable Ocean Rodeo sales) combined with the addition of the costs incurred to ship Ocean Rodeo products in the period.

Ocean Rodeo contributed \$1,938,152 to cost of sales in YTD Q3 2023 which has no comparable amount. Included in the amount for YTD Q3 2023 is \$274,023 due to the IFRS accounting adjustment to the cost of goods sold, which stemmed from the merger of ALUULA and Ocean Rodeo on October 31, 2022. The amount is driven from the assessed fair value of the inventory held by Ocean Rodeo on the merger date.

In addition to the items discussed above and in the quarterly analysis, the following item impacted the cost of goods sold in YTD Q3 2023:

#### ALUULA stand-alone cost of sales and gross margin

Gross margin percentage for ALUULA in the nine-month period ended July 31, 2023, was 32% compared to 39% for the same period of the prior year. The decrease in margin percentage was generated predominantly through two items:

- 1) A one-time write down of inventory in April 2023 of \$114,887 due partially to the unrecorded usage of films and weaves by the R&D team and partially due to incorrect measurement of raw materials consumed to create each square meter of finished goods. This item had an impact of approximately 3% to gross margin percentage for the nine-month period ended July 31, 2023, and,
- 2) The Company's first product entry in the windsport market, ALUULA Gold, sold at a lower price per meter in the nine-month period ended July 31, 2023, compared to the same period in the prior year. The Company reduced the price for the initial adopter of ALUULA Gold starting in Q3 2022 as the Company saw the additional value of such a large windsports brand. As the initial adopter, the customer would promote and market their products with the ALUULA label. This item also had an impact of approximately 3% to gross margin percentage for the nine-month period ended July 31, 2023.

#### Employee costs

Employee costs for the Company increased in YTD Q3 2023 compared to YTD Q3 2022 largely due to the addition of Ocean Rodeo staff to the cost structure and in part due to hiring more employees. At the end of Q3 2022 there were 13 staff at ALUULA, compared to 17 at ALUULA and 7 working for Ocean Rodeo at the end of Q3 2023 (total of 24) effectively doubling the number of employees.

#### General and administrative

General and administrative costs increased in YTD Q3 2023 compared to YTD Q3 2022 due to the addition of Ocean Rodeo expenses to the company. Outside the additional costs generated from the larger combined corporate entity, the general and administrative expenses decreased (\$601,930 in YTD Q3 2023 compared to \$721,276 in YTD Q3 2022) as the Company works diligently to keep overhead costs to a minimum.

#### Marketing

Marketing expenses increased in YTD Q3 2023 compared to YTD Q3 2022 largely due to the incorporation of Ocean Rodeo expenses in the current period.

Interest and bank charges

Interest expense increased in YTD Q3 2023 compared to YTD Q3 2022 as the Company used the various debt and line of credit facilities available. As the RTO allowed use of equity issuances to provide liquidity, the higher cost borrowings were paid down to reduce the interest expense starting in Q3 2023. The private placement in July 2023 removed the remainder of debt financing and as such interest expense is expected to decrease in future periods.

Research and development

Research and development expenses decreased in YTD Q3 2023 compared to YTD Q3 2022 as the Company expensed ~\$70,540 of inventory in April of 2022 which had been held for R&D purposes but no longer held future value.

Loss per share

The Company incurred a loss per share in YTD Q3 2023 of (\$0.03) (YTD Q3 2022 – (\$0.01)). Most of the loss amount derives from the listing expense and share based compensation expense generated through the RTO. Removing those impacts the adjusted loss per share, for YTD Q3 2023, is (\$0.01).

## 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:

	July 31 2023	April 30 2023	January 31 2023
Revenue	\$ 2,174,595	\$ 1,937,193	\$ 1,448,515
Net and comprehensive income (loss)	(533,880)	(2,612,145)	(1,165,151)
Net income (loss) per share	\$ (0.00)	\$ (0.02)	\$ (0.01)
Net income (loss) per share: diluted	\$ (0.00)	\$ (0.02)	\$ (0.01)

Revenue

The Company sold 31,500 meters of fabric in Q3 2023 compared to only 24,000 meters in Q1 2023 and 50,000 meters in Q2 2023. The decrease from the prior quarter is partially from the Q2 sales of 7,000 meters into the Aerospace market which did not occur in Q3 combined with summer being the slowest quarter for Windsports manufacturing (Fall and Winter are the bigger quarters in anticipation for Spring and Summer retail sales). The decrease in composite materials revenue from Q2 2023 was more than offset by the large increase in Ocean Rodeo sales which increased from \$360,497 in Q2 2023 to \$1,198,656 in Q3 2023. Since the RTO which occurred in April 2023, the Company has had the necessary resources to release inventory and fulfill customer back orders.

Net and comprehensive loss

The Company's net and comprehensive loss for the three months ending July 31, 2023, was (\$533,880), representing a significant decrease from the previous quarter. The net and comprehensive loss for the three months ending April 30, 2023, included certain expenses incurred as a result of the Company's April 2023 RTO (listing expense (\$1,640,538) and stock compensation expense (\$390,317)). If those expenses were excluded, the net and comprehensive loss for the three months ended April 2023 would have been \$581,290. Overall, the Company had quarter-on-quarter improvements in revenue and margins while keeping expenses flat.

## BALANCE SHEET ANALYSIS, LIQUIDITY, AND CAPITAL RESOURCES

### ANALYSIS OF STATEMENT OF FINANCIAL POSITION

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

	July 31 2023	October 31 2022
<b>Selected assets</b>		
Cash and cash equivalents	\$ 2,104,965	\$ 295,377
Trade and other receivables	1,348,543	\$ 1,137,872
Inventory	1,982,879	2,166,825
Property and equipment	983,091	1,206,169
<b>Selected liabilities</b>		
Bank indebtedness	\$ -	\$ 2,744,697
Trade and other payables	857,006	894,496
Long-term debt**	823,751	1,259,405
Lease obligations**	437,905	978,928

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

#### Cash and cash equivalents / bank indebtedness

On completion of the April 2023 RTO with BSP and the concurrent private placement, the Company's cash balance increased by approximately \$4.4 million. The Company completed a further private placement in July 2023 for gross proceeds of \$3,673,493. The Company has used a portion of the funds to repay interest-bearing debts with their commercial lender Bank of Nova Scotia, as well as to acquire inventory to support anticipated sales orders in Q4 2023 and Q1 2024. The long-term debt balance of \$823,751 as of July 31, 2023, is comprised entirely of interest free loans obtained through the PacifiCan program.

#### Trade and other receivables

Accounts receivable for the three- and nine-month periods increased primarily due to increasing sales which occurred late in the third quarter. Overall days sales outstanding on a quarterly basis reduced from 60 days in Q2 2023 down to 56 days in Q3 2023. The Company will continue to monitor this metric closely. The Company carried expected credit losses of \$56,070 as of July 31, 2023, compared to \$41,437 as of October 31, 2022.

#### Inventory

The inventory balance as at July 31, 2023 of \$1,982,879, a decrease of \$183,946 since October 31, 2022, was generated largely through the consumption of the fair value adjustment generated through the merger of Ocean Rodeo and ALUULA (inventory was reduced by \$274,023 in the nine-month period ended July 31, 2023).

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

The Company was released from a long-term lease for office facilities in the first quarter 2023 which reduced the right-of-use asset by a net amount of \$91,559. Offset against the removal of the lease asset was the acquisition of new assets, predominantly machinery and molds. The production team improved the ventilation at various stages during the nine-months ended July 31, 2023, and the Company invested in new molds for components of its windsports products.

Trade and other payables

The Company began receiving shipments of inventory late in July 2023 which increased both inventory and accounts payable on the balance sheet. Approximately \$240,000 of inventory was received in the final week of the month and paid in August 2023. Outside of the inventory shipments, the Company has reduced Accounts payable since October 31, 2022, as the additional funds obtained through the RTO, and private placements has provided the liquidity to ensure vendors are paid in a timely manner.

Long-term debt

In the nine-month period ended July 31, 2023, the Company obtained and repaid a \$750,000 promissory note with Gustavson Capital and repaid all interest bearing term loans with the Bank of Nova Scotia. The remaining long-term debt balance is comprised of interest free loans obtained through the PacifiCan program.

Lease obligations

As of July 31, 2023, the lease obligations consist of right-of-use lease obligations for the rental of office and production space. Lease obligations decreased compared to October 31, 2022, primarily due to the full repayment in July 2023 of manufacturing equipment leases as well as the reduction in leased office facilities. In January 2023, lease obligations dropped by \$189,208 when the Company was released from a long-term lease for redundant office facilities.

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 ACTIVITIES

Analysis of cash flows:

	July 31 2023	July 31 2022
Cash used in operating activities	\$ (1,934,369)	\$ (1,092,870)
Cash provided by (used in) investing activities	1,218,472	(233,712)
Cash provided by (used in) financing activities	5,270,182	(547,245)
Increase (decrease) in cash and cash equivalents	\$ 4,554,285	\$ (1,873,827)

Operating activities

The Company used \$1,934,369 of cash for operating activities in the nine-month period ended July 31, 2023, compared to \$1,092,870 for the same period of the prior year. The increase in cash usage for operations is primarily due to the increase of salaries, marketing, and general and administrative costs (total of \$3,236,583 in Q3 2023, which includes Ocean Rodeo costs compared to a total of \$1,740,860 for Q3 2022, which excludes Ocean Rodeo costs) partially offset by an increase in gross margin (\$1,385,804 in Q3 2023 compared to \$816,553 for the same period of the prior year).

Investing activities

For the nine-months ended July 31, 2023, the Company generated cash flow from investing activities primarily due to the receipt of funds, net of liabilities acquired, upon completion of the RTO (\$1,359,462) offset by minor investments in production equipment and patents. In the same period of the prior year, the Company used \$233,712 in investing activities which was primarily made up of a \$213,782 investment in a new fusion pod that is actively being used for ALUULA material production.

Financing activities

For the nine-month period ended July 31, 2023, funds generated through the financing activities were derived from the issuance of share capital (Net total \$6,074,151), predominantly through the RTO private placement in April 2023 and the bought deal and private placement in July 2023. In addition, the Company received \$988,846 through the issuance of long term debt offset by repayments of a combined \$1,870,416 of long term debt and lease obligations during the nine-months ended July 31, 2023. In the same period of the prior year the Company paid down related party loans as well as lease obligations partially offset by additional long term debt and lease obligations for a net outflow of funds.

WORKING CAPITAL AND DEBT MANAGEMENT

The Company funds its operations, including capital expenditures, debt repayments, and other financing needs, through a combination of sources. These sources include loans and equity issuances. The various facilities are utilized based on overall cost of financing and availability of cash flows. Where government grants for interest free or forgivable loans are available to the Company, management applies for funding and has had success obtaining such funding historically. Interest free and partially forgivable loans have been received from PacifiCan. The Company is now primarily funding its operations through equity issuance, operating cash flow, and government loans. It has closed its revolving lines of credit, pre-shipment financing and bank loans.

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

The RTO was structured as a three-cornered amalgamation pursuant to the provisions of the Business Corporations Act (British Columbia) (the "BCABC"), whereby the Company incorporated a wholly owned subsidiary under the BCABC which amalgamated with ALUULA Canada to form a newly amalgamated company that is continuing as a wholly owned subsidiary of the Company. To effect the Proposed Transaction, the Company acquired all the outstanding shares of ALUULA Canada, and in exchange

ALUULA Canada's shareholders received common shares in the Company. The aggregate consideration issued was \$21,001,123 and the Company issued 175,009,365 shares.

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

On December 21, 2022, Gustavson Capital Corporation, a shareholder in BSP, loaned \$750,000 to the Company. The loan bears interest at 7% per annum, compounded monthly. The loan and interest were paid back to Gustavson Capital in April 2023.

On July 12, 2023, the Company complete a bought deal and private placement led by Haywood Securities Inc. ("Haywood") for gross proceeds of \$3,673,492.95 (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 \$220,409.58, 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 \$45,918.40 in cash and \$137,756.25 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. Proceeds are also utilized to develop next generation production capabilities at a 1.5 meter width to facilitate sales of ALUULA material into new segments. As of the balance sheet date, the Company's only debt includes non-interest bearing loans from Western Economic Diversification Canada, a Canadian government program recently renamed Pacific Economic Development Canada ("PacifiCan"). The Company retains a credit card facility with the Bank of Nova Scotia which is used for purchasing efficiency.

The Company chose to repay most of its debt since a predominantly equity-based structure aligns better to the planned growth profile of the Company.

On May 1, May 11, and May 29, 2023, Haywood Securities 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. The broker warrants had been issued through the initial public offering of the Company in 2021 and 227,070 remain outstanding as of the balance sheet date and are exercisable up to October 12, 2024.

## CONTRACTUAL OBLIGATIONS

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

During Q3 2023, the Company repaid the \$750,000 promissory note, plus accrued interest, from Gustavson Capital Corporation which had been issued in Q1 2023.

Management cancelled a related party 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.

A new fusion pod was constructed during the first half of fiscal 2022 to increase automation and consistency and add a new level of quality control to our process. This new fusion pod was put into use in Q3 2022 and is the primary manufacturing line by the Company to create its composite materials. The Company has initiated development on a new wider format pod which could produce rolled fabric at a width of 1.5 meters.

### Other Equipment

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

### Patents & Molds

Where management feels it is warranted, patents are sought out to protect both designs and processes in certain global jurisdictions. The legal costs of acquiring these patents are capitalized as intangible assets where appropriate. In addition, some Ocean Rodeo products require the creation of molds for the external manufacturing of certain products. These molds are purchased from a supplier and capitalized as property and equipment.

## RESEARCH AND DEVELOPMENT

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

### Customization of ALUULA

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

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

The current production pod can produce approximately 22,000 square meters in a month of production. Management estimates the volume can be increased to as much as 40,000 meters per month, with additional costs for employees to run multiple shifts per day and on weekends. The fixed costs embedded in the rolled fabric are less than 10% of the total cost of each meter, so the increased production would not have a significant impact on gross margin percentage, instead, any increased production would enable more fabric to be created and sold in a period which would increase overall gross profit.

We have begun the design and planning for the new production pod which will allow the creation of fabric rolls at a width of 1.5 meters. Current materials are produced at 0.925 meter width. ALUULA started at the slimmer width so the initial variables involved would be easier to control as the Company developed the industrial process. The Company will transition to the wider 1.5 meter width since it allows customers to create their products with better nesting of their material for less waste and fewer seams, reducing labour and assembly time. The benefit to the Company would be up to a 50% increase in sales volumes from a single production pod and the expansion of sales to a variety of customers otherwise disinterested in our narrower fabric.

#### Quality control and improvements to the ALUULA process

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

During the three- and nine-month periods ended July 31, 2023, the R&D team implemented numerous improvements including the following:

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

#### Windsport product development

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

## EQUITY

All share and option values have been adjusted to the post RTO balances. As of July 31, 2023, the Company had 250,565,629 shares issued and outstanding and 12,441,905 options to purchase shares. To effect the acquisition, BSP issued 175,009,365 shares at a ratio of 1:26.05 for 100% of the outstanding shares of ALUULA. All share, option, and per share amounts presented in this MD&A have been adjusted to reflect this ratio. The options consist of 2,500,000 acquired through the qualifying transaction with BSP and the remaining 9,666,905 were issued in the period between the RTO (April 14, 2023) and the period end date of July 31, 2023. More detail on these share options can be found in note 17 of the Interim 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 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.

## CRITICAL ACCOUNTING ESTIMATES

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

## FUTURE ACCOUNTING PRONOUNCEMENTS

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

## 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 dated October 31, 2022, and the Interim Financial Statements. There have been no changes to the fair value policies during the three- and nine-month periods ended July 31, 2023.

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

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

#### New Markets

We are actively working to expose the Company's composite materials to markets outside windsports with an expectation of future commercialization within these other markets. There is risk that this may not be successful, or that it will take longer than expected, delaying expected scaling of the Company's production levels and associated revenues.

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

### OPERATIONAL RISKS

#### Confidentiality of trade secrets

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

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

### Supply chain and associated cash flows

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

Management mitigates supply chain risk in the following ways:

- We invest in research and quality control up front to determine the best sources of raw materials, both for cost and flexibility to meet our specifications.
- We prepare a detailed production planning schedule including lag times for receipt of raw materials.
- We purchase only enough materials to meet confirmed purchase orders or production schedules, except where the cost savings of purchasing larger quantities is warranted.
- We have invested in shipping insurance to cover losses that may occur on incoming materials.
- We store our raw materials and finished goods in our own warehouse with limited access to the facility by outsiders.
- We remain in constant communication with key suppliers and occasionally make site visits to both strengthen the relationship and monitor quality control.

Management mitigates cash flow risk by holding a credit facility and purchase order financing to support the raw materials requirements of the business, and through the procedures listed above surrounding order quantities.

### Excess production

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

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

### Cyber security

The Company relies on a number of electronic systems to store and process data. There is risk of data loss if one of our providers experiences a data breach or loss of backups. Management has implemented contracts with and uses the services of well-established or off-the-shelf service providers to meet these needs, such as Google, Microsoft, Dropbox, and NetSuite, to minimize both our exposure to risk of data loss and the requirements of maintaining physical server space.

Employees and management are often subject to phishing attempts, primarily through email. The risk of data loss or wire fraud associated with these attempts is mitigated through employees being centralized in one office, secondary approvals for bank payments, and having open discussions with other staff when attacks occur ensuring the office is aware of the attempt.

### Data and information

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

### Employee retention and dependence on key personnel

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

Management looks to retain employees by offering fair and equitable compensation packages which include competitive salaries with performance-based upside, an optional benefits package, and ensuring a strong work-life balance with minimal overtime. The Executive Leadership Team is actively involved in day-to-day operations, working closely with staff in various departments while also allowing them to own their roles and allowing all staff to feel invested in the success of the Company.

## FINANCIAL RISKS

The Company's is exposed to a number of financial risks during the normal course of business. These risks are discussed in more detail in note 15 the Interim Financial Statements.

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations, typically under a customer contract or of a financial instrument, leading to a financial loss. Management has a number of mitigating policies in place, including the following:

- We transact with Scotia Bank, a reputable Canadian bank.
- Customers who wish to trade on credit terms are subject to a credit verification process.
- We have obtained accounts receivable insurance through Export Development Canada ("EDC") for significant customers based in foreign countries.
- We obtain customer deposits, where 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. In future, management plans to investigate whether more complex hedging strategies are in the best interest of the Company, and what the most efficient makeup of those hedging structures could be.

#### Interest rate risk

Interest rate risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. As of July 31, 2023, the Company is not dependent on revolving credit facilities or term debt with variable interest 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 research and development team tests each input material to ensure we are purchasing from reliable sources that meet our quality control specifications. Where raw materials require modification prior to use in our assembly process we contract a reputable factory and remain in constant communication as to the specifications that must be met. As required, ALUULA staff visit the facility to ensure compliance with specifications. Raw materials are visually inspected once received, and continuously during the assembly process.

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

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

#### Ocean Rodeo windsport products

Ocean Rodeo's finished products are purchased from established overseas manufacturers. Each delivery of finished goods for resale is subject to the manufacturer's quality control process, and in the case of kites and wings we also contract a third party to conduct secondary quality control review.

### FINANCIAL CONTROLS

The Company has financial controls in place to mitigate financial risks:

#### Segregation of cash

There is an inherent risk of loss due to fraud and error with cash and banking. The Company limits banking access to members of finance who require access and executive with signing authority. Generating transfers of cash outside of the Company's bank requires a minimum of three people to create and authorize payments.

#### Use of ERP software

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

#### External review and tax preparation

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

## ENVIRONMENTAL SUSTAINABILITY

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

## OUTLOOK

Now in its first year as a public entity, the Company is focused on growing overall windsport revenues across the key customers in this segment. While the windsport end markets are softer than expected with higher than anticipated inventory levels, the Company is pleased to see continued acceptance and penetration within key accounts, now serving the top customers in the segment.

The Company is also pleased with customer engagement across other key vertical markets with strong progress in outdoor and aerospace and this is expected to translate to strong sales growth in these markets in fiscal 2024.

Product innovation and recyclable material are seen as key attributes for customers, and this is driving new customer adoption.

## RELATED PARTIES

#### Shareholders and ultimate controlling parties:

The Company leased office and warehouse space from an immediate family member of a director until the lease was cancelled in December 2022. Payments for this lease totaled nil and \$12,377 respectively during the three and nine months ended July 31, 2023 (three and nine months ended July 31, 2022 - \$12,377 and \$37,130). No amounts were owed at the end of the period (October 31, 2022 – nil). Additional payments of \$14,000 and \$45,000 respectively were made to this related party during the three and nine months ended July 31, 2023, for the collateralization of the building against the term loan with Scotia Bank (three and nine months ended July 31, 2022 - \$18,000 and \$57,000).

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

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

The Company has a royalty agreement with Epic Ventures Inc, which is controlled by a director of the Company, pursuant to which royalties are paid on each square meter of certain patented materials, in exchange for Epic Venture Inc's assignment of the applicable patents to the Company. Royalties of nil and \$275,004 were paid during the three and nine months ended July 31, 2023 (three and nine months ended July 31, 2022 – \$53,565 and \$157,313).

The Company made payments to Xlynx Materials Inc., which is controlled by a director of the Company, for consulting services of nil and \$2,017 during the three and nine months ended July 31, 2023 (three and nine months ended July 31, 2022 – nil).

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

Key management compensation:

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

Total compensation expense paid to the Executive Leadership Team for the three and nine months ended July 31, 2023, was \$155,822 and \$549,865 respectively (three and nine months ended July 31, 2022 - \$96,384 and \$373,193), which includes \$17,436 and \$199,418 (July 31, 2022 - \$3,623 and \$10,869) in share-based payments. Employment agreements with the members of the Executive Leadership Team provide for severance payments if the executive is terminated without cause totaling \$280,000 (October 31, 2022 - \$328,000).