

Management's Discussion and Analysis of

ALUULA COMPOSITES INC.

For the three and nine months ended July 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 and nine months ended July 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 September 23, 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 and nine months ended July 31, 2025, are referring to the results for the three and nine months ended July 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.

SHARE CONSOLIDATION

On February 18, 2025, the TSX Venture Exchange (the "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. All shares and per share amounts referenced in this MD&A have been adjusted to reflect post Consolidation numbers and values.

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 TSXV 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 expected.

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 the sale of materials to corporate customers 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.

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, successful commercialization across new vertical markets including pack and bags are validating the Company's growth potential in markets that are significantly larger than windsport.

In 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 wind powered vertical markets such as windsport and sailing.
- 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 sailing, ultralight tents and aerospace applications.
- Durylte is ideal for use in applications where abrasion resistance and extreme toughness are critical, for example in inflatable rafts and inflatable shelters.
- 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. 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 partner relationships where the unique ALUULA materials are constructed into high value products.

THIRD QUARTER IN REVIEW

During the third quarter ended July 31, 2025, ALUULA continued to make progress against its fiscal year strategic objectives which include:

- Continued 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.
- Increase brand awareness within the performance outdoor channel to highlight the performance advantages and eventual 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 July 31, 2025, the Company:

- Focused its sales efforts on transitioning existing prospects through the sales pipeline.
- Exceeded \$2 million in quarterly sales for the first time since incorporation, driven by growth across both the performance outdoor and commercial industrial channels.
- Increased performance outdoor channel sales by 28% compared to Q2 2025 and 61% compared to Q3 2024 due to sales to an increasing number of commercial stage brand partners planning initial or follow on product launches.
- Doubled the number of commercial stage brand partners in the pack and bag vertical market contributing to a 68% increase in sales in this category compared to Q3 2024.
- Reported a 179% increase in commercial industrial channel sales compared to Q2 2025 and 106% compared to Q3 2024 driven by recurring orders from a key customer in the wind power market as its research and development project with the Company continues to progress.

- Attended the May 2025 CANSEC tradeshow, Canada's leading defense, security and emerging technology event, where the Company participated in one-on-one meetings with prospects which provided valuable insights into performance attributes and metrics critical to ALUULA's success in the defense sector. Attendance at the trade show resulted in the addition of two new defense prospects active in the sales pipeline.
- Increased open sales orders pending production and fulfillment (and therefore revenue recognition) at July 31, 2025 to over \$3 million, representing a 245% increase compared to open sales orders at the end of fiscal 2024.
- Reported gross margins within the Company's expected range for a third consecutive quarter and maintained operating expenses, excluding non-cash share based compensation expense, within a 15% range for the third consecutive quarter.
- Completed employee stock option modifications as ALUULA has determined meaningful equity incentives are essential to attracting and retaining top talent, which supports the Company in achieving its long term growth objectives. The modifications triggered recognition of additional share-based compensation expense, a non-cash expense, under IFRS 2, *Share-based payment* ("IFRS 2"), which is detailed in Note 15 to the Interim Consolidated Financial Statements.
- Validated an alternative method of manufacture that will both enhance existing production capabilities and support the Company's initial limited scale launch of materials at a 1.5 meter width, both planned for 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 and nine months ended July 31, 2025 and 2024 with relevant variance analysis below.

	For the three months ended		For the nine months ended	
	July 31, 2025	July 31, 2024	July 31, 2025	July 31, 2024
Sales	\$ 2,121,588	\$ 1,291,938	\$ 4,956,794	\$ 4,692,368
Cost of sales	1,248,885	804,148	2,855,911	2,741,400
Gross profit	872,703	487,790	2,100,883	1,950,968
Gross margin %	41%	38%	42%	42%
Operating expenses:				
Salaries and benefits	495,505	514,008	1,584,517	1,864,625
General and administrative	379,970	903,391	762,573	1,544,267
Marketing	36,575	39,960	73,552	183,660
Research and development	51,852	59,962	164,194	135,397
Share-based compensation	586,431	57,922	666,870	86,819
	1,550,333	1,575,243	3,251,706	3,814,768
Income before interest, tax and amortization	(677,630)	(1,087,453)	(1,150,823)	(1,863,800)
Other income	33,386	3,636	56,698	763,812
Interest expense	(33,137)	(41,413)	(103,882)	(104,254)
Depreciation and amortization	(103,785)	(107,551)	(313,503)	(334,402)
Loss from continued operations before tax	(781,166)	(1,232,781)	(1,511,510)	(1,538,644)
Deferred income tax recovery	17,642	17,642	52,927	71,410
Net and comprehensive loss from continued operations	(763,524)	(1,215,139)	(1,458,583)	(1,467,234)
Net loss and comprehensive loss from discontinued operations	(34,620)	91,930	(100,951)	(649,307)
Net loss and comprehensive loss	\$ (798,144)	\$ (1,123,209)	\$ (1,559,534)	\$ (2,116,541)

For the three month periods ended July 31, 2025 ("Q3 2025"), and July 31, 2024 ("Q3 2024"):Sales

Q3 2025 sales were \$2,121,588 compared to \$1,291,938 in Q3 2024, which represents a \$829,650 or 64% quarter over quarter increase.

The Company increased sales in Q3 2025 across both channels compared to Q3 2024, with performance outdoor increasing by 61% and commercial industrial increasing by 106%. Within the performance outdoor channel, ALUULA successfully grew Q3 2025 sales in each vertical market compared to Q3 2024 with the windsport vertical market increasing by 62%, the pack and bag vertical market increasing 68% and sailing vertical market increasing by 22%.

The windsport vertical market is the Company's most mature market and ALUULA has successfully onboarded the majority of targeted customers. ALUULA materials have been featured in high-end kites and wings for multiple seasons, delivering on superior performance and creating a new premium price category in this industry. As a result, brand partners are experiencing increased customer driven demand, which is leading to follow on purchases of ALUULA material to support ongoing product launches. This demand contributed to the 62% increase in Q3 2025 windsport sales compared to Q3 2024. Also contributing to the increase is the timing of product shipments and resulting revenue recognition.

The second market entered by ALUULA was the pack and bag vertical market which is starting to show traction and growth. Sales to this vertical market increased 68% in Q3 2025 compared to Q3 2024. The increase was driven by successful movement of customers through the sales pipeline. During Q3 2025, ALUULA shipped materials to more than a dozen brand partners that were planning or had commercialized products featuring ALUULA materials.

Sales generated by the sailing vertical market increased by 22% in Q3 2025 compared to Q3 2024 as the Company's industry leading customers manufactured additional spinnaker sails with ALUULA materials to support continued sea trials.

Q3 2025 sales to the commercial industrial channel increased by \$103,058 or 106% compared to Q3 2024 primarily due to additional demand from a customer in the wind power vertical market that is collaborating with ALUULA on a research and development project to harness wind power to tow cargo ships with an automated kite system featuring ALUULA materials. This project is aimed at reducing carbon emissions and lowering the customer's overall fuel costs. Early test results indicate the use of an automated kite system could reduce CO2 emissions by an average 20%.

Cost of sales and gross margin

Q3 2025 cost of sales were \$1,248,885 compared to \$804,148 in Q3 2024 while gross margins increased from 38% in Q3 2024 to 41% in Q3 2025. Q3 2025 gross margins were within the Company's expected range of 40%-45%, while Q3 2024 fell below primarily due to an inventory adjustment arising from a book to actual variance in raw materials used in production.

Factors contributing to the Q3 2025 gross margins tracking at the lower end of the Company's expected range include the mix of materials sold during the quarter, with some materials having longer production timelines, as well as the distribution of sales across customers, some of which qualified for volume based discounts.

Salaries and benefits

Salaries and benefits expense was \$495,505 in Q3 2025 compared to \$514,008 in Q3 2024 representing a quarter over quarter decrease of \$18,503 or 4%. The marginal decrease was due to a non-recurring payroll-based payment incurred in Q3 2024.

General and administrative

General and administrative ("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. G&A expense was \$379,970 in Q3 2025 compared to \$903,391 in Q3 2024 representing a quarter over quarter decrease of \$523,421.

Q3 2024 G&A expense was higher than Q3 2025 due to higher bad debt provisions as well as the write off raw materials that did not pass quality control and could not be used in the Company's production process.

Marketing

Marketing expense was \$36,575 in Q3 2025 which was consistent with the Q3 2024 expense of \$39,960. Q3 2025 marketing expenses are primarily related to sales team travel to attend brand partner meetings and events with the goal of moving customers through the sales pipeline, strengthening core relationships and providing excellent service.

Research and development ("R&D")

R&D expense was \$51,852 in Q3 2025 compared to \$59,962 in Q3 2024 representing a quarter over quarter decrease of \$8,110. The R&D expense for Q3 2024 was marginally higher than Q3 2025 due to additional third party testing and R&D equipment maintenance costs incurred.

Share-based compensation

Share-based compensation was \$586,431 in Q3 2025 compared to \$57,922 in Q3 2024 representing an increase of \$528,509.

The increase in Q3 2025 is primarily due to changes made to stock options granted in order to support retention of valued team members by better aligning the exercise price with the current market price which experienced a decline following the completion of the Company's January 2025 rights offering, which is detailed later in this MD&A. These modifications triggered the recognition of approximately \$560,000 of share-based compensation expense (a non-cash expense), in accordance with IFRS 2, see Note 15 to the Interim Consolidated Statements for additional detail.

Stock options form a critical element of the Company's compensation policy. Management has determined that providing meaningful equity incentives is essential to attracting and retaining top talent, which in turn supports the Company's long-term growth objectives.

Other income

Other income was \$33,386 in Q3 2025 compared to \$3,636 in Q3 2024 representing an increase of \$29,750. Other income in Q3 2025 is primarily interest income earned on cash balances and overdue accounts receivable.

Interest expense

Interest expense in Q3 2025 was \$33,137 compared to \$41,413 in Q3 2024 representing a quarter over quarter decrease of \$8,276. Interest expense is primarily due to interest paid on the Company's loan from related party 0876991 B.C. Ltd. ALUULA repaid \$200,000 of this related party loan in January 2025, which contributed to the decrease in interest expense incurred in Q3 2025 compared to Q3 2024.

Depreciation and Amortization

Depreciation and amortization expense in Q3 2025 was \$103,785 which is consistent with Q3 2024 expense of \$107,551.

Deferred taxes

Deferred income tax recovery in Q3 2025 was \$17,643 which is consistent with Q3 2024. Deferred income tax recoveries recognized in both periods relate to the reduction of the deferred tax liability that occurs as intangible assets are amortized.

Net and comprehensive loss from discontinued operations

Net and comprehensive loss from Ocean Rodeo's discontinued operations was \$34,620 in Q3 2025 compared to a net and comprehensive income of \$91,930 in Q3 2024. Additional information on discontinued operations is included in Note 18 of the Interim Consolidated Financial Statements.

Ocean Rodeo's sales decreased to \$2,386 in Q3 2025 compared to \$223,685 in Q3 2024 due to the timing of the strategic decision to hibernate Ocean Rodeo's operations which was made at the end of Q2 2024. Sales in the quarters nearest to the decision to discontinue operations were higher due to amount of inventory available for sale. At the Q3 2025, Ocean Rodeo wrote off remaining inventory after an agreement in principle to sell this inventory to Bainbridge International Ltd. ("Bainbridge") fell through. Additional information on Ocean Rodeo's definitive purchase and sales agreement with Bainbridge is included in Note 18 to the Interim Consolidated Financial Statements.

Gross margins from discontinued operations were negative in Q3 2025 compared to 33% in Q3 2024. The negative gross margin in Q3 2025 is due to the write off of approximately \$25,000 in unsold inventory.

Ocean Rodeo's operating expenses were \$16,791 in Q3 2025 and include various minor administration costs such as legal fees, tax compliance costs, bank fees and the final draw down of prepaid expenses associated with licenses and association fees. Q3 2024 G&A included a recovery of \$85,549 which was the result of a \$92,254 reduction in previously recognized bad debt provision after Ocean Rodeo successfully worked with customers to collect aged accounts receivable.

For the nine month periods ended July 31, 2025 ("YTD Q3 2025"), and July 31, 2024 ("YTD Q3 2024"):

Sales

YTD Q3 2025 sales were \$4,956,794 compared to \$4,692,368 in YTD Q3 2024, which represents an increase of \$264,426 or 6%.

Sales increased in YTD Q3 2025 across both channels compared to YTD Q3 2024, with performance outdoor increasing by 1% and commercial industrial increasing by 151%. Within the performance outdoor channel, windsport vertical markets decreased by 11% in YTD Q3 2025 compared YTD Q3 2024, while the pack and bag and sailing vertical markets increased by 47% and 232% respectively.

Sales within the windsport vertical market decreased by 11% in YTD Q3 2025 compared to YTD Q3 2024 due to the receipt and shipment of sales orders from a large customer that manufactures for multiple brand partners. In fiscal 2024, this customer placed a significant sales order in Q1 2024, with subsequent quarter sales orders being significantly lower. Year to date during fiscal 2025, this customer is placing more consistent sales orders across each quarter.

Sales to the pack and bag vertical market increased 47% in YTD Q3 2025 compared to YTD Q3 2024. The increase was driven by successful conversion of customers through sales pipeline stages including transitioning seven additional brand partners to the commercialized stage. Of those brands that ordered materials in the YTD Q3 2024 period to support commercialization, 85% placed follow on orders in YTD Q3 2025 after successful product launches.

Sales generated by the sailing vertical market increased by \$234,460 or 232% in YTD Q3 2025 compared to YTD Q3 2024 as the Company's industry leading customers manufactured additional spinnaker sails with ALUULA materials to support continued field testing.

Q3 2025 sales to the commercial industrial channel increased by \$194,532 or 151% compared to YTD Q3 2024 primarily due to demand from a customer in the wind power vertical market outlined earlier in this MD&A.

Cost of sales and gross margin

YTD Q3 2025 cost of sales were \$2,855,911 compared to \$2,741,400 in YTD Q3 2024, which represents an increase of \$114,511. Gross margins in both periods remained consistent at 42%, which is within the Company's expected range of 40%-45%.

YTD Q3 2025 gross margins were negatively impacted by the production heating variance and sale of previously returned materials from customer LMS Manufactory as described in the subsequent events note to the Consolidated Financial Statements. If the impact of these two events were adjusted for, normalized gross margins for YTD Q3 2025 would have been approximately 44%, which is at the higher end of the Company's expected range and is due to both the standardization of pricing policies as well as the ongoing focus on improved manufacturing logistics and efficiencies.

Salaries and benefits

Salaries and benefits expense was \$1,584,517 in YTD Q3 2025 compared to \$1,864,625 in YTD Q3 2024 representing a decrease of \$280,108. YTD Q3 2024 salaries and benefits included approximately \$390,000 of accrued severance payments associated with the organization restructuring implemented at the end of Q2 2024. If severance costs were excluded, Salaries and benefits in YTD Q3 2025 would have increased due to additional headcount in the sales & marketing, production, R&D and accounting departments as well as severance payments incurred to restructure the sales department.

General and administrative

General and administrative ("G&A") expense was \$762,573 in YTD Q3 2025 compared to \$1,544,267 in YTD Q3 2024 representing a decrease of \$781,694 or 51%.

The decrease is primarily due to higher bad debt provisions recognized as well as a higher-than-average warranty reserves associated with older Gold materials recognized in YTD Q3 2024.

Marketing

Marketing expense was \$73,552 in YTD Q3 2025 compared to \$183,660 in YTD Q3 2024 representing a decrease of \$110,108. Marketing expenses were higher in YTD Q3 2024 due to costs incurred to exhibit at the November 2023 ISPO trade show and April 2024 Techtexil trade show, both held in Germany. Aluula did not attend these trade show in YTD Q3 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 \$164,194 in YTD Q3 2024 compared to \$135,397 in YTD Q3 2024 representing an increase of \$28,798. R&D expense for YTD Q3 2025 was higher than YTD Q3 2024 due to an increase in materials used and travel incurred to advance research and development initiatives, including alternative methods of manufacturing that enable production at a wider width.

Share based compensation

Share based compensation was \$666,870 in YTD Q3 2025 compared to \$86,819 in YTD Q3 2024 representing an increase of \$580,051. Share-based compensation for YTD Q3 2025 was higher than YTD Q3 2024 due to the grant and repricing of options outlined earlier in this MD&A.

Other income

Other income was \$56,698 in YTD Q3 2025 compared to \$763,812 in YTD Q3 2024 representing a decrease of \$707,114. YTD Q3 2024 Other income included a fair value adjustment and realized gain totaling \$749,391 associated with the Company's investment in Xlynx Materials Inc. common shares (the "Xlynx Shares"). The fair value adjustment was based on the sale price negotiated for the Xlynx Shares in

a May 2024 purchase and sale agreement. Other income in YTD Q3 2025 is primarily made up of interest income earned on cash balances and overdue accounts receivable.

Interest expense

Interest expense for YTD Q3 2025 was \$103,882 which is consistent with the YTD Q3 2024 interest expense of \$104,254. Interest expense for both periods relates to the Company's loan agreement with related party 0876991 B.C. Ltd.

Depreciation and Amortization

Depreciation and amortization expense for YTD Q3 2025 was \$313,503 which is consistent with the YTD Q3 2024 expense of \$334,402.

Deferred taxes

Deferred income tax recovery for YTD Q3 2025 was \$52,927 compared to \$71,410 in YTD Q3 2024. Deferred income tax recoveries recognized in both periods relate to the reduction of the deferred tax liability that occurs as intangible assets are amortized.

Net and comprehensive loss from discontinued operations

Net and comprehensive loss from discontinued operations was \$100,951 in YTD Q3 2025 compared to \$649,307 in YTD Q3 2024 representing a decrease of \$548,356.

YTD Q3 2025 sales decreased by \$503,080 compared to YTD Q3 2024 due to the timing of the strategic decision to hibernate Ocean Rodeo's operations was made at the end of Q2 2024. Sales in the quarters nearest to the decision to discontinue operations were higher due to amount and variety of inventory available for sale.

YTD Q3 2025 gross margins were negative while YTD Q3 2024 gross margins were 22%. YTD Q3 2025 gross margins were negative due to the sale of inventory at a discount and on an "as is" basis and the write off of remaining inventory during Q3 2025 outlined earlier in this MD&A. YTD Q3 2024 gross margins were negatively impacted by the accounting treatment of ALUULA's October 31, 2022 acquisition of Ocean Rodeo. When ALUULA acquired Ocean Rodeo, accounting standards required that ALUULA value Ocean Rodeo's inventory on hand (the "Acquisition Inventory") at its fair market value, which was deemed to be the sales price for those finished goods. Therefore, as Acquisition Inventory is sold, it generates a zero margin (as the cost equals fair value which equals the sales price). Acquisition Inventory sold or written down during YTD Q3 2024 resulted in a negative impact to normalized margins of approximately 8%. YTD Q3 2024 gross margins were also impacted by approximately 8% due to the write down of inventory to net realizable value.

Ocean Rodeo's operating expenses decreased by \$1,087,130 to \$95,117 in YTD Q3 2025 compared to \$1,182,247 in YTD Q3 2024. YTD Q3 2024 operating costs included various charges associated with the decision to discontinue operations such as severance costs as well as the write down of accounts receivable, patents and trademarks to net realizable value. Spending controls were in place throughout YTD Q3 2025 as operations were wound down. A marketing expense recovery was recognized in the YTD Q3 2025 period after the Company successfully negotiated a lower cost to exit a fixed term commitment previously accrued at full contract value.

Other income recorded in the YTD Q3 2024 period relates to a SRED refund received.

SUMMARY OF QUARTERLY RESULTS

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

	July 31, 2025 ("Q3 2025")	April 30, 2025 ("Q2 2025")	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")
Sales	\$ 2,121,588	\$ 1,573,677	\$ 1,261,529	\$ 1,666,861	\$ 1,291,938	\$ 1,403,151	\$ 1,997,279	\$ 881,198
Net and comprehensive income (loss) from continued operations	(763,524)	(325,738)	(369,321)	(1,166,371)	(1,215,139)	(369,680)	117,585	(527,297)
Net and comprehensive loss	(798,144)	(386,674)	(374,716)	(1,819,654)	(1,123,209)	(764,360)	(228,972)	(844,251)
Loss per share basic and diluted **	\$ (0.03)	\$ (0.02)	\$ (0.03)	\$ (0.15)	\$ (0.09)	\$ (0.06)	\$ (0.02)	\$ (0.07)

** All per share amounts are presented in this table have been adjusted to reflect the 20:1 share consolidation outlined in Note 14 of the Interim Consolidated Financial Statements.

Sales

Sales for fiscal 2023 averaged \$1,040,422 per quarter, which represents a 52% increase compared to fiscal 2022 average quarterly sales. The increase was driven by activity in the windsport vertical market as existing customers increased order volumes and new brand partners were added across various sales pipeline stages.

Sales for fiscal 2024 averaged \$1,589,807 per quarter, which represents a 53% increase compared to fiscal 2023 average quarterly sales. 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 increase in Q1 2024 sales were orders of approximately \$200,000 from new customers in the pack and bag vertical market. Q1 2024 sales were also influenced by the ordering pattern of one windsport customer that manufactures for several of the Company's brand partners discussed earlier in this MD&A.

Year to date sales for fiscal 2025 are averaging \$1,652,265 per quarter, which represents a 4% increase compared to fiscal 2024 average of \$1,589,807. Q3 2025 marks the Company's first quarter with sales of over \$2 million, which was achieved as a result of growth across both the performance outdoor and commercial industrial channels as outlined earlier in this MD&A.

The Company experiences long sales cycles due to time requirements needed to collaborate with brand partners in new vertical markets on technical developments and prototype testing prior to moving into commercial production. Leading into fiscal 2025, the Company's sales were primarily (circa 70%+) related to Gold materials from windsport customers. The order volumes combined with customer and product concentration resulted in ease of production scheduling. Customer orders were taken by the sales team on an "as placed" basis. With the continued increase in commercialized brand partner and diversification across vertical markets in fiscal 2025, ALUULA began more active collaboration with its customers to plan annual order volumes and production timelines across a wider range of SKUs. This approach should enable the Company to balance customer expectations with manufacturing capacity while producing more consistent revenue recognition across quarters.

Net and comprehensive loss from continued operations

The Company's net and comprehensive loss from continued operations for Q4 2023 was within expectation given sales gross profit reported during the period.

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 approximately \$390,000 in accrued restructuring costs arising from 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 wrote down approximately \$700,000 in accounts receivables and approximately \$70,000 of raw input materials that did not pass quality control testing for use in the production 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. The deferred tax expense arose after the Company booked a full valuation allowance against a deferred tax asset previously recognized. The deferred tax asset was comprised of tax loss carryforward amounts that the Company de-recognized under IFRS. As the Company meets its profitability milestones, it will revisit whether these deferred tax assets can be recognized in accordance with IFRS. 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 and \$325,738 in Q2 2025, which is in line with expectation given sales and gross margins reported. Net and comprehensive loss from continued operations was \$763,524 for Q3 2025 despite the increase in sales due to the recognition of \$586,431 in share-based compensation expense detailed earlier in this MD&A. If this non-cash expense were excluded, the Company's Income before interest, tax and amortization would have been approaching breakeven.

Net and comprehensive loss

The net and comprehensive loss includes the net and comprehensive loss from both continued and discontinued operations. The decision to sell ALUULA materials to an increasing number of windsport brands had a negative impact on Ocean Rodeo's competitive advantage resulting in sales declines and ongoing quarterly net and comprehensive losses. The decision was made to discontinue Ocean Rodeo operations in Q2 2024 and as a result, its operating expenses were significantly reduced. The Company continued efforts to sell inventory in stock on an "as is" basis which combined with reduced operating costs resulted in net income from discontinued operations for the Q3 2024 period. Other than this Q3 2024 period, the Company has reported quarterly losses from Ocean Rodeo in seven of the eight previous quarters.

BALANCE SHEET ANALYSIS, LIQUIDITY, AND CAPITAL RESOURCES

ANALYSIS OF STATEMENT OF FINANCIAL POSITION

The following table presents selected information from the July 31, 2025 Interim Consolidated Financial Statements and the October 31, 2024 Consolidated Financial Statements, followed by a variance analysis below:

	July 31 2025	October 31 2024
Selected assets		
Cash and cash equivalents	\$ 1,223,301	\$ 857,011
Trade and other receivables	1,354,152	1,032,754
Inventory	1,681,022	1,098,320
Intangible assets	3,429,025	3,618,375
Goodwill	4,037,139	4,037,139
Selected liabilities		
Trade and other payables	635,059	981,067
Loan from related party *	800,000	1,000,000
Debt *	471,119	556,675
Lease obligations *	167,482	271,523

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

Cash and cash equivalents

Cash and cash equivalents balance at July 31, 2025 was \$1,223,301 which is \$366,290 higher than the balance at the end of October 2024. The increase in cash is primarily due to the Company rights offering which closed January 21, 2025 and resulted in cash proceeds after share issuance costs of \$2,377,588. These proceeds have been used to purchase raw materials for manufacturing finished goods inventory and fund operations.

Trade and other receivables

Trade and other receivables increased by \$321,398 from \$1,032,754 at October 31, 2024 to \$1,354,152 at July 31, 2025. Trade receivables increased by \$374,902 primarily due to increasing sales as well as aged accounts receivable balances from windsport customers. Payment plans have been put in place for customers with overdue accounts and those payment plans are currently being honored. 62% of the Company's accounts receivable, net of credit losses, are current while 26% or \$316,430 are over 90 days. Of the balance over 90 days, approximately \$200,000 relates to a receivable pending settlement via credit note once the ALUULA material which was impacted by the production heating variance outlined in the April 30, 2025 MD&A is returned to the Company.

Other receivables, which include government receivables and amounts receivable from the Company's transfer agent, totaled \$352,039 at July 31, 2025 compared to \$157,798 at October 31, 2024. The increase is due to \$12,876 funds receivable from an NRC IRAP grant, as well as \$157,706 related to the exercise of warrants as outlined in Note 14 to the Interim Consolidated Financial Statements.

Inventory

Inventory at July 31, 2025 was \$1,681,022, representing an increase of \$582,702 compared to the balance at October 31, 2024. The increase in inventory is due to additional finished goods and raw materials on hand to meet increased sales order volumes.

Intangible Assets

Intangible assets are primarily comprised of patents and trademarks. ALUULA acquired Ocean Rodeo on October 31, 2022 to support its efforts in product innovation and testing within the windsport vertical market. At that time, Ocean Rodeo's patent portfolio was valued at \$4,296,834. On October 31, 2023, certain key patents held by Ocean Rodeo were transferred to Aluula to ensure all patents supporting the Company's windsport cash generating unit were in one legal entity. The value of intangible assets continues to decrease as they are amortized over their estimated useful life.

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 July 31, 2025.

Trade and other payables

Trade and other payables balance was \$635,059 at July 31, 2025 compared to \$981,067 at October 31, 2024. The October 31, 2024 balance was \$346,008 higher than July 31, 2025 due to the inclusion of accrued severance liabilities for executive restructuring announced at the end of Q2 2024 as well as fiscal 2024 variable compensation accruals.

Loan from related party

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

Debt

As at July 31, 2025, the Company had debt of \$471,119 which is \$85,556 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 July 31, 2025 were \$167,482, a decrease of \$104,041 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 ACTIVITIES

Analysis of cash flows:

For the nine months ended	July 31, 2025	July 31, 2024
Cash used in operating activities - continued operations	\$ (1,699,114)	\$ (492,693)
Cash provided by operating activities - discontinued operations	40,071	174,876
Cash provided by (used in) investing activities - continued operations	111,029	(48,160)
Cash provided by investing activities - discontinued operations	-	27,863
Cash provided by financing activities - continued operations	1,986,823	807,157
Cash used in financing activities - discontinued operations	(72,519)	(87,476)
Increase in cash and cash equivalents	\$ 366,290	\$ 381,567

Operating activities

Cash used in operating activities from continued operations was \$1,699,114 during YTD Q3 2025 compared to \$492,693 in YTD Q3 2024. Use of cash increased by \$1,206,421 primarily due to an increase in inventory purchases, a reduction in trade payables and increase in accounts receivables.

Cash provided by operating activities from discontinued operations was \$40,071 in YTD Q3 2025 compared to \$174,876 in YTD Q3 2024. Cash provided by operations in YTD Q3 2025 is primarily due to changes in working capital balances. Cash provided by operating activities from discontinued operations in YTD Q3 2024 is due to cash collected from accounts receivable, an increase in trade and accounts payable and the receipt of a SRED refund.

Investing activities

Cash provided by investing activities from continued operations was \$111,029 in YTD Q3 2025 compared to \$48,160 used in YTD Q3 2024. The cash flow provided by investing activities in YTD Q3 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 used in YTD Q3 2024 is due to acquisition of equipment and intangible assets.

Cash provided by investing activities from discontinued operations was \$nil in YTD Q3 2025 compared to \$27,863 in YTD Q3 2024. The cash flow from investing activities in YTD Q3 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.

Financing activities

Cash provided by financing activities from continued operations was \$1,986,823 in YTD Q3 2025 compared to \$807,157 in YTD Q3 2024. YTD Q3 2025 cash flows were generated by the Company's rights offering and the exercise of warrants as outlined in Note 14 to the Interim Consolidated Financial Statements. The inflow of funds during YTD Q3 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 YTD Q3 2025 compared to \$87,476 in YTD Q3 2024. The cash flow used in financing activities in both YTD Q3 periods was due 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. Reimbursements recorded for the three and nine months ended July 31, 2025 were \$20,118 and \$42,364 respectively (three and nine months ended July 31, 2024 - \$nil and \$nil). These reimbursements have been recorded as a reduction of salaries and benefits in the statements of loss and comprehensive loss.

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 July 31, 2025, \$729,114 (October 31, 2024 - \$729,114) of the available funding had been received, and the loan had a discounted balance of \$471,119 (October 31, 2024 - \$556,675).

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 July 31, 2025, the discounted balance was \$nil (October 31, 2024 - \$72,307).

Equity issuances

In July 2025, the Company received TSXV approval to reprice and extend the terms of 24,489,953 warrants (the "Warrants") originally granted pursuant to a private placement of units on July 12, 2023. Following the extension and repricing (and taking into account the share consolidation of the Company completed on March 12, 2025), every 20 Warrants entitles the holder to acquire one common share of the Company at an exercise price of \$0.81 per share until July 12, 2026. In accordance with the policies of the TSXV, the Warrants are subject to an accelerated expiry clause. Under this acceleration provision, if the closing price of the Company's common shares is \$0.97 or higher for 10 consecutive trading days, the exercise period of the Warrants will be reduced to 30 calendar days. Any Warrants not exercised before the end of this 30-day period will expire and be void. During the three months ended July 31, 2025, 4,593,960 Warrants were exercised in exchange for the issuance of 229,698 Aluula common shares and resulted in gross proceeds

of \$186,055. The repricing of Warrants had no impact on the statement of loss and comprehensive loss for the three and nine months ended July 31, 2025.

On August 1, 2025, the acceleration provision was triggered as the Company's shares had traded above \$0.97 for 10 consecutive trading days. The 30-day acceleration period commenced on August 5, 2025 and ended September 4, 2024. During the acceleration period, a further 19,785,600 warrants were exercised in exchange for 989,280 Aluula common shares and resulted in the receipt of gross proceeds of \$801,317. In total, 24,379,560 or 99.6% of the Warrants were exercised in exchange for 1,218,978 Aluula common shares and resulted in the receipt of gross proceeds of \$987,372. For more information on the Warrant exercise, see Notes 14 and 19 to the Interim Consolidated Financial Statements.

On January 21, 2025, the Company completed an offering of rights (the "Rights Offering") which resulted in the issuance of 12,530,781 Share at a price of \$0.20 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 2,912,800 Shares; and (ii) to purchase up to an additional 7,500,000 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 20 bonus warrants is exercisable into one Share at a price of \$2.00 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 the 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
July 2025	Warrant exercise	186,055	-	186,055	n/a

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.

RESEARCH AND DEVELOPMENT (“R&D”)

ALUULA has a patented, highly customizable process for manufacturing composite materials. R&D activities are key to the Company's future growth initiatives and new market entry and are separated into two main areas:

Ongoing product and process innovation

The R&D team is engaged in various long term projects including but not limited to transitioning ALUULA's materials into the circular economy and ongoing composite material, vetting new raw materials for use in production and manufacturing innovations.

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.

MANUFACTURING

The Company manufactures its composite materials using batch process fusion pods, which are custom designed and proprietary equipment that Company's staff utilizes to convert input materials into finished composites. ALUULA currently has two fusion pods that are utilized in the production of materials. Fusion pods have an estimated 5 year useful life and as of July 31, 2025, the fusion pods have on average two and a half years remaining in their useful life. A fusion pod can produce approximately 26,000 square meters in a month of Gold material (the Company's first commercialized material) based on a standard work week operating on a 12 hour shift. Each fusion pod requires two to three production staff to operate. Production capacity varies depending on the quantity and type of materials manufactured, as well as the structure of shifts. As the Gold material has been in commercial scale production since 2021, and is one of the highest volume of materials produced, the Company has developed efficiencies with its batch manufacturing process for this material. Other more recently commercialized SKUs are not yet as efficient to manufacture, and the Company expects to realize efficiency gains over time and as volumes increase. The Company schedules equipment repairs and preventative maintenance to maximize useful life and proactively explores process streamlining, planning and equipment adaptations to maximize output from its manufacturing facility.

Based on brand partner feedback, the Company is planning to expand its production capabilities to accommodate a 1.5 meter width in addition to its current 0.925 meter width. ALUULA originally started at the slimmer width so the initial variables involved would be easier to control as the Company commercialized the process. 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.

During the course of the project to investigate manufacturing capabilities at the wider width, ALUULA undertook a comprehensive review of its existing 0.925 meter batch manufacturing process to ensure knowledge gained was applied to drive evolution of this process and where possible, maximize capacity, efficiency and quality.

PRODUCTION CAPACITY AND CAPITAL EXPENDITURES

The Company is currently mapping out a manufacturing strategy and capital plan for its fiscal 2026 year with the goal of maximizing production output to meet growing customer demand, while maintaining product quality, protecting trade secrets and leveraging production staff expertise.

As discussed earlier in this MD&A, the Company has been exploring alternative methods of manufacturing to accommodate production of its materials at a wider width of 1.5 meters. During Q3 2025, ALUULA successfully completed testing a new method of manufacturing that will not only allow for production at a wider width but can also accommodate excess production of existing width 0.925 meter materials. The Company plans to leverage this method of manufacturing on an interim basis to supplement existing production capacity as well as manufacture small batches of materials at the 1.5m width during the fourth quarter of fiscal 2025.

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.

EQUITY

On February 18, 2025, the 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 25,061,562 Shares were issued and outstanding.

As of July 31, 2025, the Company had 25,291,260 shares issued and outstanding, 46,145,993 warrants outstanding (which can be exercised on a 20:1 basis into 2,307,299 Shares) and 2,247,161 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 and nine months ended July 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 and nine months ended July 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 primarily with CIBC, which is a chartered Canadian bank.
- Customers who wish to trade on credit terms are subject to a credit verification process.
- We obtain customer deposits, where possible, where the Company is incurring out-of-pocket costs that cannot be recovered through retention and sale of the product being manufactured.
- We obtain payment prior to shipping for customers who are not subject to credit terms.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. Management mitigates liquidity risk by monitoring forecasted and actual cash flows and proactively managing the maturity profiles of financial assets and liabilities.

Foreign currency risk

Foreign exchange risk is the risk that the value of financial instruments or cash flows will fluctuate due to changes in foreign exchange rates. A significant portion of the Company's revenues and associated receivables are generated and held in foreign currencies. This risk is naturally mitigated by the purchase of input materials in foreign currencies. As the Company's cash flows become more predictable, it will explore the implementation of a formal hedging policy.

Interest rate risk

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

INTERNAL CONTROLS AND PROCEDURES

QUALITY CONTROLS

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

ALUULA composite materials

Quality assurance and control measures are critical to the success of the ALUULA process. To select raw materials, our R&D team tests each input material to ensure it will perform as required, and our supply chain evaluates potential new vendors to ensure we are purchasing from reliable sources that will meet our quality control specifications. Where raw materials require modification prior to use in our assembly process we contract a reputable factory partner and remain in constant communication throughout the planning and production process. As required, ALUULA staff visit the facility to ensure compliance with specifications. Raw materials are visually inspected once received, and continuously evaluated during the assembly process

Once AUULA 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 from each lot to be tested against the performance requirements for each material SKU. A Quality Control Report is prepared for inclusion with each shipment.

Any changes to either material inputs or 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. In many cases pilot test batches are manufactured to confirm fit for use.

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

ALUULA empowers sustainable innovation through high-performance materials that are essential to our brand partners' market-leading products—many of which wouldn't be possible otherwise. As a visible ingredient brand, ALUULA ensures its distinctive aesthetic aligns with its reputation for performance and sustainability, setting it apart from commodity materials.

A focused group of brand partners, combined with targeted commercial outreach into high-growth markets such as wind power and defense shelters, is expected to drive increased demand, market share, and revenue. This strategic commercial focus is already yielding results, as seen in rising sales orders, and is projected to continue contributing to higher revenues into FY2026. At the same time, ALUULA remains committed to margin discipline, aiming for profitable growth.

The technical team, working closely with key partners, is advancing industry-defining construction techniques—such as no-sew applications—enabled by ALUULA's unique material properties. These innovations will power the next generation of products. Strategic R&D efforts are also expanding ALUULA's IP portfolio, supporting the evolution of manufacturing with 1.5-meter materials, waterproof breathables, and progress toward full circularity.

Meanwhile, the manufacturing team is scaling production capacity while maintaining quality and consistency to meet growing demand. These efforts ensure ALUULA can deliver premium materials at scale.

All of these strategic initiatives are grounded in ALUULA's core value of continuous improvement—driving performance, sustainability, and innovation both internally and externally. Together, they support ALUULA's mission to lead a global composite textile revolution, combining high-performance, circularity, and profitable 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 \$72,885 and \$160,405 for the three and nine months ended July 31, 2025 (three and nine months ended July 31, 2024 - \$45,414 and \$168,304).

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 and nine months ended July 31, 2025

was \$24,197 and \$75,814 respectively (three and nine months ended July 31, 2024 - \$30,247 and \$69,699) 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 July 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, Chief Scientific Officer and Chief Commercial 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 and nine months ended July 31, 2025 was \$754,652 and \$1,168,991 respectively (three and nine months ended July 31, 2024 - \$209,834 and \$667,173), which includes \$524,633 and \$596,886 (July 31, 2024 - \$40,287 and \$74,443) in share-based compensation. Agreements with the members of the Executive Leadership Team provide for severance payments under specific circumstances if the executive is terminated without cause totaling \$399,600 (July 31, 2024 - \$nil). At July 31, 2025, the remaining balance of accrued restructuring liabilities recorded during the fiscal 2024 year was \$nil (October 31, 2024 - \$189,318).

SUBSEQUENT EVENTS

Warrant acceleration period triggered

As described in Note 14 (b) to these Interim Consolidated Financial Statements, the Company's Warrants are subject to an accelerated expiry clause, in accordance with TSXV policies. Under the acceleration provisions, if the closing price of the Company's Shares is \$0.97 or higher for 10 consecutive trading days, the exercise period of the Warrants is reduced to 30 calendar days. On August 1, 2025, the accelerated expiry clause was triggered, resulting in an accelerated expiry date of September 4, 2025. During the 30 calendar day acceleration period, 19,785,600 Warrants were exercised in exchange for 989,280 Aluula common shares, and resulted in the receipt of gross proceeds of \$801,317. When combination with the Warrants exercised during the three months ended July 31, 2025, a total of 24,379,560 or 99.6% of the Warrants were exercised in exchange for 1,218,978 Aluula common shares and resulted in the receipt of gross proceeds of \$987,372.