Consolidated Financial Statements of

(Expressed in Canadian dollars)

ALUULA COMPOSITES INC.

Years ended October 31, 2023 and 2022

KINGSTON
ROSS
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CHARTERED PROFESSIONAL ACCOUNTANTS

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February 27, 2024
Edmonton, Alberta

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Aluula Composites Inc.

Opinion

We have audited the consolidated financial statements of Aluula Composites Inc. and its subsidiaries (the Company) which comprise the consolidated statements of financial position as at October 31, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at October 31, 2023 and 2022, and the consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Comparative Information

We draw attention to Notes 2 and 22 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2022 has been restated. Notes 2 and 22 explain the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matters below, our description of how our audit addressed the matters is provided in that context.

Impairment assessment of goodwill and intangible assets

We refer to financial statement summary of significant accounting policies and related disclosures in Notes 8 and 22.

(continues)

At October 31, 2023, the Company held intangible assets with a carrying value of $4,092,477 and goodwill with a carrying value of $4,037,139. The Company reviews for indicators of impairment at each statement of financial position date and when events or changes in circumstances indicate that the goodwill and intangible assets may be impaired. We identified the Company's impairment assessment of the goodwill and intangible assets as a key audit matter.

This impairment test is significant to our audit because management's assessment process is complex and highly judgmental and is based on assumptions, specifically forecasted future cash flows and discount rates, giving rise to high estimation uncertainty.

To address the risk for material misstatement on the impairment assessment of the goodwill and intangible assets, our audit procedures included, amongst other procedures:

- Evaluated the reasonableness of the Company's cash flows by comparing projections to, among others, historical expenses and operations and current business plans.
- Assessed the assumptions, methodologies and data used by the Company, in particular those relating to forecasted cash flows and discount rates.
- Tested the completeness and accuracy of the underlying data used in the Company's valuation model.
- Performed analysis on significant management assumptions used in the valuation model.

We assessed the adequacy of the Company’s presentation and disclosures related to the impairment assessment of goodwill and intangible assets.

Recognition of revenue

We refer to the financial statement summary of significant accounting policies and related disclosure in Notes 24.

For the year ended October 31, 2023, the Company recognized revenue of $7,347,300. The Company recognizes revenues from two distinct operating segments which contain differing terms and conditions. We identified the Company's revenue recognition as a key audit matter.

This recognition of revenue is significant to our audit because the recognition process can be complex and contains elements of judgement and assumptions, specifically related to the terms and conditions of the sales transactions as well as return allowance considerations.

To address the risk for material misstatement on the recognition of revenue, our audit procedures included, amongst other procedures:

- Tested selected revenue transactions to ensure proper recognition in accordance with the terms and conditions of the sales contracts and agreements.
- Assessed the assumptions, methodologies and data used by the Company, relating to sales return provisions.
- Tested the completeness and accuracy of recognized sales transactions and sales cut-off procedures.

We assessed the adequacy of the Company’s presentation and disclosures related to revenue recognition.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, which includes Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Justin Rousseau.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Professional Accountants

ALUULA COMPOSITES INC.

Consolidated Statements of Financial Position
Years ended October 31, 2023 and 2022

	Note	2023	2022 *Restated* Note 22
Assets			
Current assets:			
Cash and cash equivalents		$ 773,368	$ 295,377
Trade and other receivables	5	1,969,008	1,378,890
Inventory	6	1,560,222	2,166,825
Deferred tax asset	21	-	1,014,258
Prepaid expenses and other current assets		260,483	261,055
		4,563,081	5,116,405
Property and equipment	7	966,657	1,206,169
Intangible assets	8	4,092,477	4,334,833
Other long-term assets		30,796	30,796
Investments	9,16	50,796	45,091
Deferred tax asset	21	1,436,535	-
Goodwill	22	4,037,139	4,037,139
		$ 15,177,481	$ 14,770,433
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	10	$ -	$ 2,744,697
Trade and other payables	11	983,311	985,448
Customer deposits		31,149	192,882
Current portion of long-term debt	12	190,662	292,284
Current portion of lease obligations	13	136,203	233,430
Income tax payable	21	12,234	12,234
Deferred tax liability	21	1,053,495	1,223,065
		2,407,054	5,684,040
Long-term debt	12	627,689	967,121
Lease obligations	13	270,254	745,498
Due to related parties	14	-	2,122,802
		3,304,997	9,519,461
Shareholders' equity:			
Share capital	18	16,460,950	6,305,977
Contributed surplus		1,674,620	52,654
Deficit		(6,263,086)	(1,107,659)
		11,872,484	5,250,972
Commitments	23		
Subsequent events	27		
		$ 15,177,481	$ 14,770,433

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

"Peter Gustavson" Director *"Jeremy South"* Director

ALUULA COMPOSITES INC.

Consolidated Statements of Loss and Comprehensive Loss

Years ended October 31, 2023 and 2022

	Note		2023		2022
Sales		$	7,347,300	$	2,743,481
Cost of sales			5,472,007		1,649,542
Gross profit			1,875,293		1,093,939
Operating expenses:					
Salaries and benefits	14		2,172,125		952,306
General and administrative			2,075,255		861,863
Marketing			552,003		86,997
Research and development			160,377		171,627
Share-based compensation	19		502,384		19,750
			5,462,144		2,092,543
Loss before interest, tax and amortization			(3,586,851)		(998,604)
Other income	15		227,883		644,616
Listing expense	4		(1,640,538)		-
Interest expense			(240,071)		(134,360)
Depreciation of capital assets	7		(229,305)		(94,281)
Amortization of intangible assets	8		(278,393)		(439)
Loss before tax			(5,747,275)		(583,068)
Deferred tax recovery	21		591,848		101,498
Net loss and comprehensive loss		$	(5,155,427)	$	(481,570)
Loss per share:					
Basic and diluted net loss per share	20	$	(0.03)	$	(0.00)

The accompanying notes are an integral part of these consolidated financial statements.

ALUULA COMPOSITES INC.

Consolidated Statements of Changes in Equity
Years ended October 31, 2023 and 2022

	Shares outstanding	Share capital	Contributed Surplus	Retained earnings (deficit)	Total shareholders' equity
Balance, October 31, 2021	105,733,720	$ 611	$ 32,904	$ (626,089)	$ (592,574)
Issuance of share capital (Note 18)	44,446,041	6,305,366	-	-	6,305,366
Share-based compensation (Note 19)	-	-	19,750	-	19,750
Net loss	-	-	-	(481,570)	(481,570)
Balance, October 31, 2022	150,179,761	$ 6,305,977	$ 52,654	$ (1,107,659)	$ 5,250,972
Balance, October 31, 2022	150,179,761	$ 6,305,977	$ 52,654	$ (1,107,659)	$ 5,250,972
Repayment of shareholder loans (Note 18)	15,660,010	1,983,002	-	-	1,983,002
Share-based compensation (Note 19)	9,169,600	152,585	427,400	-	579,985
BSP SubCo shares (Note 18)	18,223,330	2,174,620	-	-	2,174,620
BSP Financing (Note 18)	6,776,670	792,200	-	-	792,200
BSP Shares (Note 18)	25,000,000	3,000,000	-	-	3,000,000
Warrants exercised (Note 18)	147,930	14,793	-	-	14,793
Private placement (Note 18)	25,408,328	2,037,773	1,194,566	-	3,232,339
Net loss	-	-	-	(5,155,427)	(5,155,427)
Balance, October 31, 2023	250,565,629	$ 16,460,950	$ 1,674,620	$ (6,263,086)	$ 11,872,484

Through the reverse takeover transaction (the "RTO"), as described in Note 1 and Note 4, on April 14, 2023, the holders of the common shares of Aluula received 26.05 common shares in the Company for each Aluula share held immediately before the amalgamation. The Company issued 175,009,365 shares at a price of 0.12 per share. All share and per share amounts presented in these financial statements have been adjusted to reflect this ratio.

The accompanying notes are an integral part of these consolidated financial statements.

ALUULA COMPOSITES INC.

Consolidated Statements of Cash Flows
Years ended October 31, 2023 and 2022

	Note	2023	2022
Cash flows used in operating activities:			
Net loss		$ (5,155,427)	$ (481,570)
Items not involving cash:			
Depreciation of capital assets	7	296,910	189,659
Amortization of intangible assets	8	278,393	439
Share-based compensation	19	502,384	19,750
Government grants and fair value adjustments	15	(87,721)	(79,553)
Accretion of and accrued interest on loans and leases	12,13	98,083	18,392
Foreign exchange movement on leases	13	(7,351)	49,693
Foreign exchange movement on investments		1,489	-
Loss on disposal of property and equipment	7	91,559	-
Other gains and losses	15	(91,174)	(341,823)
Listing expense	4	1,640,538	-
Inventory write-downs	6	280,818	2,886
Changes in non-cash working capital items:			
Trade and other receivables	5	(590,118)	(171,266)
Inventory	6	325,785	(85,498)
Deferred taxes receivable and payable	21	(591,847)	(101,498)
Prepaid expenses		572	1,605
Other assets		-	12,306
Trade and other payables	11	(2,134)	144,038
Customer deposits		(161,733)	(123,038)
		(3,170,973)	(945,478)
Cash flows from investing activities:			
Cash acquired in RTO	4	1,442,966	-
Acquisition of net working capital in RTO	4	(83,505)	-
Acquisition of property and equipment	7	(148,958)	(214,745)
Operating line of credit acquired in business combination		-	(579,206)
Acquisition of intangible assets	8	(36,037)	(25,075)
		1,174,468	(819,026)
Cash flows from financing activities:			
Issuance of share capital	18	8,671,289	-
Transaction costs from share issuance	18	(474,336)	-
Proceeds on issuance of shares on exercise of options	18	77,601	-
Net payments to related parties	14	(2,122,802)	(916,682)
Payments for principal portion of lease obligations	13	(505,335)	(344,462)
Proceeds from lease obligations	13	-	189,930
Proceeds from long-term debt	12	988,846	490,268
Repayment of long-term debt	12	(1,416,068)	-
		5,219,195	(580,946)
Increase (decrease) in cash and cash equivalents		3,222,689	(2,345,450)
Net cash and cash equivalents, beginning of period		(2,449,320)	(103,870)
Net cash and cash equivalents, end of period [1]		$ 773,369	$ (2,449,320)
[1] Cash and cash equivalents		$ 773,368	$ 295,377
Bank indebtedness		-	(2,744,697)
Net cash and cash equivalents		$ 773,368	$ (2,449,320)

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of operations:

The Company is domiciled in Victoria, BC Canada, with a registered office at 300-4240 Glanford Avenue. The Company has developed and patented an innovative process for manufacturing ultra-strong, lightweight and recyclable soft composite materials for use across numerous industries. Its subsidiary, Ocean Rodeo Sports Inc. ("Ocean Rodeo"), purchases finished products containing these ALUULA composite materials from its manufacturer and sells them within the windsport sector.

On April 14, 2023, Bastion Square Partners Inc. (a Canadian company previously listed on the TSX Venture Exchange under the symbol "BASQ.P") ("BSP") acquired all the outstanding shares of Aluula Composites Inc. ("Aluula") by way of a three-cornered amalgamation with BSP changing its name to Aluula Composites Inc. (the "Company"). Upon completion, the shareholders of BSP held approximately 11% of the issued and outstanding shares of the Company and as a result, Aluula shareholders controlled the Company resulting in a reverse take-over. 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 (see Note 4).

BSP was incorporated under the British Columbia Business Corporations Act on February 24, 2021.

The predecessor entity that was operating the business of Aluula was incorporated under the British Columbia Business Corporations Act on July 18, 2019.

Reference in these consolidated financial statements to "the Company" refers to the combined operations of Aluula (renamed to Aluula Composites Canada Inc.) and its subsidiaries prior to April 14, 2023, and thereafter refers to the combined operations of BSP (renamed to Aluula Composites Inc.) and the historical operations of Aluula and its subsidiaries.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). Certain items from the prior year have been reclassified for comparative purposes, see Note 26. These consolidated financial statements were approved by the Board of Directors for issue on February 27, 2024.

(b) Basis of measurement:

These consolidated financial statements have been prepared on a going concern basis, under the historical cost basis except for certain financial instruments that are measured at fair value as detailed in the Company's significant accounting policies.

(c) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Ocean Rodeo. A subsidiary is an entity over which the Company has control. The Company controls an entity when the Company is exposed to or has the rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and deconsolidated from the date that control ceases. All significant intercompany transactions are eliminated on consolidation.

2. Basis of preparation (continued):

(d) Functional and presentation currency:

These consolidated financial statements are presented in Canadian Dollars, which is the Company and its subsidiaries' functional currency. Each entity in the Company maintains its accounting records in its functional currency. An entity's functional currency is the currency of the principal economic environment in which it operates.

Transactions in currencies other than the functional currency are recorded at the rates of exchange at the date of the transaction. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the period end date. Non-monetary items that are measured in terms of historical cost are translated using historical rates. All gains and losses on translation of those foreign currency transactions are recorded in the consolidated statement of comprehensive income (loss).

(e) Estimates and judgements:

The preparation of these consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgements and assumptions that affect the application of accounting methods and the amounts recognized in the consolidated financial statements. These estimates and the underlying assumptions are established and reviewed continuously on the basis of past experience and other factors considered reasonable in the circumstances. Actual results may differ from the estimates.

Significant judgements and estimates relate to:

(i) Allowance for credit losses:

Credit losses are measured using the Expected Credit Loss ("ECL") methodology which requires the recognition of credit losses based on up to 12 months of expected losses for financial assets and the recognition of lifetime losses for those financial assets that have experienced a significant increase in credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors including relative changes in probability of default since origination. In determining whether there has been a significant increase in credit risk and in calculating the amount of ECL, the Company must rely on estimates and exercise judgement regarding matters for which the ultimate outcome is unknown. These judgements include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

To calculate ECL, the Company analyzes receivable balances by age, geography and customer-type and applies a historical default percentage. Amounts that are known to be uncollectible are written off when identified.

(ii) Valuation of inventory:

Valuing inventory requires the Company to estimate future retail sales prices and reductions, future customer product demand, inventory losses or shrinkage, vendor rebates based on volume purchases and the probability that funds will be collected from vendors. If actual losses on inventory differ from those estimated, inventory and consolidated comprehensive income (loss) will be affected in future periods.

2. Basis of preparation (continued):

(e) Estimates and judgements (continued):

(iii) Internally generated assets:

The Company undertakes many research and development projects as part of its regular operations. Significant judgement is required to distinguish between the research and development phases of these projects. Development costs are only recognized as an asset when the relevant capitalization criteria under IAS 16 or IAS 38 are met.

(iv) Long-lived assets valuation:

Management determines the estimated useful lives and residual values of long-lived assets to calculate amortization and depreciation. This estimate is determined by considering a typical life cycle for the asset, expected usage levels, and expected maintenance levels. Useful lives and residual values are reviewed annually, and future depreciation charges are adjusted where management believes the outcomes differ from previous estimates.

Goodwill and indefinite life intangible assets are tested for impairment annually. Goodwill, indefinite life intangibles, property and equipment, and definite life intangibles are also tested for impairment when circumstances indicate that impairment may exist. Management judgement is involved in determining if there are circumstances indicating that testing for impairment is required, and in identifying Cash Generating Units (“CGUs”) for the purpose of impairment testing.

The Company assesses impairment by comparing the recoverable amount of a long-lived asset, CGU, or CGU group to its carrying value. The recoverable amount is defined as the higher of:

(i) value in use; or
(ii) fair value less selling costs.

Determination of the recoverable amount involves significant assumptions, including those with respect to future cash inflows and outflows, discount rates, terminal growth rates, royalty rates, and useful lives of assets. These assumptions could affect the Company’s future results if the current estimates of future performance and fair values change. These determinations will affect the amount of amortization expense on definite life assets recognized in future periods.

(v) Provision for sales returns and warranties:

The Company provides Ocean Rodeo’s customers with a 60-day satisfaction guarantee in addition to a one-year warranty on current season goods or a 90-day warranty on discontinued products. Products sold for professional applications such as schools or rentals are eligible for a 30-day warranty. The Company has made certain assumptions to estimate both the quantity of future expected merchandise returns as well as the warranty provision. The cumulative warranty expense as a percentage of relevant sales over the past 10 years has been used as a basis to estimate the warranty provision for the reporting period. Sales returns are calculated using the cumulative sales returns as a percentage of relevant sales over the past 10 years, multiplied by relevant sales for the reporting year.

2. Basis of preparation (continued):

(e) Estimates and judgements (continued):

(vi) Share-based compensation:

Share-based compensation is measured at fair value using the Black-Scholes option pricing model. Management uses judgement when determining inputs for the model, including expected lives, underlying share price volatility and forfeiture rates. Changes to the assumptions used in determining inputs will impact the calculation of fair value and the amount of compensation expense recognized in earnings. Any impact due to a change in estimate is recognized in earnings in the year that it occurs.

(vii) Leases:

The Company applies judgement in assessing whether a contract is or contains a lease. Such judgements include the determination of whether an asset is specifically or implicitly identified in the contract, whether the Company has the right to obtain substantially all the economic benefits from use of the asset and whether the Company has the right to direct the use of the asset. These judgements are made at the inception of a contract and may change if there are material changes to the agreement.

Estimates are used to determine the incremental borrowing rate of a lease when the interest rate implicit to the lease is not readily available. The Company's incremental borrowing rate is determined using a model which incorporates the Company's creditworthiness, the nature and quality of the underlying asset, and the duration of the lease. The inputs used in determining the incremental borrowing rate are reviewed and updated periodically. Changes to these estimates may affect the value of assets, liabilities and net earnings in the future.

The Company also applies judgement in determining whether it is reasonably certain to exercise lease extensions options or purchase options in a contract by considering all relevant factors and circumstances that may create an economic incentive for the Company to exercise the option considering such factors as past experience, contract terms and conditions and the importance of the underlying assets to the Company's operations.

(viii) Deferred income tax assets and liabilities:

Deferred income tax assets and liabilities result from timing differences between the financial reporting and tax bases of assets and liabilities. Loss carryforwards also comprise a portion of the temporary differences and result in a deferred income tax asset. Deferred income tax assets are only recognized to the extent that management considers it probable that a deferred income tax asset will be realized. The assessment for the recognition of a deferred tax asset requires significant judgement. The factors used to assess the likelihood of realization are the Company's forecasts of future taxable income and available tax planning strategies that could be implemented to realize the deferred tax assets. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimates made from one period to the next.

2. Basis of preparation (continued):

(e) Estimates and judgements (continued):

(ix) Measurement of fair values:

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company uses observable market data to the extent possible. Where fair values cannot be determined based on quoted prices in active markets, fair value is measured using valuation techniques and models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are required to establish fair values. Changes in assumptions about the inputs of these models could affect the reported fair value of the Company's financial and non-financial assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities is disclosed in the associated notes to the consolidated financial statements.

(x) Revenue recognition:

Revenue is recognized when the criteria in IFRS 15 are met, the timing of which requires judgement by management. This judgement includes whether collection of receivables is reasonably assured, and whether control has passed from the Company to the customer. The timing of change of control is estimated based on historical results using assumptions for the time of delivery based on shipping terms, date, and destination. Actual timing of the change of control could vary from the estimates made.

(xi) Valuation of assets and liabilities acquired in a business combination:

In a business combination, the Company may acquire the assets and assume certain liabilities of an acquired entity. Estimates of fair values of these assets and liabilities involves judgement and a variety of assumptions to be made, including analysis of relevant market expectations, estimates surrounding the costs to acquire or create a similar asset, expected net future cash flows, and appropriate discount rates. Intangible assets acquired in a business combination are measured using a discounted cash flow approach. The discounted cash flow approach is a valuation technique that calculates the fair value of an intangible asset based on the present value of future cash flows that the asset can be expected to generate in the future.

3. Summary of significant accounting policies:

(a) Financial assets and liabilities:

Financial assets include cash and cash equivalents, trade and other receivables, and investments. Financial liabilities include trade and other payables, due to related parties, bank indebtedness, and long-term debt.

(i) Recognition and measurement of financial instruments:

Financial instruments are initially recognized at fair value. If the financial instrument is not classified at fair value through profit and loss ("FVTPL"), then the initial measurement includes directly attributable transaction costs. Subsequent to initial recognition, financial assets are measured at either amortized cost, fair value through OCI or FVTPL. Financial liabilities are measured at either amortized cost or FVTPL. Classification depends on the nature and objective of each financial instrument and is determined when first recognized.

3. Summary of significant accounting policies (continued):

(ii) Provision for impairment:

Financial assets carried at amortized cost include cash and cash equivalents and trade and other receivables. The Company assesses the lifetime expected credit losses ("ECL") associated with its assets carried at amortized cost. ECL represents the expected credit loss that will result from all possible default events over the expected life of the financial instrument. The amount of ECL is updated at each reporting date to reflect changes in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition based on all information available, including reasonable and supportive forward-looking information. When a financial instrument is uncollectible, it is written off against the provision for impairment.

(iii) Cash and cash equivalents:

Cash and cash equivalents include bank deposits and cash on hand. Due to the nature of these financial instruments, carrying value approximates fair value. Cash and cash equivalents are held at amortized cost. Cash and cash equivalents and bank indebtedness are combined by management when assessing the Company's cash position, and have been presented on a net basis in the consolidated statement of cash flows.

(iv) Trade and other receivables:

Trade and other receivables are initially recognized at fair value less provision for impairment. Subsequently, trade and other receivables are measured at amortized cost. As receivables are due in less than one year, they are not discounted. The provision established against trade and other receivables represents lifetime ECL and is updated at each reporting date. Any increase in the provision is recognized in the consolidated statement of comprehensive income (loss). When a trade receivable is uncollectible, it is written off against the provision for impairment. Subsequent recoveries of amounts previously written off are recognized in the consolidated statement of comprehensive income (loss).

(v) Investments:

IFRS 9 prescribes a single approach to determine whether an investment in an equity instrument is classified and measured at amortized cost or at fair value, with each instrument measured separately. The classification and measurement of investments is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest. The Company's investments are measured at fair value and are classified as Fair Value through Profit or Loss ("FVTPL"). Subsequent changes in fair value are recognized as gains or losses in the consolidated statement of comprehensive income (loss). Transaction costs relating to investments classified as FVTPL are recognized in profit or loss as they are incurred.

3. Summary of significant accounting policies (continued):

(a) Financial assets and liabilities (continued):

(vi) Borrowings and other financial liabilities:

Trade and other payables, due to related parties and bank indebtedness are initially recognized at fair value, net of transaction costs, plus or minus any premiums or discounts. Bank loans and other financial liabilities are subsequently measured at amortized cost calculated using the effective interest method. Interest accrued on borrowings is included in trade and other payables on the consolidated statement of financial position. Cash flows linked to short-term payable amounts are not discounted. Long-term cash flows are discounted when the impact is significant. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

(b) Inventory:

Inventory is valued at the lower of cost and net realizable value, with cost being determined using the first-in first-out formula for Aluula Composites Canada Inc. while the specific cost method is used for Ocean Rodeo. The cost of raw materials and finished goods for resale includes direct product costs. The cost of finished and in-progress composite materials includes direct product costs, direct labour and an allocation of variable and fixed manufacturing overhead, including interest and depreciation. When circumstances that previously caused inventory write-downs below cost no longer exist, or when there is clear evidence of an increase in the net realizable value, the amount of a write-down previously recorded is reversed through cost of goods sold.

(c) Property and equipment including right of use assets:

Items of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes any expenditure that is directly attributable to the acquisition of the asset. Property and equipment assets are evaluated at each reporting date to determine whether there is an indication of impairment. Where evidence of impairment exists, the asset's recoverable amount, being the greater of its value in use and its fair value less costs to sell, is estimated. An impairment loss is recognized in net income if the carrying amount of the asset is greater than its estimated recoverable amount. Impairment losses recognized in prior periods may be reversed if there has been a change in the estimates used to determine the recoverable amount. Gains and losses on the disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment.

Depreciation is recognized in profit or loss on a basis that most closely reflects the expected pattern of consumption of future economic benefits embodied in the assets. Depreciation is calculated using the straight-line method over the estimated useful life of the asset as follows:

Furniture and computer equipment	3 - 10 years
Molds	3 - 7 years
Machinery and equipment	5 - 10 years
Leased office and warehouse space	Term of the lease
Leasehold improvements	Term of the lease

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3. Summary of significant accounting policies (continued):

(d) Intangible assets:

Intangible assets include patents, licenses and trademarks. Upon recognition of an intangible asset, the Company determines if the asset has a definite or indefinite life. In making this determination, the Company considers the expected use, expiry of agreements, the nature of the asset and whether the value of the asset decreases over time. Definite life intangible assets are measured at cost less accumulated amortization net of accumulated impairment losses. Amortization is recognized in the consolidated statements of comprehensive income (loss) on a straight-line basis over the estimated useful life as follows:

Trademarks	Up to 20 years
Patents and licenses	Up to 20 years

(e) Business combinations and goodwill:

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date that control is transferred to the Company. In assessing control, the Company takes into consideration potential voting rights that are currently exercisable.

Goodwill is measured as the excess of the sum of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of any previously held equity interest in the acquiree over the net of the acquisition date fair value of the identifiable assets acquired and the liabilities assumed. If the excess is negative, a bargain purchase gain is recognized immediately in earnings. Transaction costs, other than those associated with the issue of debt or equity, are recognized in earnings as incurred.

Goodwill is not amortized, and is tested for impairment annually and as required when circumstances indicate that its carrying amount may not be recoverable. Goodwill is measured at cost less any accumulated impairment losses.

(f) Leases:

At the inception of a contract, the Company assesses whether a contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The supplier has a substantive substitution right;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period; and
- The Company has the right to direct the use of the asset.

3. Summary of significant accounting policies (continued):

(f) Leases (continued):

The Company has the right to control when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. For contracts that contain a lease the Company recognizes a right-of-use asset, presented under property and equipment or intangible assets in the consolidated statement of financial position, and a lease obligation at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those within the equivalent category of property and equipment or intangible assets.

The lease obligation is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease obligation is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, when there is a change to the future lease payments arising from a change in a rate used to determine those payments or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

The Company does not recognize right-of-use assets and lease obligations for short-term leases that have a lease term of 12 months or less or for leases of low value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the term of the lease.

(g) Impairment of non-financial assets:

On each reporting date, the Company reviews the carrying amounts of property and equipment, intangible assets and right-of-use assets for any indication of impairment. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the assets recoverable amount.

The recoverable amount is the higher of an asset or cash-generating unit's ("CGU") fair value less costs of disposal and value in use. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows form other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognized when the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive income (loss).

3. Summary of significant accounting policies (continued):

(g) Impairment of non-financial assets (continued):

An impairment loss is reversed if there is an indication that an impairment loss recognized in the prior periods may no longer exist. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized previously. Such a reversal is recognized in the consolidated statement of comprehensive income (loss).

(h) Provisions:

Provisions are liabilities of the Company for which the amount and/or timing of settlement is uncertain. A provision is recognized in the consolidated financial statements when the Company has a present legal or constructive obligation because of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and when appropriate the risks specific to the liability.

(i) Revenue recognition:

The Company follows the following steps when accounting for revenue from contracts with customers:

(i) Identify the contract with a customer
(ii) Identify the performance obligations
(iii) Determine the transaction prices
(iv) Allocate the transaction price to the performance obligations
(v) Recognize revenue when/as performance obligations(s) are satisfied

The Company generates revenue through the sale of its composite materials and Ocean Rodeo windsport products. All revenue is recognized net of any tax collected from customers, which is subsequently remitted to the relevant government authorities. Customer payment terms vary, but are short-term in nature. Customer contracts do not contain significant financing components or variable consideration.

Composite materials

The Company's principal business activity is the assembly and sale of composite materials for use in a broad range of commercial applications. Revenue is recognized when control of the materials transfers to the customer, which is the point at which it has been shipped from the Company's warehouse. At this time, invoices are sent and the accounts receivable timeline begins.

Windsport products

The Company's subsidiary, Ocean Rodeo, generates revenue through the sale of finished windsport products. Revenue is recognized at the time the customer takes control of the product, which is estimated based on historical experience of shipping terms, shipping date and shipping destination. When a right to return exists, a sales return allowance is recognized based on historical return rates. A sales return allowance is measured at the amount of consideration received, or receivable, for which the Company does not expect to be entitled. When a return occurs, the Company has the right to recover the goods sold, and so recognizes a corresponding adjustment to cost of sales and right to returned goods. The Company's standard warranty period is not

3. Summary of significant accounting policies (continued):

(i) Revenue recognition (continued):

considered to create a separate performance obligation. Warranty obligations are accounted for as provisions, and the estimated cost of satisfying the warranty obligation is recognized when the necessity of the provision is evident. The sales return allowance and warranty provision are updated at the end of each reporting period for changes in circumstances.

(j) Government grants:

Government grants are recognized where there is a reasonable assurance that the grant will be received and the Company will comply with all conditions. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs for which it is intended to compensate are expensed. When the grant relates to an asset, the cost of the asset is reduced by the amount of the grant.

(k) Research and development expenses:

The Company undertakes research and development activities to develop or improve new and existing products and to tailor them to suit specific applications, as required. These activities result in costs that are expensed as incurred.

(l) Share-based compensation:

The Company has a share-based compensation plan, which is described in Note 18. The Company accounts for share-based payments and awards to employees, directors and officers at fair value using the Black-Scholes option pricing model. Under the fair value-based method, compensation cost attributable to awards intended to settle in equity is based on the fair value of the award on the grant date and recognized as an expense, with a corresponding increase in equity over the vesting period using the graded vesting method. At the end of each reporting period management reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of comprehensive income (loss).

(m) Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and where they relate to income taxes levied by the same tax authority on the same taxable

3. Summary of significant accounting policies (continued):

(m) Income tax (continued):

entity, or on different tax entities that intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Basic and diluted earnings (loss) per share:

Basic earnings (loss) per share is computed by dividing the net loss applicable to common shares by the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted income (loss) per share, whereby all "in the money" stock options are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are equivalent as the exercise of stock options is considered to be anti-dilutive.

(o) Future accounting pronouncements:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended October 31, 2023 and therefore have not been applied in the preparation of these consolidated financial statements.

(i) Amendments to IAS 1 - Presentation of Financial Statements:

The amendments to IAS 1 affect only the presentation of liabilities as current non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about these items. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024 with early application permitted. No significant impact to the Company's financial statements is expected.

(ii) IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors:

The amendments to IAS 8 introduce the definition of an accounting estimate and included other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. These amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. No significant impact to the Company's financial statements is expected.

(iii) IAS 12 - Income Taxes:

In May 2021, the IASB issued an amendment to IAS 12 to narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transaction that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendment is effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. No significant impact to the Company's financial statements is expected

4. Reverse takeover of Bastion Square Partners:

On April 14, 2023, Aluula completed a reverse takeover with BSP, a publicly listed entity, pursuant to an amalgamation agreement dated December 20, 2022 for the acquisition by BSP of 100% of the issued and outstanding shares of Aluula. Haywood Securities Inc. (“Haywood”) was engaged by BSP to act as agent for its October 2021 initial public offering.

The RTO was structured as a three-cornered amalgamation pursuant to the provisions of the Business Corporations Act (British Columbia) (the “BCBA”), whereby BSP incorporated a wholly-owned subsidiary (“BSP SubCo”) under the BCBCA, which amalgamated with Aluula (the “Amalgamation”) to form a newly amalgamated company. Immediately prior to the closing of the RTO, Aluula changed its name to “Aluula Composites Canada Inc.” and BSP changed its name from “Bastion Square Partners” to “Aluula Composites Inc.”.

Through the RTO, Aluula acquired legal control of the Company by way of a share exchange and subsequent amalgamation. Management has determined that the RTO does not constitute a business combination, as BSP does not meet the definition of a business under *IFRS 3, Business Combinations* given that its activities mainly involve managing its cash balance and filing obligations as a capital pool corporation, with no other operations. As a result, The RTO has been accounted for in accordance with *IFRS 2, Share-based Payments*, measured at fair value.

Under reverse acquisitions, the post reverse acquisition comparative historical financial statements of the legal acquirer, BSP, are those of the legal acquiree, Aluula, which is considered to be the accounting acquirer. These financial statements reflect the balance sheets, the results of operations and the cash flows of Aluula and its subsidiaries at their carrying amounts, since it is deemed to be the accounting acquirer. Aluula has been identified as the accounting acquirer and therefore BSP’s share capital and deficit at the time of the RTO transaction were eliminated. Accordingly, there is no goodwill recognized, and the difference between the consideration and fair value of the net assets acquired results in a listing expense as follows:

Fair Value of BSP: 25,000,000 common shares at $0.12 per share	$	3,000,000
Consideration		3,000,000
Net assets of BSP acquired:		
Cash		1,442,966
Prepaid expenses		4,537
Accounts payable		(69,708)
Accrued liabilities		(18,333)
Total FMV acquired		1,359,462
Listing expense	$	1,640,538

The acquisition date fair value of the consideration transferred by the accounting acquirer, Aluula for its interest in the accounting acquiree, BSP of $3,000,000 is based on the number of common shares outstanding multiplied by the RTO deemed price per share of $0.12.

5. Trade and other receivables:

Trade and other receivables are comprised of the following:

	2023	2022
Trade receivables	$ 1,925,367	$ 1,534,838
Government receivables	116,045	11,480
Sales return allowance	(54,258)	(125,991)
Expected credit losses	(18,146)	(41,437)
	$ 1,969,008	$ 1,378,890

Trade receivables net of expected credit losses outstanding at October 31 were aged as follows:

	2023	2022
Current	$ 1,210,483	$ 1,014,897
30 - 60 days	66,506	225,921
60 - 90 days	111,804	135,111
Over 90 days	518,428	117,471
	$ 1,907,221	$ 1,493,400

The following table summarizes the change in sales return allowances for the period:

	2023	2022
Opening balance	$ 125,991	$ -
Additional provisions during the period	64,324	-
Sales return allowances acquired in business combination	-	125,991
Amounts used during the period	(19,377)	-
Reversal of previous allowance	(116,680)	-
	$ 54,258	$ 125,991

The following table summarizes the change in expected credit losses for the period:

	2023	2022
Opening balance	$ 41,437	$ -
Additional provisions during the period	30,249	-
Expected credit losses acquired in business combination	-	41,437
Amounts used during the period	(41,437)	-
Unused amounts reversed	(12,103)	-
	$ 18,146	$ 41,437

6. Inventory:

Inventory is comprised of the following:

		2023		2022
Raw materials	$	1,176,104	$	304,474
Finished goods - composite materials		278,911		230,043
Finished goods - products for resale		105,207		1,632,308
	$	1,560,222	$	2,166,825

During the year ended October 31, 2023, inventories totalling $5,173,278 (2022 - $2,020,413) and inventory write-downs totalling $280,818 (2022 - $2,886) were expensed in cost of sales. There were no reversals of write-downs from previous periods.

7. Property and equipment:

	Furniture and equipment	Computer equipment	Leasehold improvements	Machinery and equipment	Molds	Right-of-use buildings	Right-of-use machinery and equipment	Total
Cost								
Balance, October 31, 2021	$ 3,665	$ 4,347	$ 5,792	$ 111,902	$ -	$ 646,453	$ 118,922	$ 891,081
Additions	12,978	13,257	4,605	68,721	-	-	254,641	354,202
Acquired in business combination	28,246	7,492	1,122	-	72,558	92,943	-	202,361
Disposals	-	-	-	-	-	-	-	-
Balance, October 31, 2022	44,889	25,096	11,519	180,623	72,558	739,396	373,563	1,447,644
Additions	2,026	4,917	2,700	128,507	10,808	-	-	148,958
Disposals	-	-	(6,346)	-	-	(92,943)	-	(99,289)
Transfers[1]	-	-	-	373,563	-	-	(373,563)	-
Balance, October 31, 2023	$ 46,915	$ 30,013	$ 7,873	$ 682,693	$ 83,366	$ 646,453	$ -	$ 1,497,313
Accumulated depreciation								
Balance, October 31, 2021	$ -	$ 462	$ 1,354	$ 28,805	$ -	$ 21,195	$ -	$ 51,816
Depreciation	1,228	3,881	2,038	27,480	-	127,171	27,861	189,659
Disposals	-	-	-	-	-	-	-	-
Balance, October 31, 2022	1,228	4,343	3,392	56,285	-	148,366	27,861	241,475
Depreciation	5,198	10,694	2,145	109,373	37,437	132,064	-	296,910
Disposals	-	-	(2,837)	-	-	(4,892)	-	(7,729)
Transfers[1]	-	-	-	27,861	-	-	(27,861)	-
Balance, October 31, 2023	$ 6,426	$ 15,037	$ 2,700	$ 193,519	$ 37,437	$ 275,538	$ -	$ 530,656
Carrying amounts:								
Balance, October 31, 2022	$ 43,661	$ 20,753	$ 8,127	$ 124,338	$ 72,558	$ 591,030	$ 345,702	$ 1,206,169
Balance, October 31, 2023	$ 40,489	$ 14,976	$ 5,173	$ 489,174	$ 45,929	$ 370,915	$ -	$ 966,657

[1] Transfers from right-of-use machinery and equipment are due to the purchase of leased equipment from Scotia Bank on July 12, 2023.

During the year ended October 31, 2023, $67,605 (2022 – $95,378) of depreciation was included in the cost of finished goods inventory.

8. Intangible assets:

	Patents and Licenses	Trademarks	Total
Cost			
Balance, October 31, 2021	$ 12,704	$ 740	$ 13,444
Additions	16,619	8,457	25,076
Acquired in business combination (Note 22)	4,296,834	-	4,296,834
Disposals	-	-	-
Balance, October 31, 2022	4,326,157	9,197	4,335,354
Additions	29,383	6,654	36,037
Disposals	-	-	-
Balance, October 31, 2023	$ 4,355,540	$ 15,851	$ 4,371,391
Accumulated amortization			
Balance, October 31, 2021	$ 8	$ 73	$ 81
Amortization	402	38	440
Disposals	-	-	-
Balance, October 31, 2022	410	111	521
Amortization	278,355	38	278,393
Disposals	-	-	-
Balance, October 31, 2023	$ 278,765	$ 149	$ 278,914
Carrying amounts:			
Balance, October 31, 2022	$ 4,325,747	$ 9,086	$ 4,334,833
Balance, October 31, 2023	$ 4,076,775	$ 15,702	$ 4,092,477

As at October 31, 2023, intangible assets with a cost of $44,126 (2022 - $81,032) were recorded for patents, licenses or trademarks management expects to be granted but were still pending approval.

9. Investments:

The Company holds strategic long-term investments in private companies that are not quoted in an active market. Fair value for these investments is determined using available financial and market information which can include financial statements and company projections. The Company recognized an unrealized gain of $5,705 associated with its investment in GKA Event GmbH (2022-nil).

	2023	2022
XlynX Materials Inc.	$ 609	$ 609
GKA Event GmbH	50,187	44,482
	$ 50,796	$ 45,091

9. Investments (continued):

(a) XlynX Materials Inc. (“XlynX”)

The Company owns 352,941 Class A common voting shares (2022 – 352,941) in XlynX, representing 14% (2022 – 15%) of its issued and outstanding common shares. Based in British Columbia, Canada, XlynX is an emerging specialty chemical company with a focus on the development of novel diazirine-based crosslinking molecules and carbon nanomaterials. The combination of these crosslinking technologies is attempting to improve the strength to weight ratio of various input materials currently used by the Company to make its ultralight composites.

(b) GKA Event GMBH (“GKA”)

The Company owns 4,167 shares (2022 – 4,167) in GKA, representing 16.67% (2022 – 16.67%) of its issued and outstanding share capital. Based in Hamburg, Germany, GKA was established as an event company for the purpose of organizing events in connection with or relating to kitesurfing.

10. Bank indebtedness:

(a) Operating line of credit - Scotia Bank:

The Company repaid its credit facility with Scotia Bank (the “LOC”) as of July 12, 2023. The LOC had borne interest at 1% above Scotia Bank’s prime rate and had a borrowing capacity of $2,000,000. As at October 31, 2023 the balance outstanding is nil (October 31, 2022 - $2,744,697).

(b) Callable debt – Scotia Bank:

The Company repaid its revolving pre-shipment financing facility (the “EGP Program”) with Scotia Bank on July 12, 2023. The facility had borne interest at 1% above Scotia Bank’s prime rate, was payable on demand, and was capped at 90% of eligible contract costs. 75% of the facility was guaranteed by Export Development Canada under its Export Guarantee Program. As at October 31, 2023 the balance outstanding is nil (October 31, 2022 - $1,000,000).

11. Trade and other payables:

Trade and other payables are comprised of the following:

	2023	2022
Trade payables	$ 415,337	$ 695,037
Accrued liabilities	225,174	89,600
Credit cards payable	51,421	88,685
Warranty provision	245,605	57,965
Payroll liabilities	29,404	36,166
Government payables	(191)	9,480
Royalties payable	16,561	8,515
	$ 983,311	$ 985,448

11. Trade and other payables (continued):

The following table summarizes the change in warranty provisions for the period:

	2023	2022
Opening balance	$ 57,965	$ -
Additional provisions during the period	456,820	-
Warranty provisions acquired in business combination	-	57,965
Amounts used during the period	(269,180)	-
	$ 245,605	$ 57,965

12. Long-term debt:

(a) Western Economic Diversification Canada:

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 beginning on April 1, 2024. As of October 31, 2023, $729,114 (2022 - $490,270) of the available funding had been received, and the loan had a discounted balance of $606,617 (2022 - $417,714)

(b) Western Economic Diversification Canada:

On August 24, 2020, the Company 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. As at October 31, 2023, $190,000 (2022 - $190,000) of funding had been received and was acquired as part of the business combination at a discounted balance of $131,855 (2022 - $178,823).

(c) Western Economic Diversification Canada:

On June 11, 2020, WD Canada also provided the Company with a $60,000 interest free loan as part of its Regional Relief and Recovery Fund. If this loan is repaid in full on or by December 31, 2023, $20,000 is forgiven. Subsequent to year-end the repayment date was extended to March 28, 2024. At October 31, 2023 the loan had a discounted balance of $39,880 (2022 - $39,765).

(d) Scotia Bank:

On August 10, 2021, the Company entered into a banking agreement with Scotia Bank that provided the Company with an $800,000 non-revolving term loan to fund general business needs. On July 12, 2023, the loan was repaid in full, therefore the balance at October 31, 2023 had a discounted balance of nil (2022 - $583,342).

(e) Government of Canada:

On April 23, 2020, the Company received a $40,000 interest free loan as part of its Canada Emergency Benefit Account. This loan was expanded to $60,000 on January 11, 2021. If this loan is repaid in full on or by January 18, 2024, $20,000 is forgiven. This loan was acquired as part of the business combination at October 31, 2022, and had a discounted balance at October 31, 2023 of $40,000 (2022 - $39,761).

12. Long-term debt (continued):

The following table summarizes the changes in financing activities due to long-term debt:

	2023	2022
Opening Balance	$ 1,259,405	$ 38,370
Cash movement:		
Debt repayments	(1,416,068)	-
Debt advances	988,846	490,268
Non-cash movement:		
Amortization of non-cash interest	66,694	8,395
Loans acquired in business combination	-	801,925
Fair value adjustments	(80,526)	(79,553)
Ending Balance	818,351	1,259,405
Less: current portion	190,662	292,284
Long-term portion	$ 627,689	$ 967,121

13. Lease obligations:

The Company has leases and lease obligations for office and warehouse space and licensing agreements. The interest rate implicit in the office and warehouse space was not readily determinable, so the Company used its incremental borrowing rate. The office lease acquired in the business combination was recorded at fair value as at October 31, 2022. On July 12, 2023, the Company purchased lease equipment from Scotia Bank.

	2023	2022
Beginning of year	$ 978,928	$ 1,180,178
Additions	-	329,387
Payments	(505,335)	(344,462)
Terminations	(91,174)	(341,823)
Accretion of lease liabilities	31,389	9,997
Leases acquired in business combination	-	95,958
Foreign currency translation adjustment	(7,351)	49,693
End of year	$ 406,457	$ 978,928
Lease liabilities due within one year	$ 136,203	$ 233,430
Lease liabiltiies due beyond one year	270,254	745,498
	$ 406,457	$ 978,928

Future minimum lease payments at October 31, 2023 are as follows:

	Within one year	One to five years	Total
Lease payments	$ 148,092	$ 279,231	$ 427,323
Finance charges	11,889	8,977	20,866
Net present value	$ 136,203	$ 270,254	$ 406,457

13. Lease obligations (continued):

Future minimum lease payments at October 31, 2022 are as follows:

	Within one year	One to five years	Total
Lease payments	$ 273,057	$ 768,878	$ 1,041,935
Finance charges	39,627	23,380	63,007
Net present value	$ 233,430	$ 745,498	$ 978,928

14. Related parties:

(a) Director related transactions:

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 $12,377 for the year ended October 31, 2023 (2022 - $49,506). Additional payments of $45,000 (2022 - $74,000) were made to this related party during the year ended October 31, 2023 for the collateralization of the building against the term loan with Scotia Bank.

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 October 31, 2023, loans to shareholders existed in the amount of 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, at October 31, 2023 there were payables of nil (2022 - $197,092) owing to shareholders, and receivables of nil (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. As at October 31, 2023, royalties of $295,891 were paid to the related company (2022 - $93,847).

The Company made payments to Xlynx Materials Inc., which is controlled by a director of the Company, for consulting services of $2,017 during the year ended October 31, 2023 (October 31, 2022 - $4,095)

(b) Affiliates:

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.

14. Related parties (continued):

(c) 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 year ended October 31, 2023 was $725,371 (2022 - $281,270), which includes $203,571 (2022 - $14,492) 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 (2022 - $328,000).

15. Other income:

Other income is comprised of the following:

		2023		2022
Licenses	$	159,543	$	128,608
Fair value adjustment on interest free government loan		80,525		79,553
Interest and other		31,565		1,907
Fair value adjustments		7,195		-
Cancellation of lease liability attached to licensing agreement		-		363,682
Scientific research and experimental development refund		-		70,866
Loss on disposal of property and equipment		(50,945)		-
	$	227,883	$	644,616

16. Financial instruments:

(a) Fair Value:

The following fair value measurement hierarchy is used for financial instruments that are measured in the consolidated statement of financial position at fair value using:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: techniques (other than quoted prices included in Level 1) that are observable for the asset or liability either directly (as prices) or indirectly (as derived from prices); and

Level 3: techniques which use inputs that are both significant to the overall fair value measurement of the asset or liability and are not based on observable market data (unobservable inputs).

16. Financial instruments (continued):

(a) Fair Value (continued):

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables and bank indebtedness approximate their fair value due to the relatively short-term maturity of these financial instruments. The carrying value of long-term debt and lease obligations are initially recognized at fair value and subsequently measured at amortized cost, which approximate fair value, using the effective interest rate method.

There were no transfers between levels of the fair value hierarchy during the years ended October 31, 2023 or October 31, 2022.

The following table summarizes the fair value hierarchy of assets and liabilities recorded at FVTPL:

	2023		2022	
	Level 2	**Level 3**	**Level 2**	**Level 3**
Investments	$ -	$ 50,796	$ -	$ 45,091

17. Financial risk and capital management:

The Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk, foreign exchange risk.

(a) Credit risk:

Credit risk is the risk that a counterparty will not meet its obligations under a customer contract or financial instrument, leading to a financial loss. The Company transacts only with recognized, creditworthy third parties and requires payment for goods prior to shipment unless the customer has been granted credit terms. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Company's top two customers account for 45.4% (2022 – 64.0%) of trade receivables at October 31, 2023, with the largest customer accounting for 33.8% (2022 – 37.3%).

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by monitoring forecasted and actual cash flows, minimizing reliance on any single source of credit, maintaining sufficient undrawn committed credit facilities, managing the maturity profiles of financial assets and liabilities, negotiating credit terms with vendors. To the extent the Company does not believe it has sufficient liquidity to meet its obligations, it will consider securing additional equity or debt funding.

The table below details the maturities of the contractual undiscounted cash flows of the Company's financial liabilities and as such these balances may not agree with the amounts disclosed on the consolidated financial statements.

17. Financial risk and capital management (continued):

(b) Liquidity risk (continued):

As at October 31, 2023 and 2022, the contractual maturities of financial liabilities were as follows:

2023	Contractual cash flow	Up to 1 year	Greater than 1 year
Financial liabilities			
Trade and other payables	983,312	983,312	-
Lease obligations	426,848	146,348	280,500
Long-term debt	962,191	228,364	733,827
Total financial liabilities	$ 2,372,351	$ 1,358,024	$ 1,014,327

2022	Contractual cash flow	Up to 1 year	Greater than 1 year
Financial liabilities			
Bank indebtedness	$ 2,744,697	$ 2,744,697	$ -
Trade and other payables	985,448	985,448	-
Due to related parties	2,122,802	-	2,122,802
Lease obligations	1,075,642	267,126	808,516
Long-term debt	1,644,158	292,758	1,351,400
Total financial liabilities	$ 8,572,747	$ 4,290,029	$ 4,282,718

(c) 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. The Company continuously monitors interest rates and economic conditions. At October 31, 2023, the Company did not have any interest bearing credit facilities outstanding (2022 - $2,744,697). As these loans are all interest free, a 1% change in the interest rate would have no impact on these credit facilities (2022 - $20,036) on the consolidated statement comprehensive income (loss).

(d) Foreign exchange 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. While the Company has a significant amount of foreign currency revenues and associated receivables, natural hedges are in place through the purchase of input materials in foreign currencies. A 1% change in foreign exchange rates would have impacted the statement of comprehensive income (loss) by approximately $31,500 (2022 - $12,000).

17. Financial risk and capital management (continued):

(e) Capital management:

The Company's objective when managing its capital structure is to support its financial obligations and execute its operating and strategic plans. The Company's capital is defined as the aggregate of its share capital, bank indebtedness, and long-term debt.

	2023	2022
Share capital	$ 16,460,950	$ 6,305,977
Bank indebtedness	-	2,744,697
Long-term debt	818,351	1,259,405
	$ 17,279,301	$ 10,310,079

The Company raised capital during the period and repaid all debt facilities with Scotia Bank. The Company's remaining debt obligations are not subject to any financial covenants.

18. Share capital:

(a) Common shares:

As a result of the April 14, 2023 RTO described in Note 1 and Note 4, the holders of common shares of Aluula received 26.05 share in the Company for each Aluula share held immediately before the Amalgamation. October 31, 2022 share amounts presented below have been adjusted to reflect this ratio.

	2023	2022
Authorized:		
Unlimited voting common shares		
Unlimited preferred shares		
Issued:		
250,565,629 voting common shares (2022 - 150,179,761)	$ 16,460,950	$ 6,305,977

18. Share capital (continued):

(a) Common shares (continued):

Common shares	Number		Amount
Opening Balance, October 31, 2021	105,733,720	$	611
Acquisition of Ocean Rodeo	44,446,041		6,305,366
Total Share Capital at October 31, 2022	150,179,761	$	6,305,977
Repayment of shareholder loans	15,660,010	$	1,983,002
Share-based compensation	9,169,600		152,585
BSP SubCo shares	18,223,330		2,174,620
BSP Financing	6,776,670		792,200
BSP Shares	25,000,000		3,000,000
Warrants exercised	147,930		14,793
Private placement	25,408,328		2,037,773
Total Share Capital at October 31, 2023	250,565,629		16,460,950

On October 31, 2022, the Company entered into a share purchase agreement to acquire 100% of the issued and outstanding shares of Ocean Rodeo, a previously related company under common control. Under the terms of the share purchase agreement, the Company issued 1,706,182 common shares in exchange for the purchase (adjusted to 44,446,041 after the RTO).

On April 06, 2023, BSP SubCo completed a non-brokered private placement of 18,223,330 subscription receipts for proceeds of $2,186,800 less transaction fees of $12,180. Each subscription receipt automatically converted into one BSP SubCo share immediately prior to completion of the RTO and was then automatically exchanged for one share of the Company.

On April 13, 2023, the Company issued 601,152 common shares (adjusted to 15,660,010 after the RTO) for repayment of shareholder loans totalling $1,983,002.

On April 13, 2023, the Company issued 352,000 common shares (adjusted to 9,169,600 after the RTO) for the exercise of stock options.

On April 13, 2023, immediately prior to completion of the RTO, holders of common shares in the capital of Aluula received 26.05 common shares in the Company for each Aluula share held immediately before the amalgamation (see Note 4). The Company issued 175,009,371 shares at a deemed price of $0.12 per share. All share and per share amounts presented in these financial statements have been adjusted to reflect this ratio.

On April 14, 2023, concurrently with closing of the RTO, the Company completed a private placement of 6,776,670 common shares (the “BSP Financing”) for total proceeds of $813,200 less transaction costs of $21,000.

On April 14, 2023, in accounting for the RTO, the Company issued 25,000,0000 shares in exchange for the outstanding shares of Bastion Square Partners (“BSP Shares”).

18. Share capital (continued):

(a) Common shares (continued):

On May 1, May 11, and May 29, 2023, Haywood exercised a total of 147,930 warrants in exchange for 147,930 common shares at a price of $0.10 per share for proceeds of $14,793.

On July 12, 2023, the Company completed a private placement offering in consisting of 24,489,953 Units (the "Units") at a price of $0.15 per Unit for aggregate gross proceeds of $3,673,493. Each Unit comprised one common share of the Company and one common share purchase warrant. In connection with private placement, the Company also issued 918,375 Units as partial consideration for corporate finance fees. Each warrant has an exercise price of $0.25 per warrant and is exercisable for a period of twenty-four months from the closing. In addition to the warrants that were attached to the Units, there were 1,469,397 broker warrants issued with an exercise price of $0.15. Share issuance costs were $1,635,720 including $1,194,566 representing the estimated fair value of the warrants. The gross proceeds of $3,673,493 were apportioned between share capital ($2,478,928) and contributed surplus ($1,194,565) based on the relative fair value of the shares and warrants issued in the offering.

(b) Warrants:

On October 12, 2021, the Company granted 375,000 warrants to Haywood with an exercise price of $0.10 per share and an expiry date of October 12, 2024.

On July 12, 2023, the Company issued 25,408,328 warrants to Haywood as part of the Units issued in the private placement outlined in Note 18 a). The warrants have an exercise price of $0.25 per share and an expiry date of July 12, 2025.

The weighted average remaining life of the warrants outstanding is 1.68 years.

The fair value of warrants has been measured using the Black-Scholes model using the following inputs:

Risk free interest rate	0.95% - 4.52%
Stock price volatility	100%
Expected life of option	2 years

The number and weighted average exercise price of warrants issued are as follows:

18. Share capital (continued):

(b) Warrants (continued):

	Number		Weighted average exercise price
Balance, October 31, 2021	375,000	$	0.10
Balance, October 31, 2022	375,000	$	0.10
Exercised during the period	(147,930)	$	0.10
Granted during the period	25,408,328	$	0.25
Broker warrants	1,469,397	$	0.25
Balance, October 31, 2023	27,104,795	$	0.25
Exercisable, October 31, 2023	27,104,795	$	0.25

19. Share-based compensation:

(a) Stock options:

On April 14, 2023, following the RTO, the Company has a new stock compensation model (the “2023 Plan”) that is 10% of the issued shares, which must be approved by the shareholders annually.

The fair value of employee share options has been measured using the Black-Scholes model using the following inputs:

	2023	2022
Risk free interest rate	0.95% - 3.91%	0.32% - 0.95%
Expected dividend yield	0.00%	0.00%
Forfeiture rate	0.00% - 16.7%	0.00%
Stock price volatility	100%	100%
Expected life of option	3 - 5 years	4.75 - 5 years

Expected volatility was based on an evaluation of the historical volatility of publicly traded companies operating in a similar industry.

19. Share-based compensation (continued):

(a) Stock options (continued):

The number and weighted average exercise price of share options issued are as follows:

	Number		Weighted average exercise price
Balance, October 31, 2021	9,169,600	$	0.01
Balance, October 31, 2022	9,169,600	$	0.01
Exercised during the year	(9,169,600)		0.10
Granted in reverse acquisition of BSP	2,500,000		0.10
Granted during the year	10,716,905		0.12
Forfeit during the year	(250,000)		0.12
Balance, October 31, 2023	12,966,905	$	0.12
Exercisable, October 31, 2023	7,412,928	$	0.12

For the year ended October 31, 2023, compensation expense related to share options was $502,384 (2022 - $19,750)

20. Loss per share:

The following table shows the computation of basic and diluted earnings (loss) per share:

		2023		2022
Net loss and comprehensive loss	$	(5,235,552)	$	(481,570)
Weighted average number of common shares				
Basic and dilutive		199,582,108		105,733,720
Basic and dilutive net loss per share	$	(0.03)	$	(0.00)

21. Income taxes:

Income tax expense differs from the amounts that would be obtained by applying the Canadian statutory income tax rate to net loss before income taxes as follows:

	October 31 2023	October 31 2022
Net loss before income taxes	$ (2,747,849)	$ (583,068)
Tax rate	27%	27%
Expected income tax expense (recovery)	(741,919)	(157,428)
Increase (decrease) in income tax expense (recovery) resulting from:		
Non-deductible expenses	7,101	5,503
Loss carry-forwards	734,818	151,925
Other	-	-
	$ -	$ -

The Company has net operating losses carried forward for income tax purposes of approximately $5,602,852 (2022 - $2,832,444). Based on future projections, Company expects to utilize these loss carryforwards to offset future taxes owing resulting in the recognition of the deferred tax asset below.

The components of deferred income taxes are as follows:

	2023	2022
Deferred income taxes:		
Canadian tax loss carry forwards	$ 1,543,029	$ 764,760
Other temporary differences arising from:		
Intangible assets	(1,077,292)	(1,138,667)
Right-of-use assets	(100,147)	(57,204)
Inventory acquired in business combination	(18,483)	(117,485)
Property and equipment	(73,809)	(22,328)
Scientific research and development refunded	-	72,054
Depreciation included in inventory	-	25,752
Lease obligations	109,743	264,311
Other	-	-
Total deferred income tax assets (liabilities)	$ 383,040	$ (208,807)

22. Business combinations:

On October 31, 2022 (the “Acquisition Date”), the Company entered into a share purchase agreement to acquire 100% of the issued and outstanding shares of Ocean Rodeo, a previously related company under common control. Under the terms of the share purchase agreement, the Company issued 1,706,182 Class A common voting shares in exchange for the purchase, with a value of $3.6956 per share and totaling $6,305,366. Ocean Rodeo is a Victoria based company that internally develops intellectual property and sells cutting-edge finished goods to customers in the windsport market. This was a strategic acquisition relating to management’s plan to list Aluula on the public market. Ocean Rodeo became a consolidated subsidiary of the Company on October 31, 2022.

22. Business combinations (continued):

During the year ended October 31, 2023, new information about facts and circumstances that existed on the Acquisition Date were discovered. If this new information had been known as of the Acquisition Date, it would have resulted in a change to Ocean Rodeo’s assets and liabilities. In accordance with IFRS 3, the Company has made retrospective adjustments to provisional amounts recognized in the business combination effective October 31, 2022 which are reflected in the table below.

	Original	Change	Restated
Current assets	2,896,337	(280,421)	2,615,916
Trade and other payables	(569,841)	(90,950)	(660,791)
Amounts due to related parties	(1,569,661)	241,018	(1,328,643)
Goodwill	3,906,786	130,353	4,037,139

The following table summarizes the consideration paid and components of the acquired business:

Share consideration paid:	$	6,305,366
Cash acquired		(41,004)
Total debt assumed		1,422,136
Total enterprise value	$	7,686,498
Assets to be allocated:		
Current assets		2,615,916
Property and equipment		202,361
Investments		44,482
Trade and other payables		(660,791)
Income tax payable		(12,234)
Customer deposits		(189,543)
Lease obligations assumed		(95,958)
Amounts due to related parties		(1,328,643)
Deferred tax liability		(1,223,065)
Total tangible assets		(647,475)
Patents and trademarks		4,296,834
Goodwill		4,037,139
Total intangible assets		8,333,973
	$	7,686,498

Goodwill on the acquisition relates to existing operating names, relationships in place, and customer lists that cannot be quantified.

23. Commitments:

Commitments include leases recognized as lease obligations (Note 13), as well as short-term and low value leases which don't meet the capitalization requirements of IFRS 16.

	2023	2022
2024	$ 146,348	$ 271,657
2025	146,348	271,657
2026	134,152	233,855
2027 and thereafter	-	33,347
	$ 428,871	$ 812,538

24. Segment information:

(a) Reportable segments:

The Company has aggregated certain operating segments on the basis of the product they sell and the fact that they share similar economic characteristics and are influenced by similar market factors. Each segment has regularly reviewed internal reports and a separate brand.

The Company has three reportable segments:

- The Aluula segment relates to the assembly and sale of soft composite materials for use in various applications and industries. Aluula sells its materials to manufacturers and brand partners.
- The Ocean Rodeo segment relates to the purchase and resale of inventory in the windsport market, and the associated research and development projects that keep the company at the cutting edge of the windsport market. Ocean Rodeo sells its products to dealers, distributors, and end users. Ocean Rodeo was acquired on October 31, 2022 and as a result does not contribute to the consolidated statement of comprehensive income for the year ended October 31, 2022.
- The Other segment represents all other costs not directly attributable to an operating segment such as public company costs.

Management evaluates the performance of each segment based on its individual profitability. All expenditures are allocated to segments.

Total assets and liabilities for each segment are as follows:

2023	Aluula	Ocean Rodeo	Total
Total assets	$ 6,814,116	$ 8,363,365	$ 15,177,481
Total liabilities	2,787,298	517,699	3,304,997

2022	Aluula	Ocean Rodeo	Total
Total assets	$ 3,382,629	$ 11,387,804	$ 14,770,433
Total liabilities	4,346,072	5,173,390	9,519,462

24. Segment information (continued):

(a) Reportable segments (continued):

2023		Aluula		Ocean Rodeo		Other		Total
Sales	$	4,161,686	$	3,185,614	$	-	$	7,347,300
Cost of sales		2,893,813		2,578,194		-		5,472,007
Gross profit		1,267,873		607,420		-		1,875,293
Salaries and benefits		1,381,864		756,117		34,144		2,172,125
General and administrative		887,832		970,772		216,651		2,075,255
Marketing		121,331		430,672		-		552,003
Research and development		44,783		115,594		-		160,377
Share-based compensation		225,191		114,623		162,570		502,384
Other income		(211,841)		(16,042)		-		(227,883)
Listing expense		-		-		1,640,538		1,640,538
Interest expense		167,940		72,131		-		240,071
Depreciation of capital assets		178,432		50,873		-		229,305
Amortization of intangible assets		2,714		275,679		-		278,393
Deferred income tax recovery		(157,879)		(433,969)		-		(591,848)
Segment loss	$	(1,372,495)	$	(1,729,029)	$	(2,053,903)	$	(5,155,427)

2022		Aluula		Ocean Rodeo		Other		Total
Sales	$	2,743,481	$	-	$	-	$	2,743,481
Cost of sales		1,649,542		-		-		1,649,542
Gross profit		1,093,939		-		-		1,093,939
Salaries and benefits		952,306		-		-		952,306
General and administrative		861,863		-		-		861,863
Marketing		86,997		-		-		86,997
Research and development		171,627		-		-		171,627
Share-based compensation		19,750		-		-		19,750
Other income		(644,616)		-		-		(644,616)
Interest expense		134,360		-		-		134,360
Depreciation of capital assets		94,281		-		-		94,281
Amortization of intangible assets		439		-		-		439
Deferred income tax recovery		(101,498)		-		-		(101,498)
Segment loss	$	(481,570)	$	-	$	-	$	(481,570)

24. Segment information (continued):

(b) Geographic information:

For geographic reporting, sales are attributed to the geographic location in which the customer is located. The following table summarizes sales by region.

	2023	2022
Sri Lanka	$ 2,768,700	$ 1,020,367
United States	1,327,964	213,877
Europe	1,132,880	30,038
Canada	898,429	7,916
Hong Kong	682,713	1,350,646
Rest of World	536,614	120,637
Sales	$ 7,347,300	$ 2,743,481

All of the Company's non-current assets are located in Canada.

25. Supplementary cash flow information:

Supplementary cash flow information relating to non-cash investing and financing activities for the years ended October 31, 2023 and October 31, 2022 is as follows:

	2023	2022
Shares issued to settle shareholder loans	$ 1,983,002	$ -
Listing expense (Note 4)	1,640,538	-
Shares issued for purchase of Ocean Rodeo Sports Inc	-	6,305,366
Acquired balance sheet in purchase of Ocean Rodeo Sports Inc		
Trade and other receivables	-	352,083
Inventory	-	1,708,993
Prepaid expenses and other current assets	-	201,019
Deferred tax asset	-	327,194
Property and equipment	-	202,361
Intangible assets	-	4,296,834
Other long-term assets	-	8,102
Investments	-	44,481
Goodwill	-	4,037,139
Trade and other payables	-	(642,267)
Income tax payable	-	(12,234)
Customer deposits	-	(189,543)
Long-term debt	-	(801,926)
Lease obligations	-	(95,958)
Deferred tax liability	-	(1,223,065)
Amounts payable to related parties	-	(1,328,643)

26. Reclassification:

Certain prior year balances have been reclassified on these consolidated financial statements for comparative purposes. Reclassifications have been made to ensure consistency with IFRS guidance and capture the underlying nature of the transactions. See table below for details on amounts reclassified.

Warranty expense is a cost related to the repair or replacement of defective products sold. The Company deems this cost to be a selling cost and not a cost of goods sold. Warranty expense has been reclassified to General and administrative.

When finished goods are shipped to customers, the Company seeks reimbursement of the applicable shipping costs incurred from its customers. Historically, shipping revenue was recognized as Sales while the shipping costs incurred were recognized as a General and administrative. The Company has reclassified shipping revenue to General and administrative as it believes this better represents the economic impact of these transactions.

	Original 2022	Warranty expense reclassification	Shipping revenue reclassification	Restated 2022
Sales	2,784,082	43,333	(83,934)	2,743,481
Cost of Sales	2,136,385	(486,843)	-	1,649,542
General and administrative	415,621	530,176	(83,934)	861,863

27. Subsequent events:

(a) Repayment of CEBA loan:

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

(b) Extension of RRRF loans:

Subsequent to year-end, the Government of Canada and Western Economic Development Canada extended the repayment with debt forgiveness deadline from December 31, 2023 to March 28, 2024. If the Company does not take advantage of the debt forgiveness, repayments will occur over 24 months rather than 36 months.

(c) Promissory note:

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

27. Subsequent events (continued):

(d) Customer claim:

In June 2019, Ocean Rodeo signed a contract (the 'Contract") with a third-party customer (the "Customer") outlining the terms under which Ocean Rodeo would supply kites and bars (the "Products') to the Customer. Subsequent to year end, Ocean Rodeo received correspondence from the Customer claiming certain Products purchased under the terms of the Contract had quality issues which resulted in higher-than-expected return rates and the Customer's eventual withdrawal of those Product from their sales channels. The Customer is seeking reimbursement for Product return and recall costs totaling approximately $225,000. The Customer has also requested the right to return Products purchased and shipped at the end of fiscal totaling approximately $65,000. The Company has reviewed the Contract, facts and circumstances, and historical correspondence surrounding the Customer's claim and is of the opinion that the claim is not supported. The Company believes the claim meets the definition of a contingent liability under IAS 37 and no amount has been recorded in these 2023 consolidated financial statements.

(e) Stock option plan:

Subsequent to year end, the Company announced that it had adopted a 10% fixed stock option plan (the "New Plan"), which replaced the Company's 10% rolling stock option plan. The new stock option plan is in compliance with the policies of the TSX Venture Exchange (the "TSXV") and permits the Company to grant stock options to eligible participants until the Company is able to hold an annual general meeting to seek approval for a 10% rolling stock option plan. The New Plan was approved by the TSXV and provides for the granting of up to 25,056,562 options. On February 12, 2024, the Company granted 10,500,000 to the incoming President.