Interim Condensed Consolidated Financial Statements

(Expressed in Canadian dollars)

ALUULA COMPOSITES INC.

For the three months ended January 31, 2024 and 2023

(Unaudited)

Notice of No Auditor Review of the Interim Financial Statements

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the CPA Canada for a review of interim financial statements by an entity's auditor.

ALUULA COMPOSITES INC.

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

	Note	January 31 2024	October 31 2023
Assets			
Current assets:			
Cash and cash equivalents		$ 1,185,825	$ 773,368
Trade and other receivables	5	2,261,948	1,969,008
Inventory	6	1,747,369	1,560,222
Prepaid expenses and other current assets		281,401	260,483
		5,476,543	4,563,081
Property and equipment	7	912,236	966,657
Intangible assets	8	4,030,842	4,092,477
Other long-term assets		30,796	30,796
Investments		14,498	50,796
Deferred tax asset		1,436,535	1,436,535
Goodwill		4,037,139	4,037,139
		$ 15,938,589	$ 15,177,481
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables	9	$ 1,064,832	$ 983,311
Customer deposits		13,493	31,149
Short-term loan from related party	11	1,000,000	-
Current portion of long-term debt	10	188,427	190,662
Current portion of lease obligations		135,664	136,203
Income tax payable		12,234	12,234
Deferred tax liability		1,027,636	1,053,495
		3,442,286	2,407,054
Long-term debt	10	584,326	627,689
Lease obligations		237,627	270,254
		4,264,239	3,304,997
Shareholders' equity:			
Share capital	15	16,460,950	16,460,950
Contributed surplus		1,705,458	1,674,620
Deficit		(6,492,058)	(6,263,086)
		11,674,350	11,872,484
		$ 15,938,589	$ 15,177,481

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.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

For the three months ended	Note		January 31 2024		January 31 2023
Sales		$	2,334,255	$	1,453,702
Cost of sales			1,317,905		1,251,468
Gross profit			1,016,350		202,234
Operating expenses:					
Salaries and benefits	11		507,355		500,851
General and administrative			375,644		438,496
Marketing			166,352		182,504
Research and development			47,210		17,244
Share-based compensation	16		30,838		4,937
			1,127,399		1,144,032
Loss before interest, tax and amortization			(111,049)		(941,798)
Other income	12		7,819		75,616
Interest expense			(22,936)		(91,994)
Depreciation of capital assets	7		(58,146)		(59,190)
Amortization of intangible assets	8		(70,519)		(68,131)
Loss before tax			(254,831)		(1,085,497)
Deferred tax recovery			25,859		
Income tax expense			-		(79,654)
Net loss and comprehensive loss		$	(228,972)	$	(1,165,151)
Loss per share:					
Basic and diluted net loss per share	17	$	(0.00)	$	(0.01)

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

ALUULA COMPOSITES INC.

Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited)

	Shares outstanding	Share capital	Contributed Surplus	Deficit	Total shareholders' equity
Balance, October 31, 2022	150,179,761	$ 6,305,977	$ 52,654	$ (1,107,659)	$ 5,250,972
Share-based compensation (Note 16)	-	-	4,937	-	4,937
Net loss	-	-	-	(1,165,151)	(1,165,151)
Balance, January 31, 2023	150,179,761	$ 6,305,977	$ 57,591	$ (2,272,810)	$ 4,090,758
Balance, October 31, 2023	250,565,623	$ 16,460,950	$ 1,674,620	$ (6,263,086)	$ 11,872,484
Share-based compensation (Note 16)	-	-	30,838	-	30,838
Net loss	-	-	-	(228,972)	(228,972)
Balance, January 31, 2024	250,565,623	$ 16,460,950	$ 1,705,458	$ (6,492,058)	$ 11,674,350

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.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

For the three months ended	Note	January 31 2024	January 31 2023
Cash flows used in operating activities:			
Net loss		$ (228,972)	$ (1,165,151)
Items not involving cash:			
Depreciation of capital assets	7	75,886	75,715
Amortization of intangible assets	8	70,519	68,131
Share-based compensation	16	30,838	4,937
Government grants and fair value adjustments	12	-	(33,993)
Accretion of and accrued interest on loans and leases		12,189	28,095
Foreign exchange movement on leases		-	(2,471)
Foreign exchange movement on investments		-	1,965
Loss on disposal of property and equipment	7	-	91,559
Other gains and losses		-	(91,174)
Changes in non-cash working capital items:			
Trade and other receivables	5	(292,940)	205,908
Inventory	6	(187,147)	186,791
Deferred taxes receivable and payable		(25,859)	79,655
Prepaid expenses		(20,918)	(208,307)
Trade and other payables	9	81,521	184,071
Customer deposits		(17,656)	69,374
		(502,540)	(504,895)
Cash flows from (used in) investing activities:			
Acquisition of property and equipment	7	(21,465)	(13,204)
Capital reserve repayment from GKA Event GmbH		36,298	-
Acquisition of intangible assets	8	(8,883)	(24,426)
		5,950	(37,630)
Cash flows from financing activities:			
Proceeds from short-term loan	11	1,000,000	-
Payments for principal portion of lease obligations		(35,162)	(64,326)
Proceeds of long-term debt	10	-	861,525
Repayment of long-term debt	10	(55,791)	(40,002)
		909,047	757,197
Increase in cash and cash equivalents		412,457	214,672
Net cash and cash equivalents, beginning of period		773,368	(2,449,320)
Net cash and cash equivalents, end of period [1]		$ 1,185,825	$ (2,234,648)
[1] Cash and cash equivalents		$ 1,185,825	$ 411,986
Bank indebtedness		-	(2,646,634)
Net cash and cash equivalents		$ 1,185,825	$ (2,234,648)

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 subsidiary prior to April 14, 2023, and thereafter refers to the combined operations of BSP (renamed to Aluula Composites Inc.).

2. Basis of preparation:

(a) Statement of compliance:

These unaudited interim condensed 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 19. These consolidated financial statements were approved by the Board of Directors for issue on March 26, 2024.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the years ended October 31, 2023 and 2022.

(b) Basis of measurement:

These unaudited interim condensed 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 in Note 3 to the Company’s audited consolidated financial statements for the years ended October 31, 2023 and 2022.

2. Basis of preparation (continued):

(c) Basis of consolidation:

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Aluula Composites Canada Inc. 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.

(d) Functional and presentation currency:

These unaudited interim condensed 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 unaudited interim condensed 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 unaudited interim condensed 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.

2. Basis of preparation (continued):

(e) Estimates and judgements (continued):

(i) Allowance for credit losses (continued):

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.

(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.

2. Basis of preparation (continued):

(e) Estimates and judgements (continued):

(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.

(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.

2. Basis of preparation (continued):

(e) Estimates and judgements (continued):

(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.

(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:

The significant accounting policies applied in the preparation of these unaudited interim condensed consolidated financial statements are consistent with the accounting policies disclosed in Note 3 to the audited consolidated financial statements for the years ended October 31, 2023 and 2022.

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.

5. Trade and other receivables:

Trade and other receivables are comprised of the following:

	January 31 2024	October 31 2023
Trade receivables	$ 2,178,206	$ 1,925,367
Government receivables	157,036	116,045
Sales return allowance	(42,253)	(54,258)
Expected credit losses	(31,041)	(18,146)
	$ 2,261,948	$ 1,969,008

5. Trade and other receivables (continued):

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

	January 31 2024	October 31 2023
Current	$ 1,548,284	$ 1,210,483
30 - 60 days	38,680	66,506
60 - 90 days	27,358	111,804
Over 90 days	532,843	518,428
	$ 2,147,165	$ 1,907,221

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

For the period ended	January 31 2024	October 31 2023
Opening balance	$ 54,258	$ 125,991
Additional provisions during the period	7,791	64,324
Amounts used during the period	(6,163)	(19,377)
Reversal of previous allowance	(13,633)	(116,680)
	$ 42,253	$ 54,258

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

	January 31 2024	October 31 2023
Opening balance	$ 18,146	$ 41,437
Additional provisions during the period	13,102	30,249
Amounts used during the period	(207)	(41,437)
Unused amounts reversed	-	(12,103)
	$ 31,041	$ 18,146

6. Inventory:

Inventory is comprised of the following:

	January 31 2024	October 31 2023
Raw materials	$ 1,472,698	$ 1,176,104
Finished goods - composite materials	151,471	278,911
Finished goods - products for resale	123,200	105,207
	$ 1,747,369	$ 1,560,222

During the three months ended January 31, 2024, inventories totalling $1,189,935 (January 31, 2023 - $1,166,924) and inventory write-downs totalling $nil (January 31, 2023 - $nil) 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, 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
Additions	-	-	-	21,465	-	-	-	21,465
Disposals	-	-	-	-	-	-	-	-
Transfers[1]	-	-	-	-	-	-	-	-
Balance, January 31, 2024	$ 46,915	$ 30,013	$ 7,873	$ 704,158	$ 83,366	$ 646,453	$ -	$ 1,518,778
Accumulated depreciation								
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
Depreciation	1,329	2,725	365	30,035	9,639	31,793	-	75,886
Disposals	-	-	-	-	-	-	-	-
Balance, January 31, 2024	$ 7,755	$ 17,762	$ 3,065	$ 223,554	$ 47,076	$ 307,331	$ -	$ 606,542
Carrying amounts:								
Balance, October 31, 2023	$ 40,489	$ 14,976	$ 5,173	$ 489,174	$ 45,929	$ 370,915	$ -	$ 966,657
Balance, January 31, 2024	$ 39,160	$ 12,251	$ 4,808	$ 480,604	$ 36,290	$ 339,122	$ -	$ 912,236

[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 three months ended January 31, 2024, $17,740 (January 31, 2023 – $16,525) of depreciation was included in the cost of finished goods inventory.

8. Intangible assets:

	Patents and Licenses	Trademarks	Total
Cost			
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
Additions	7,342	1,541	8,883
Disposals	-	-	-
Balance, January 31, 2024	$ 4,362,882	$ 17,392	$ 4,380,274
Accumulated amortization			
Balance, October 31, 2022	$ 410	$ 111	$ 521
Amortization	278,355	38	278,393
Disposals	-	-	-
Balance, October 31, 2023	278,765	149	278,914
Amortization	70,510	9	70,519
Disposals	-	-	-
Balance, January 31, 2024	$ 349,275	$ 158	$ 349,433
Carrying amounts:			
Balance, October 31, 2023	$ 4,076,775	$ 15,702	$ 4,092,477
Balance, January 31, 2024	$ 4,013,607	$ 17,235	$ 4,030,842

As at January 31, 2024, intangible assets with a cost of $8,883 (October 31, 2023 - $44,126) were recorded for patents, licenses or trademarks management expects to be granted but were still pending approval.

9. Trade and other payables:

Trade and other payables are comprised of the following:

	January 31 2024	October 31 2023
Trade payables	$ 564,729	$ 415,337
Accrued liabilities	186,819	225,174
Credit cards payable	57,456	51,421
Warranty provision	182,467	245,605
Payroll liabilities	45,753	29,404
Government payables	1,290	(191)
Royalties payable	26,318	16,561
	$ 1,064,832	$ 983,311

9. Trade and other payables (continued):

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

	January 31 2024	October 31 2023
Opening balance	$ 245,605	$ 57,965
Additional provisions during the period	5,406	456,820
Amounts used during the period	(61,033)	-
Unused amounts reversed	(7,511)	(269,180)
	$ 182,467	$ 245,605

10. 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 January 31, 2024, $729,114 (October 31, 2023 - $729,114) of the available funding had been received, and the loan had a discounted balance of $615,546 (October 31, 2023 - $606,617)

(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 January 31, 2024, $190,000 (October 31, 2023 - $190,000) of funding had been received and was acquired as part of the business combination at a discounted balance of $117,173 (October 31, 2023 - $131,855).

(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 March 28, 2024, $20,000 is forgiven. At January 31, 2024 the loan had a discounted balance of $40,000 (October 31, 2023 - $39,880).

(d) 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. This loan was repaid prior to the January 18, 2024 deadline therefore the Company qualified for $20,000 debt forgiveness. This loan was acquired as part of the business combination at October 31, 2022, and had a discounted balance at January 31, 2024 of $nil (October 31, 2023- $40,000).

10. Long-term debt (continued):

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

		January 31 2024		October 31 2023
Opening Balance	$	818,351	$	1,259,405
Cash movement:				
Debt repayments		(55,791)		(1,416,068)
Debt advances		-		988,846
Non-cash movement:				
Amortization of non-cash interest		10,193		66,694
Fair value adjustments		-		(80,526)
Ending Balance		772,753		818,351
Less: current portion		188,427		190,662
Long-term portion	$	584,326	$	627,689

11. Related parties:

(a) Director related transactions:

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 January 31, 2024, royalties of $36,351 were paid to the related company (January 31, 2023 - $nil).

(b) Related parties:

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.

(c) Key management compensation:

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

Total compensation expense paid to the Executive Leadership Team for the three months ended January 31, 2024 was $170,648 (January 31, 2023 - $103,504), which includes $nil (January 31, 2023 - $3,623) 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 (January 31, 2023 - $328,000).

12. Other income:

Other income is comprised of the following:

		January 31 2024		January 31 2023
Licenses	$	4,648	$	40,977
Fair value adjustment on interest free government loan		-		33,993
Interest and other		3,171		1,031
Scientific research and experimental development refund		-		(385)
	$	7,819	$	75,616

13. 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).

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 three months ended January 31, 2024 or the year ended October 31, 2023.

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

	January 31, 2024				**October 31, 2023**			
		Level 2		**Level 3**		**Level 2**		**Level 3**
Investments	$	-	$	14,498	$	-	$	50,796

14. 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 62.16% (October 31, 2023 – 45.4%) of trade receivables at January 31, 2024, with the largest customer accounting for 32.56% (October 31, 2023 – 33.8%).

(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.

As at January 31, 2024 and October 31, 2023, the contractual maturities of financial liabilities were as follows:

January 31, 2024	Contractual cash flow	Up to 1 year	Greater than 1 year
Financial liabilities			
Trade and other payables	$ 1,064,832	1,064,832	$ -
Lease obligations	390,261	146,348	243,913
Debt	1,890,541	1,224,820	665,721
Total financial liabilities	$ 3,345,634	$ 2,436,000	$ 909,634

October 31, 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

14. Financial risk and capital management (continued):

(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 January 31, 2024, the Company did not have any interest bearing credit facilities outstanding (January 31, 2023 - $2,646,634). As these loans are all interest free, a 1% change in the interest rate would have no impact on these credit facilities (January 31, 2023 - $19,320) on the consolidated statement comprehensive 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 loss by approximately $11,400 (January 31, 2023 - $2,500).

(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.

	January 31 2024	October 31 2023
Share capital	$ 16,460,950	$ 16,460,950
Debt	772,753	818,351
	$ 17,233,703	$ 17,279,301

The Company's debt obligations are not subject to any financial covenants.

15. 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, 2023 share amounts presented below have been adjusted to reflect this ratio.

	January 31 2024	October 31 2023
Authorized:		
Unlimited voting common shares		
Unlimited preferred shares		
Issued:		
250,565,623 voting common shares	$ 16,460,950	$ 16,460,950

15. Share capital (continued):

(a) Common shares (continued):

Common shares	Number		Amount
Opening balance, 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	25,408,322		2,037,773
Total Share Capital at October 31, 2023	250,565,623	$	16,460,950
Total Share Capital at January 31, 2024	250,565,623	$	16,460,950

On April 6, 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 Inc. (“BSP Shares”).

15. 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 15 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 1.44 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:

15. Share capital (continued):

(b) Warrants (continued):

	Number		Weighted average exercise price
Balance, October 31, 2022	375,000	$	0.10
Balance, January 31, 2023	375,000	$	0.10
Balance, October 31, 2023	27,104,795	$	0.10
Balance, January 31, 2024	27,104,795	$	0.25
Exercisable, January 31, 2024	27,104,795	$	0.25

16. 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.

16. 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, 2022	9,169,600	$	0.01
Balance, January 31, 2023	9,169,600	$	0.01
Balance, October 31, 2023	12,966,905	$	0.12
Forfeited during the period	(2,525,000)		0.12
Balance, January 31, 2024	10,441,905	$	0.12
Exercisable, January 31, 2024	7,488,967	$	0.12

For the three months ended January 31, 2024, compensation expense related to share options was $30,838 (January 31, 2023 - $4,937)

17. Loss per share:

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

		January 31 2024		January 31 2023
Net loss and comprehensive loss	$	(228,972)	$	(1,165,151)
Weighted average number of shares outstanding		250,565,623		150,179,761
Basic and dilutve loss per share	$	(0.00)	$	(0.01)

18. 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.
- 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:

January 31, 2024	Aluula	Ocean Rodeo	Total
Total assets	$ 6,158,604	$ 9,779,985	$ 15,938,589
Total liabilities	2,958,019	1,306,220	4,264,239

October 31, 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

18. Segment information (continued):

(a) Reportable segments (continued):

For the three-months ended January 31, 2024	Aluula	Ocean Rodeo	Other	Total
Sales	$ 1,997,279	$ 336,976	$ -	$ 2,334,255
Cost of sales	1,095,652	222,253	-	1,317,905
Gross profit	901,627	114,723	-	1,016,350
Salaries and benefits	415,475	78,541	13,339	507,355
General and administrative	123,271	204,007	48,366	375,644
Marketing	77,522	88,830	-	166,352
Research and development	26,765	20,445	-	47,210
Share-based compensation	27,391	3,447	-	30,838
Other income	(7,797)	(22)	-	(7,819)
Interest expense	21,792	1,144	-	22,936
Depreciation of capital assets	46,574	11,572	-	58,146
Amortization of intangible assets	958	69,561	-	70,519
Deferred income tax recovery	-	(25,859)	-	(25,859)
Segment income (loss)	$ 169,676	$ (336,943)	$ (61,705)	$ (228,972)

For the three-months ended January 31, 2023	Aluula	Ocean Rodeo	Other	Total
Sales	$ 715,532	$ 738,170	$ -	$ 1,453,702
Cost of sales	567,270	684,198	-	1,251,468
Gross profit	148,262	53,972	-	202,234
Salaries and benefits	277,817	223,034	-	500,851
General and administrative	145,485	293,011	-	438,496
Marketing	29,810	152,694	-	182,504
Research and development	5,421	11,823	-	17,244
Share-based compensation	4,937	-	-	4,937
Other income	(71,883)	(3,733)	-	(75,616)
Interest expense	62,216	29,778	-	91,994
Depreciation of capital assets	42,924	16,266	-	59,190
Amortization of intangible assets	191	67,940	-	68,131
Deferred income tax recovery	144,579	(64,925)	-	79,654
Segment loss	$ (493,235)	$ (671,916)	$ -	$ (1,165,151)

18. 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.

	January 31 2024	January 31 2023
Sri Lanka	$ 1,239,380	$ 702,097
United States	174,428	262,000
Europe	73,275	236,487
Canada	236,166	205,700
Hong Kong	438,499	35,068
Rest of World	172,508	12,350
Sales	$ 2,334,255	$ 1,453,702

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

19. 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 January 31, 2023	**Warranty expense reclassification**	**Shipping revenue reclassification**	**Restated January 31, 2023**
Sales	$ 1,448,515	$ 34,226	$ (29,039)	$ 1,453,702
General and administrative	$ 433,309	$ 34,226	$ (29,039)	$ 438,496

20. Subsequent events:

(a) 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 unaudited interim condensed consolidated financial statements.

(b) Stock option plan:

On February 7, 2024, the TSX Venture Exchange (the “TSXV”) accepted the Company’s plan to adapt 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 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 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.

(c) Repayment of RRRF loan:

In March 2024, the Company repaid $40,000 of the $60,000 Western Economic Diversification Canada loan received as part its Regional Relief and Recovery Fund. The loan was repaid prior to the March 28, 2024 deadline qualifying the Company for $20,000 in loan forgiveness.