Consolidated Financial Statements of

(Expressed in Canadian dollars, unless otherwise noted)

ALUULA COMPOSITES INC.

Years ended October 31, 2024 and 2023

KINGSTON
ROSS
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CHARTERED PROFESSIONAL ACCOUNTANTS

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February 7, 2025
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, 2024 and 2023, 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 material accounting policy information.

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, 2024 and 2023, 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 Note 22 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2023 has been restated. Note 22 explains 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 the financial statement summary of material accounting policy information and related disclosures in Note 8.

(continues)

At October 31, 2024, the Company held intangible assets with a carrying value of $3,618,375 and goodwill with a carrying value of $4,037,139. The Company performs 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.

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.

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.

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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.
- 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.

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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
As at October 31, 2024 and 2023
(Expressed in Canadian dollars, unless otherwise noted)

	Note	2024	2023
Assets			
Current assets:			
Cash and cash equivalents		$ 857,011	$ 773,368
Trade and other receivables	5	1,032,754	1,969,008
Inventory	6	1,098,320	1,560,222
Prepaid expenses and other current assets		71,109	260,483
Assets related to discontinued operations	22	672,808	-
		3,732,002	4,563,081
Property and equipment	7	697,291	966,657
Intangible assets	8	3,618,375	4,092,477
Other long-term assets		22,693	30,796
Investments	9	187,500	50,796
Deferred tax asset	19	-	1,436,535
Goodwill		4,037,139	4,037,139
		$ 12,295,000	$ 15,177,481
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables	10	$ 981,067	$ 983,311
Customer deposits		44,251	31,149
Current portion of long-term loan from related party	13	200,000	-
Current portion of long-term debt	11	114,522	190,662
Current portion of lease obligations	12	139,346	136,203
Income tax payable		-	12,234
Deferred tax liability	19	964,442	1,053,495
Liabilities related to discontinued operations	22	420,826	-
		2,864,454	2,407,054
Long-term debt	11	442,153	627,689
Long-term loan from related party	13	800,000	-
Lease obligations	12	132,177	270,254
		4,238,784	3,304,997
Shareholders' equity:			
Share capital	17	16,466,950	16,460,950
Contributed surplus		1,788,547	1,674,620
Deficit		(10,199,281)	(6,263,086)
		8,056,216	11,872,484
Commitments	20		
Subsequent Events	24		
		$ 12,295,000	$ 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.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended October 31, 2024 and 2023
(Expressed in Canadian dollars, unless otherwise noted)

	Note	2024	2023 *(Restated Note 22)*
Sales		$ 6,359,229	$ 4,161,686
Cost of sales		3,756,656	2,893,813
Gross profit		2,602,573	1,267,873
Operating expenses:			
Salaries and benefits		2,503,084	1,416,008
General and administrative		1,627,168	1,104,483
Marketing		210,222	121,331
Research and development		213,867	44,783
Share-based compensation	18	113,927	502,384
		4,668,268	3,188,989
Loss before interest, tax and amortization		(2,065,695)	(1,921,116)
Other income	14	771,313	211,841
Listing expense	4	-	(1,640,538)
Interest expense		(144,944)	(167,940)
Depreciation of property and equipment	7	(172,372)	(178,432)
Amortization of intangible assets	8	(266,016)	(264,081)
Loss from continued operations before tax		(1,877,714)	(3,960,266)
Deferred tax (expense) recovery	19	(755,891)	327,450
Net loss and comprehensive loss from continued operations		(2,633,605)	(3,632,816)
Net loss and comprehensive loss from discontinued operations	22	(1,302,590)	(1,522,611)
Net loss and comprehensive loss		$ (3,936,195)	$ (5,155,427)
Loss per share:			
Basic and diluted net loss per share - continued operations		$ (0.01)	$ (0.02)
Basic and diluted net loss per share - discontinued operations		$ (0.01)	$ (0.01)
Weighted average number of common shares			
Basic and diluted		250,593,020	199,582,108

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, 2024 and 2023
(Expressed in Canadian dollars, unless otherwise noted)

	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
Repayment of shareholder loans (Note 17)	15,660,010	1,983,002	-	-	1,983,002
Share-based compensation (Note 18)	9,169,600	152,585	427,400	-	579,985
BSP SubCo shares (Note 17)	18,223,330	2,174,620	-	-	2,174,620
BSP Financing (Note 17)	6,776,670	792,200	-	-	792,200
BSP Shares (Note 17)	25,000,000	3,000,000	-	-	3,000,000
Warrants exercised (Note 17)	147,930	14,793	-	-	14,793
Private placement (Note 17)	25,408,322	2,037,773	1,194,566	-	3,232,339
Net loss	-	-	-	(5,155,427)	(5,155,427)
Balance, October 31, 2023	250,565,623	$ 16,460,950	$ 1,674,620	$ (6,263,086)	$ 11,872,484
Share-based compensation (Note 18)	-	-	113,927	-	113,927
Option exercise (Note 17)	50,000	6,000	-	-	6,000
Net loss	-	-	-	(3,936,195)	(3,936,195)
Balance, October 31, 2024	250,615,623	$ 16,466,950	$ 1,788,547	$ (10,199,281)	$ 8,056,216

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, 2024 and 2023
(Expressed in Canadian dollars, unless otherwise noted)

	Note	2024	2023
Cash flows used in operating activities:			
Net and comprehensivs loss - continued operations		$ (2,633,605)	$ (3,632,816)
Items not involving cash:			
Depreciation of property and equipment	7	172,372	178,432
Depreciation of property and equipment included in inventory	7	89,747	49,865
Amortization of intangible assets	8	266,016	264,081
Share-based compensation	18	113,927	502,384
Government grants and fair value adjustments	14	(749,391)	(80,526)
Accretion of and accrued interest on loans and leases		47,133	83,943
Foreign exchange movement on leases	12	-	(7,350)
Loss on disposal of property and equipment	7	3,969	3,087
Other gains and losses		65,621	(549)
Inventory write-downs	6	77,838	134,665
Listing expense	4	-	1,640,538
Changes in non-cash working capital items:			
Trade and other receivables	5	396,737	(893,165)
Inventory	6	87,099	(109,372)
Deferred taxes receivable and payable	19	755,890	(327,450)
Prepaid expenses		152,346	(31,092)
Other assets		-	-
Trade and other payables	10	191,153	446,733
Customer deposits		34,685	(95,077)
Cash flows used in operating activities - continued operations		(928,463)	(1,873,669)
Cash flows used in operating activities - discontinued operations		(129,239)	(1,297,306)
Total cash flows used in operating activities		(1,057,702)	(3,170,975)
Cash flows from investing activities:			
Cash acquired in RTO		-	1,442,966
Acquisition of net working capital in RTO		-	(83,505)
Acquisition of property and equipment	7	(81,405)	(74,654)
Proceeds from sale of property and equipment	7	27,365	-
Proceeds from sale of investments	9	562,500	-
Acquisition of intangible assets	8	(20,798)	(33,355)
Cash flows from investing activities - continued operations		487,662	1,251,452
Cash flows from (used in) investing activities - discontinued operations		22,872	(76,984)
Total cash flows from investing activities		510,534	1,174,468
Cash flows from financing activities:			
Issuance of share capital	17	-	8,671,289
Transaction costs from share issuance		-	(474,336)
Proceeds on issuance of shares on exercise of options	17	6,000	77,601
Proceeds (payments) from/to related party	13	1,000,000	(2,122,802)
Payments for principal portion of lease obligations	12	(146,825)	(464,840)
Proceeds of long-term debt	11	-	988,846
Repayment of long-term debt	11	(125,064)	(1,400,243)
Cash flows from financing activities - continued operations		734,111	5,275,515
Cash flows used in financing activities - discontinued operations		(103,300)	(56,320)
Total cash flows from financing activities		630,811	5,219,195
Increase in cash and cash equivalents		83,643	3,222,688
Cash and cash equivalents, beginning of period		773,368	(2,449,320)
Cash and cash equivalents, end of period		$ 857,011	$ 773,368

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 composite materials for use across various 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 (BSP"), a company incorporated under the British Columbia Business Corporations Act ("BCBCA") on February 24, 2021 and previously listed on the TSX Venture Exchange under the symbol "BASQ.P", acquired all the outstanding shares of Aluula Composites Inc. ("ACI"), a company incorporated under the BCBCA on July 18, 2019, by way of a three-cornered amalgamation. Upon amalgamation, BSP changed its name to Aluula Composites Inc. ("Aluula" or the "Company") and ACI changed its name to Aluula Composites Canada Inc. Post amalgamation, the shareholders of BSP held approximately 11% of the issued and outstanding shares of the Company and as a result, ACI shareholders controlled the Company resulting in a reverse take-over. The resulting financial statements are presented as a continuance of ACI (see Note 4).

On April 29, 2024, the Company's Board of Directors approved a mandate to sell specific assets used in Ocean Rodeo's business and discontinue its operations. Accordingly, Ocean Rodeo meets the criteria of a discontinued operation under IFRS 5 – *Non current assets held for sale and discontinued operations*.

In order to simplify its organizational structure, on August 1, 2024, Aluula was amalgamated with its wholly owned subsidiary Aluula Composites Canada Inc. The newly amalgamated entity will carry on business under the legal name Aluula Composites Inc.

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"). These consolidated financial statements were approved by the Board of Directors for issue on February 7, 2025.

(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 material accounting policy information.

(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 subsidiary's 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) Discontinued operations:

Discontinued operations are reported when a component of the Company, representing a separate major line of business or area of operations with clearly distinguishable cash flows, has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. Discontinued operations are reported as a separate element of net income or loss on the consolidated statement of income (loss) for both the current and comparative periods. When a disposal group is classified as held for sale, assets and liabilities are aggregated and presented as separate line items, respectively, on the consolidated statement of financial position. Comparative periods are not restated on the consolidated statement of financial position. Assets held for sale are not depreciated and are measured at the lower of carrying value and fair value less costs to sell.

(f) 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

2. Basis of preparation (continued):

(f) Estimates and judgements (continued):

(i) Allowance for credit losses (continued):

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.

(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:

Aluula 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):

(f) Estimates and judgements (continued):

(v) Provision for warranty returns:

Aluula provides customers with a general warranty that composite materials shipped will materially conform to product specifications, as agreed to in advance with the customer. This general warranty does not apply to samples or development material which are provided on an "as is" basis without warranty. Non-conformance with product specifications must be identified prior to the composite materials being cut or incorporated into the customer's product. The Company, at its sole discretion, will accept the return of non-conforming materials and replace with conforming materials or provide a refund (or credit) to the customer for the price paid for the non-conforming materials. Aluula has made certain assumptions to estimate future expected warranty claims. The Company's historical experience with warranties across product lines as well as industry averages have been used to estimate the warranty provision.

Ocean Rodeo provides its customers with a limited warranty ranging from thirty days to twenty-four months depending on product use and the consumers' geographic location. 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.

(vi) Share-based compensation:

Share-based compensation is measured at fair value using the Black-Scholes option pricing model. Aluula 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):

(f) 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.

2. Basis of preparation (continued):

(f) Estimates and judgements (continued):

(xii) Assets held for sale:

The determination as to whether a disposal group meets the requirements to be classified as held for sale, and the assets and liabilities to be included within that disposal group, requires management to exercise judgment. Aluula must also exercise judgement when determining at what date all of the criteria are satisfied for assets to be classified as held for sale. The Company must also use estimates when determining the fair value less costs to sell of the disposal group to assess if the carrying value of the disposal group is greater than its recoverable amount.

3. Summary of material accounting policy information:

(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, 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.

(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, cash on hand and short-term investments with original maturities of three months or less. Due to the nature of these financial instruments, carrying value approximates fair value. Cash and cash equivalents are held at amortized cost.

3. Summary of material accounting policy information (continued):

(a) Financial assets and liabilities (continued):

(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.

(vi) Borrowings and other financial liabilities:

Trade and other payables and due to related parties 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 while the specific cost method is used for Ocean Rodeo. *Net realisable value* is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale**.** 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.

3. Summary of material accounting policy information (continued):

(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
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.

(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

3. Summary of material accounting policy information (continued):

(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.

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.

3. Summary of material accounting policy information (continued):

(f) Leases (continued):

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).

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

3. Summary of material accounting policy information (continued):

(i) Revenue recognition (continued):

The Company generates revenue through the sale of its composite materials and 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 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.

3. Summary of material accounting policy information (continued):

(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 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.

3. Summary of material accounting policy information (continued):

(o) Future accounting pronouncements:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended October 31, 2024 and therefore have not been applied in the preparation of these consolidated financial statements.

(i) Amendment to IAS 1 – Classification of Liabilities as Current or Non-current:

The amendments to IAS 1 affect only the presentation of liabilities as current or 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) Amendment to IAS 1 – Presentation of Financial Statements – Non-current Liabilities with Covenants:

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants. 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.

(iii) IFRS 18 - Presentation of Financial Statements:

On April 9, 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements to improve reporting of financial performance. IFRS 18 replaces IAS 1 Presentation of Financial Statements. It carries forward many requirements from IAS 1 unchanged. The new Accounting Standard introduces significant changes to the structure of a company's income statement, more discipline and transparency in presentation of management's own performance measures (commonly referred to as 'non-GAAP measures,') and less aggregation of items into large, single numbers. The main impacts of the new Accounting Standard include:

- Introducing a newly defined 'operating profit' subtotal and a requirement for all income and expenses to be allocated between three new distinct categories based on a company's main business activities (i.e. operating, investing and financing);

3. Summary of material accounting policy information (continued):

(o) Future accounting pronouncements (continued):

(iii) IFRS 18 – Presentation of Financial Statements (continued):

- Requiring disclosure about management performance measures (MPMs); and
- Adding new principles for aggregation and disaggregation of information.

IFRS 18 applies to annual reporting periods beginning on or after January 1, 2027. Earlier application is permitted. The extent of the impact of adoption of this new IFRS pronouncement has not yet been determined and the Company has not determined if early adoption will be pursued.

(iv) IFRS Sustainability Disclosure Standard:

The International Sustainability Standards Board (ISSB) of the IFRS Foundation has published IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information' and IFRS S2 'Climate-related Disclosures.' The objective of IFRS S1 and S2 is to require an entity to disclose information about its sustainability and climate related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

Both Standards are effective for fiscal years beginning January 1, 2024, but certain transitional reliefs are available. The ISSB has confirmed that industry-specific disclosures are required and, in the absence of specific IFRS Sustainability Disclosure Standards, companies must consider the Sustainability Accounting Standards Board ('SASB') Standards to identify sustainability-related risks, opportunities and appropriate metrics. The Company is currently evaluating the impact of these reporting requirements.

In March of 2024, the Canadian Sustainability Standards Board ("CCSB") proposed two exposure drafts on Canadian Sustainability Disclosure Standard ("CSDS") 1, *General Requirements for Disclosure of Sustainability-related Financial Information* and CSDS 2, *Climate-related Disclosures*. These exposure drafts align with IFRS S1 and S2 global baselines, with modifications to align with Canadian-specific needs which include:

- Extending the earliest voluntary adoption dates for CSDS 1 and CSDS 2 from January 1, 2024, to January 1, 2025;
- Extending the proposed transition relief for disclosures beyond climate-related risks and opportunities from one year granted by the ISSB to two years. This means entities that voluntarily adopt the CSSB standards on January 1, 2025, will be required to disclose information on all sustainability-related risks and opportunities from the reporting period beginning on or after January 1, 2027; and
- Extending the proposed transition relief for disclosure of Scope 3 green house gas ("GHG") emissions from one year granted by the ISSB to two years. This means entities that voluntarily adopt the CSSB on January 1, 2025, will be required to disclose Scope 3 GHG emissions from the reporting period beginning on or after January 1, 2027.

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:

	2024	2023
Trade receivables	$ 927,492	$ 1,925,367
Government receivables	93,815	116,045
Other receivables	63,983	-
Sales return allowance	(26,086)	(54,258)
Expected credit losses	(26,450)	(18,146)
	$ 1,032,754	$ 1,969,008

The October 31, 2023 balance includes $539,517 of receivables from Ocean Rodeo which was subsequently discontinued.

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

	2024	2023
Current	$ 811,469	$ 1,210,483
30 - 60 days	25,844	66,506
60 - 90 days	47,043	111,804
Over 90 days	16,686	518,428
	$ 901,042	$ 1,907,221

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

	2024	2023
Opening balance	$ -	$ 125,991
Additional provisions during the period	62,092	64,324
Amounts used during the period	-	(19,377)
Reversal of previous allowance	(36,006)	(116,680)
	$ 26,086	$ 54,258

The October 31, 2023 sales return allowance balance was fully attributable to Ocean Rodeo which was subsequently discontinued.

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

	2024	2023
Opening balance	$ 3,478	$ 41,437
Additional provisions during the period	641,737	30,249
Amounts used during the period	(615,245)	(41,437)
Unused amounts reversed	(3,520)	(12,103)
	$ 26,450	$ 18,146

The October 31, 2023 balance includes $14,668 of expected credit losses from Ocean Rodeo which was subsequently discontinued. Amounts used during the fiscal 2024 period relate to one customer receivable aged past 90 days that was deemed uncollectible as a result of the decision to discontinue Ocean Rodeo's operations. Additional information on this customer can be found in Note 24 (a).

6. Inventory:

Inventory is comprised of the following:

	2024	2023
Raw materials	$ 844,736	$ 1,176,104
Finished goods - composite materials	253,584	278,911
Finished goods - products for resale	-	105,207
	$ 1,098,320	$ 1,560,222

The October 31, 2023 balance includes $569,420 of inventory from Ocean Rodeo which was subsequently discontinued.

During the year ended October 31, 2024, inventories totalling $3,418,614 (2023 - $2,657,566) and inventory write-downs totalling $77,839 (2023 - $134,665) 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	Right-of-use buildings	Right-of-use machinery and equipment	Total
Cost							
Balance, October 31, 2022	$ 16,643	$ 17,604	$ 10,397	$ 180,623	$ 646,453	$ 373,563	$ 1,245,283
Additions	2,026	2,734	2,700	128,507	-	-	135,967
Disposals	-	-	(5,793)	-	-	-	(5,793)
Transfers[1]	-	-	-	373,563	-	(373,563)	-
Balance, October 31, 2023	18,669	20,338	7,304	682,693	646,453	-	1,375,457
Additions	21,960	12,987	-	67,610	-	-	102,557
Disposals	-	-	-	(42,521)	-	-	(42,521)
Balance, October 31, 2024	$ 40,629	$ 33,325	$ 7,304	$ 707,782	$ 646,453	$ -	$ 1,435,493
Accumulated depreciation							
Balance, October 31, 2022	$ 1,228	$ 4,343	$ 3,392	$ 56,285	$ 148,366	$ 27,861	$ 241,475
Depreciation	1,816	6,605	1,443	109,373	127,172	-	246,409
Disposals	-	-	(2,704)	-	-	-	(2,704)
Transfers[1]	-	-	-	27,861	-	(27,861)	-
Balance, October 31, 2023	3,044	10,948	2,131	193,519	275,538	-	485,180
Depreciation	1,909	8,282	1,458	123,301	127,169	-	262,119
Disposals	-	-	-	(9,097)	-	-	(9,097)
Balance, October 31, 2024	$ 4,953	$ 19,230	$ 3,589	$ 307,723	$ 402,707	$ -	$ 738,202
Carrying amounts:							
From continued operations	$ 15,625	$ 9,390	$ 5,173	$ 489,174	$ 370,915	$ -	$ 890,277
From discontinued operations							76,380
Balance, October 31, 2023							$ 966,657
Balance, October 31, 2024	$ 35,676	$ 14,095	$ 3,715	$ 400,059	$ 243,746	$ -	$ 697,291

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, 2024, $89,747 (2023 – $49,865) of depreciation was included in the cost of finished goods inventory.

8. Intangible assets:

		Patents and Licenses		Trademarks		Total
Cost						
Balance, October 31, 2022	$	4,124,065	$	9,197	$	4,133,262
Additions		50,275		6,654		56,929
Disposals		-		-		-
Balance, October 31, 2023		4,174,340		15,851		4,190,191
Additions		17,796		3,002		20,798
Disposals		(61,625)		(3,287)		(64,912)
Balance, October 31, 2024	$	4,130,512	$	15,565	$	4,146,077
Accumulated amortization						
Balance, October 31, 2022	$	410	$	111	$	521
Amortization		264,043		38		264,081
Disposals		-		-		-
Balance, October 31, 2023		264,453		149		264,602
Amortization		265,978		38		266,016
Disposals		(2,916)		-		(2,916)
Balance, October 31, 2024	$	527,515	$	187	$	527,702
Carrying amounts:						
From continued operations	$	3,909,887	$	15,702	$	3,925,589
From discontinued operations						166,888
Balance, October 31, 2023					$	4,092,477
Balance, October 31, 2024	$	3,602,997	$	15,378	$	3,618,375

As at October 31, 2024, intangible assets with a cost of $9,973 (2023 - $44,126) were recorded for patents, licenses or trademarks management expects to be granted but were still pending approval.

9. Investments:

		Xlynx Materials Inc.		GKA Event GmbH		Total
Balance, October 31, 2023	$	609	$	50,187	$	50,796
Fair value adjustment		749,391				749,391
Sale of securities		(562,500)				(562,500)
Capital reserve repayment				(36,297)		(36,297)
Reclassification to discontinued operations				(13,890)		(13,890)
Balance, October 31, 2024	$	187,500	$	-	$	187,500

9. Investments (continued):

The Company owns shares 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.

(a) XlynX Materials Inc. (“XlynX”)

As at October 31, 2023, the Company owned 352,941 Class A common shares in Xlynx with a value of $609. During the year ended October 31, 2024, the Company recognized a fair value adjustment of $749,391 when the investment was written up to fair value based on a third party’s offer to purchase the common shares. During the fiscal year ended October 31, 2024, the Company sold 264,705 common shares to an arm’s length third party for cash consideration of $562,500 and recognized a realized gain of $562,043, which has been recorded as Other Income on the consolidated statement of net loss and comprehensive loss. As at October 31, 2024, the Company owns 88,236 common shares in Xlynx with a fair value of $187,500. Subsequent to year end, the Company sold its remaining common shares for $187,500, see Note 24 for additional information.

(b) GKA Event GmbH (“GKA”)

The October 31, 2024 investment in GKA Event GmbH has been classified as an asset held for sale, net of a $36,297 capital reserve repayment received in November 2023.

10. Trade and other payables:

Trade and other payables are comprised of the following:

		2024		2023
Accrued liabilities	$	579,158	$	225,174
Trade payables		175,296		415,337
Warranty provision		142,240		245,605
Royalties payable		59,319		16,561
Payroll liabilities		24,787		29,404
Government payables		267		(191)
Credit cards payable		-		51,421
	$	981,067	$	983,311

The October 31, 2023 balance includes $319,700 of payables from Ocean Rodeo which was subsequently discontinued.

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

		2024		2023
Opening balance	$	210,557	$	57,965
Additional provisions during the period		143,084		456,820
Amounts used during the period		(138,477)		-
Unused amounts reversed		(72,924)		(269,180)
	$	142,240	$	245,605

The October 31, 2023 balance includes $35,048 of warranty provisions from Ocean Rodeo which was subsequently discontinued.

11. 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. Monthly installments commenced April 1, 2024 and will continue until the loan is repaid on March 1, 2029. As of October 31, 2024, $729,114 (2023 - $729,114) of the available funding had been received, and the loan had a discounted balance of $556,676 (2023 - $606,617).

(b) Western Economic Diversification Canada:

On August 24, 2020, Ocean Rodeo Sports 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, 2024, $190,000 (October 31, 2023 - $190,000) of funding had been received and the loan had a discounted balance of $72,307 (2023 - $131,855). The discounted balance of the loan has been reclassified as a liability related to discontinued operations in Note 22. Subsequent to year end, the loan was fully repaid, see Note 24 (c) for additional details.

(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. This loan was repaid prior to the March 28, 2024 deadline therefore the Company qualified for $20,000 debt forgiveness. As at October 31, 2024 the loan balance was $nil (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. As at October 31, 2024 the loan balance was $nil (2023 - $40,000).

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

	2024	2023
Opening balance	$ 646,497	$ 1,259,405
Cash movement:		
Debt repayments	(125,064)	(1,416,068)
Debt advances		988,846
Non-cash movement:		
Amortization of non-cash interest	35,242	66,694
Fair value adjustments	-	(80,526)
Ending balance	556,675	818,351
Less: current portion	114,522	190,662
Long-term portion	$ 442,153	$ 627,689

12. 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.

	2024	2023
Beginning of year	$ 406,457	$ 978,928
Additions	-	-
Payments	(146,825)	(505,335)
Terminations	-	(91,174)
Accretion of lease liabilities	11,891	31,389
Leases acquired in business combination	-	-
Foreign currency translation adjustment	-	(7,351)
End of year	$ 271,523	$ 406,457
Lease liabilities due within one year	$ 139,346	$ 136,203
Lease liabiltiies due beyond one year	132,177	270,254
	$ 271,523	$ 406,457

The October 31, 2023 opening balance includes $95,958 from Ocean Rodeo which was subsequently discontinued. This was a 5-year lease for the previous operating facilities starting November 2020 with a monthly rent payment of $2,667. The lease was cancelled in December 2023 without penalty.

Future minimum lease payments at October 31, 2024 are as follows:

	Within one year	One to five years	Total
Lease payments	$ 146,348	$ 134,152	$ 280,500
Finance charges	7,002	1,975	8,977
Net present value	$ 139,346	$ 132,177	$ 271,523

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. Related parties:

(a) Director related transactions:

The Company has a royalty agreement with Epic Ventures Inc. ("Epic"), which is controlled by a director of the Company, pursuant to which royalties are paid on each square meter of certain patented materials, in exchange for Epic's assignment of the applicable patents to the Company. The Company has recorded royalties of $191,272 for the year ended October 31, 2024 (2023 - $295,891).

(b) Loan from related parties:

On December 29, 2023, the Company entered into a $1,000,000 short-term loan agreement (the "Loan Agreement") with 0876991 B.C. Ltd., a related party. The loan is guaranteed by the Company and secured against all present and after acquired personal property pursuant to a general security agreement. The loan bears interest at a rate of 12% per annum. Total interest paid for the year ended October 31, 2024 was $99,945 and is recorded in interest expense on the consolidated statement of loss and comprehensive loss.

In June 2024, the parties agreed to amend the Loan Agreement and extend the repayment date from July 1, 2024 to January 1, 2025. On October 16, 2024, the parties entered into a second amendment to the Loan Agreement pursuant to which: (i) $200,000 of the loan remains payable on January 1, 2025 and the due date for repayment of the balance of $800,000 of the loan was extended to January 1, 2026; and (ii) the Company was affirmed as the debtor due to the corporate amalgamation with its wholly-owned subsidiary on August 1, 2024. All other terms of the Loan Agreement remain unchanged.

(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 until June 30, 2024 a 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 relating to the Executive Leadership Team for the year ended October 31, 2024 was $857,315 (2023 - $725,371), which includes $114,730 (2023 - $203,571) in share-based compensation. Employment agreements with the members of the Executive Leadership Team provide for severance payments if the executive is terminated without cause totaling $nil (2023 - $280,000). Restructuring costs recorded on the consolidated statement of loss and comprehensive loss for key management personnel for year ended October 31, 2024 were $346,201 (2023- $nil). Remaining amounts owing for restructuring payments to key management personnel at October 31, 2024 were $189,318 (2023 - $nil). The restructuring costs are recorded as salaries and benefits expense on these consolidated financial statements.

14. Other income:

Other income is comprised of the following:

	2024	2023
Realized gain on investment (Note 9)	$ 562,043	$ -
Fair value adjustment on investment (Note 9)	187,348	-
Interest and other	21,244	27,474
Licenses	4,647	159,543
Fair value adjustment on interest free government loan	-	80,525
Loss on disposal of property and equipment	(3,969)	(55,701)
	$ 771,313	$ 211,841

15. 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 approximate their fair value due to the relatively short-term maturity of these financial instruments. The carrying value of long-term debt, related party 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, 2024 or October 31, 2023.

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

	2024		**2023**	
	Level 2	**Level 3**	**Level 2**	**Level 3**
Investments	$ -	$ 187,500	$ -	$ 50,796

16. 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 69.0% (2023 – 45.4%) of trade receivables at October 31, 2024, with the largest customer accounting for 55.8% (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, 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 October 31, 2024 and 2023, the contractual maturities of financial liabilities were as follows:

2024	Contractual cash flow	Up to 1 year	Greater than 1 year
Financial liabilities			
Long-term loan from related party	$ 1,000,000	$ 200,000	$ 800,000
Trade and other payables	981,067	981,067	-
Long-term debt	718,002	219,774	498,228
Lease obligations	280,500	146,348	134,152
Total financial liabilities	$ 2,979,569	$ 1,547,189	$ 1,432,380

2023	Contractual cash flow	Up to 1 year	Greater than 1 year
Financial liabilities			
Trade and other payables	$ 983,311	$ 983,311	$ -
Lease obligations	426,848	146,348	280,500
Long-term debt	962,191	228,364	733,827
Total financial liabilities	$ 2,372,350	$ 1,358,023	$ 1,014,327

16. 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 monitors interest rates and economic conditions. At October 31, 2024, the Company did not have any variable interest bearing credit facilities outstanding (2023 - $nil). As the Company's loans are either at fixed or no interest rate, a 1% change in the interest rate on these credit facilities would not have an impact on the consolidated statement of loss and 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 consolidated statement of loss and comprehensive loss by approximately $25,000 (2023 - $31,500).

(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, short and long-term debt.

	2024	2023
Share capital	$ 16,466,950	$ 16,460,950
Debt	1,556,675	818,351
	$ 18,023,625	$ 17,279,301

17. 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.

	2024	2023
Authorized:		
Unlimited voting common shares		
Unlimited preferred shares		
Issued:		
250,615,623 voting common shares (2023 - 250,565,623)	$ 16,466,950	$ 16,460,950

17. 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
Option exercise	50,000		6,000
Total share capital at October 31, 2024	250,615,623	$	16,466,950

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 25,000,000 shares in exchange for the outstanding shares of Bastion Square Partners (“BSP Shares”).

17. 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.

On April 14, 2024, an employee exercised stock options issued under the Company's stock option plan with an exercise price of $0.12 per share. The Company issued 50,000 common shares in exchange for $6,000 consideration.

(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 17 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 0.70 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	81.1%
Expected life of warrant	2 years

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

17. Share capital (continued):

(b) Warrants (continued):

Warrants:

	Number		Weighted average exercise price
Balance, October 31, 2022	375,000	$	0.10
Granted during the period	25,408,328		0.25
Broker Warrants	1,469,397		0.25
Exercised during the period	(147,930)		0.10
Balance, October 31, 2023	27,104,795	$	0.25
Expired during the period	(227,070)		0.10
Balance, October 31, 2024	26,877,725	$	0.25
Exercisable, October 31, 2024	26,877,725	$	0.25

18. Share-based compensation:

(a) Stock options:

During the Company's Annual General Meeting on April 26, 2024, shareholders approved the Company's plan to adapt a 10% rolling stock option plan (the "2024 Plan"), which replaced the Company's 10% fixed stock option plan. The Company's stock option plan 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:

	2024	2023
Risk free interest rate	0.95% - 3.34%	0.95% - 3.91%
Expected dividend yield	0.00%	0.00%
Forfeiture rate	0.00% - 30.0%	0.00% - 16.7%
Stock price volatility	81.1%	100%
Expected life of option	3 - 5 years	3 - 5 years

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

18. 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
Exercised during the year	(9,169,600)		0.01
Granted in reverse acquisition of BSP	2,500,000		0.10
Granted during the year	10,716,905		0.12
Forfeited during the year	(250,000)		0.12
Balance, October 31, 2023	12,966,905	$	0.12
Exercised during the year	(50,000)	$	0.12
Granted during the year	12,475,000		0.13
Forfeited during the year	(4,568,750)		0.13
Balance, October 31, 2024	20,823,155	$	0.13
Exercisable, October 31, 2024	8,260,264	$	0.11

For the year ended October 31, 2024, compensation expense related to share options was $113,927 (2023 - $502,384)

19. 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:

2024		Aluula		Discontinued Operations		Total
Net loss before income taxes	$	(1,877,714)	$	(723,232)	$	(2,600,946)
Tax rate		27%		27%		27%
Expected income tax expense (recovery)		(506,983)		(195,273)		(702,256)
Increase in income tax expense resulting from:						
Consolidation entries		49,600		40,524		90,124
Non-deductible expenses		32,381		377		32,758
Loss carry-forwards		425,002		154,372		579,374
	$	-	$	-	$	-

2023		Aluula		Discontinued Operations		Total
Net loss before income taxes	$	(3,960,266)	$	(1,787,009)	$	(5,747,275)
Tax rate		27%		27%		27%
Expected income tax expense (recovery)		(1,069,272)		(482,492)		(1,551,764)
Increase in income tax expense resulting from:						
Consolidation entries		418,149		92,419		510,568
Non-deductible expenses		136,155		561		136,716
Loss carry-forwards		514,968		389,512		904,480
	$	-	$	-	$	-

The Company has net operating losses carried forward for income tax purposes of approximately $8,970,670 (2023 - $5,602,852). As utilization of these operating losses for tax purposes is currently not probable, the Company has recorded an impairment allowance for these deferred tax assets.

The components of deferred income taxes are as follows:

2024		Aluula		Discontinued Operations		Total
Deferred income taxes:						
Canadian tax loss carry forwards	$	1,318,370	$	867,334	$	2,185,704
Other temporary differences arising from:						
Intangible assets		(964,592)		(873)		(965,465)
Right-of-use assets		(65,811)		-		(65,811)
Deferred consideration receivable		-		(21,965)		(21,965)
Property and equipment		(40,503)		-		(40,503)
Scientific research and development refunde		-		45,850		45,850
Lease obligations		73,311		-		73,311
		320,775		890,346		1,211,121
Impairment allowance, deferred tax asset		(1,285,217)		(890,346)		(2,175,563)
Total deferred tax liability	$	(964,442)	$	-	$	(964,442)

19. Income taxes (continued):

2023		Aluula		Discontinued Operations		Total
Deferred income taxes:						
Canadian tax loss carry forwards	$	913,980	$	629,049	$	1,543,029
Other temporary differences arising from:						
Intangible assets		(1,052,348)		(24,944)		(1,077,292)
Right-of-use assets		(100,147)		-		(100,147)
Inventory acquired in business combination		(18,483)		-		(18,483)
Property and equipment		(61,296)		(12,513)		(73,809)
Lease obligations		109,742		-		109,742
		(208,552)		591,592		383,040
Total deferred tax assets (liabilities)	$	(208,552)	$	591,592	$	383,040

20. Commitments:

Commitments include leases recognized as lease obligations (Note 12), as well as short-term and low value leases which don't meet the capitalization requirements of IFRS 16.

		2024		2023
2025	$	146,348	$	146,348
2026		134,152		134,152
	$	280,500	$	280,500

21. Segment information:

(a) Reportable segments:

The Company has aggregated certain operating segments on the basis of the product they sold 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 the following reportable segments:

- The Aluula segment relates to the assembly and sale of 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 differentiates the company in the windsport market. Ocean Rodeo sells its products to dealers, distributors, and end users. On April 29, 2024 the Company's Board of Directors approved a mandate to sell specific assets used in the Ocean Rodeo business and discontinue its operations. As a result, Ocean Rodeo segment has been reclassified as Discontinued Operations. Note 22 includes additional information on assets held for sale and discontinued operations.

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

21. Segment information (continued):

(a) Reportable segments (continued):

Total assets and liabilities for each segment are as follows:

2024	Aluula	Discontinued Operations	Total
Total assets	$ 12,295,000	$ 672,808	$ 12,967,808
Total liabilities	4,238,784	420,826	4,659,610

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

The consolidate statements of loss and comprehensive loss for the fiscal years ending October 31, 2024 and 2023 exclude Ocean Rodeo's results, which have been reported in these periods as discontinued operations in Note 22.

(b) Geographic information:

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

	2024	2023
Sri Lanka	$ 3,312,363	$ 2,768,700
Hong Kong	1,306,871	682,713
Rest of World	1,126,810	286,171
Europe	490,915	49,363
United States	110,498	334,349
Canada	11,772	40,390
Sales	$ 6,359,229	$ 4,161,686

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

The following table summarizes sales from discontinued operations by region.

	2024	2023
United States	321,275	993,614
Canada	243,122	858,039
Europe	175,072	1,083,517
Rest of World	139,450	250,443
Sales	$ 878,919	$ 3,185,614

22. Assets held for sale and discontinued operations:

On April 29, 2024, the Company's Board of Directors approved a mandate to sell specific assets used in the Ocean Rodeo business and discontinue its operations. Accordingly, Ocean Rodeo meets the criteria of a discontinued operation under IFRS 5 – *Non current assets held for sale and discontinued operations*.

This reporting segment was not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statement of loss and comprehensive loss has been restated to show the discontinued operations separately from continuing operations.

On October 3, 2024, the Company entered into a definitive purchase and sale agreement (the "Agreement") to sell certain operating assets of Ocean Rodeo (the "Business Assets"), to Bainbridge International Ltd ("Bainbridge").

Under the terms of the Agreement, Bainbridge acquired the following Business Assets: Ocean Rodeo brand and trade name, marketing collateral, website, design files for Ocean Rodeo products, and specific intellectual property. Consideration paid for the Business Assets consists of an upfront cash payment due upon closing and a three-year revenue sharing arrangement with fixed minimum monthly payments commencing March 1, 2025.

Based on the terms of the Agreement, Ocean Rodeo has recognized a net gain of $173,108 on disposal of the Business Assets which is included in Other income from discontinued operations. Additionally, in accordance with IFRS 15, Ocean Rodeo has recognized a long-term asset $136,732 related to the deferred consideration receivable outlined in the terms of the Agreement.

The following assets and liabilities were excluded from the sale of Business Assets to Bainbridge and represent the "assets and liabilities related to discontinued operations" as reported on the consolidated statement of financial position at October 31, 2024:

		2024
Assets related to discontinued operations		
Trade and other receivables	$	121,135
Inventory		330,043
Prepaid expenses and other current assets		65,297
Intangible assets		5,505
Other long-term assets		136,732
Investments		14,096
Total assets related to discontinued operations	$	672,808
Liabilities related to discontinued operations		
Trade and other payables	$	286,124
Customer deposits		62,395
Short-term debt		72,307
Total liabilities related to discontinued operations	$	420,826
Net assets related to discontinued operations	$	251,982

Ocean Rodeo will continue to sell remaining inventory, collect trade receivables and discharge liabilities as it discontinues operations.

22. Assets held for sale and discontinued operations (continued):

Net and comprehensive loss from discontinued operations for the year ended October 31, 2024 and 2023 are as follows:

	2024	2023
Sales	$ 878,919	$ 3,185,614
Cost of sales	775,316	2,578,194
Gross profit	103,603	607,420
Operating expenses:		
Salaries and benefits	320,987	756,117
General and administrative	711,036	970,772
Marketing	208,507	430,672
Research and development	59,595	115,594
	1,300,125	2,273,155
Loss before interest, tax and amortization	(1,196,522)	(1,665,735)
Other income	507,597	16,042
Interest expense	(3,721)	(72,131)
Depreciation of property and equipment	(23,019)	(50,873)
Amortization of intangible assets	(7,567)	(14,312)
Loss before tax	(723,232)	(1,787,009)
Deferred tax (expense) recovery	(591,592)	264,398
Income tax recovery	12,234	-
Net loss and comprehensive loss	$ (1,302,590)	$ (1,522,611)

23. Supplementary cash flow information:

Supplementary cash flow information relating to non-cash investing and financing activities for the years ended October 31, 2024 and October 31, 2023 is as follows:

	2024	2023
Property and equipment transferred from subsidiary	$ 22,687	$ -
Shares issued to settle shareholder loans	-	1,983,002
Listing expense (Note 4)	-	1,640,538
Property and equipment written off due to obsolescence	(3,624)	-
Intangibles included in APA with Bainbridge (Note 22)	(4,448)	-
Intangibles written off due to obsolescence	(57,549)	-

24. Subsequent events:

(a) Settlement Agreement:

On November 4, 2024, ALUULA and Ocean Rodeo signed an agreement (the “Agreement”) with L.M.S. Manufactory Ltd. (”LMS”) and A Lam Sails Limited (“A LAM”) that outlined terms for settling transactions between the parties. LMS was a customer of ALUULA’s that received shipments of composite materials (the “Aluula Materials”) between 2020 and 2024. A LAM, a company related to LMS, was the legal entity responsible for manufacturing kites and wings for Ocean Rodeo and utilized Aluula Materials in this process. The decision to discontinue Ocean Rodeo’s operations meant that A LAM would no longer be required to produce kites and wings for the company using Aluula Materials. During the fiscal year ended October 31, 2024, ALUULA wrote off $615,245 of accounts receivable from LMS as the balance was deemed uncollectible. Under the terms of the Agreement, LMS agreed to return the Aluula Materials to ALUULA at the Company’s sole cost. On January 7, 2025, Company received the Aluula Materials at its warehouse and began the process of inspecting the materials to determine what could be resold. As at October 31, 2024, the Company has not recorded any value associated with the returned Aluula Materials.

(b) Sale of Xlynx Comon Shares:

On December 2, 2024, the Company entered into a Purchase and Sale Agreement with an arm’s length third party to sell its remaining 88,236 shares in Xlynx for cash consideration of $187,500 (the “Transaction”). The Transaction closed on December 16, 2024.

(c) Repayment of Western Economic Diversification Canada loan (the “PacifiCan Loan”):

On December 6, 2024, the Company repaid the remaining $68,675 PacifiCan Loan balance as described in Note 11 (b). The PacifiCan Loan was originally advanced to Ocean Rodeo under the RRRF program to offset business expansion costs. The repayment obligation arose as a result of the decision to discontinue Ocean Rodeo’s operations.

(d) Rights Offering:

On December 16, 2024, the Company announced it was offering rights (the “Rights Offering”) to raise proceeds of up to approximately $2,500,000 with a $1,500,000 standby commitment.

Pursuant to the Rights Offering, each holder of the Company's common shares (the "Shares") of record at the close of business on December 30, 2024 resident in Canada will receive one transferable right (a "Right") for each one Share held. Each Right will entitle the holder to subscribe for one Share of the Company at a subscription price of $0.01 per Share (the "Basic Subscription Privilege").

The Rights Offering includes an additional subscription privilege (the “Additional Subscription Privilege”) under which eligible holders of Rights who fully exercise their Basic Subscription Privilege will be entitled to subscribe for additional available Shares on a *pro-rata* basis that are not otherwise subscribed for under the Basic Subscription Privilege.

24. Subsequent events (continued):

(d) Rights Offering (continued):

Additionally, in connection with the Rights Offering, the Company has entered into a $1,500,000 standby purchase agreement with certain directors and officers of the Company (the "Standby Purchasers"), who have agreed to: (i) fully exercise their Basic Subscription Privilege to purchase 58,256,014 Shares; and (ii) to purchase up to an additional 150,000,000 Shares not otherwise subscribed for under the Rights Offering (the "Standby Commitment").

As consideration for the Standby Commitment, the Company has agreed to issue 26,250,000 bonus warrants to the Standby Purchasers. Each bonus warrant will be exercisable into one Share at a price of $0.10 per Share for a period of five years after issuance.

On January 21, 2025, the Rights Offering closed and the Company raised the maximum amount permitted under the Rights Offering of $2,506,156.17. At closing, the Company issued a total of 250,615,617 Shares, with 240,982,385 Shares issued pursuant to exercise of Basic Subscription Privilege and 9,633,232 Shares issued pursuant to the exercise of Additional Subscription Privileges. Because the Company raised the maximum amount permitted under the Rights Offering, the Standby Purchasers were not required to purchase additional Shares under the terms of the Standby Commitment.

(e) Partial repayment of related party loan:

On January 1, 2025, the Company repaid $200,000 of the $1,000,000 related party loan described in Note 13 (b). The remaining balance of $800,000 is due on January 1, 2026.