

Interim Condensed Consolidated Financial Statements
(Expressed in Canadian dollars)

ALUULA COMPOSITES INC.

For the three and six months ended April 30, 2024 and 2023
(Unaudited)

Notice of No Auditor Review of the Interim Financial Statements

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

ALUULA COMPOSITES INC.

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

	Note	April 30 2024	October 31 2023
Assets			
Current assets:			
Cash and cash equivalents		\$ 1,135,593	\$ 773,368
Trade and other receivables	5	1,653,095	1,969,008
Inventory	6	1,219,867	1,560,222
Prepaid expenses and other current assets		196,291	260,483
Assets held for sale	20	917,605	-
		<u>5,122,451</u>	<u>4,563,081</u>
Property and equipment	7	813,952	966,657
Intangible assets	8	3,763,443	4,092,477
Other long-term assets		22,693	30,796
Investments	9	750,000	50,796
Deferred tax asset		1,436,535	1,436,535
Goodwill		4,037,139	4,037,139
		<u>\$ 15,946,213</u>	<u>\$ 15,177,481</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables	10	\$ 1,388,110	\$ 983,311
Customer deposits		79,451	31,149
Short-term loan from related party	12	1,000,000	-
Current portion of long-term debt	11	174,342	190,662
Current portion of lease obligations		136,881	136,203
Income tax payable		-	12,234
Deferred tax liability		999,727	1,053,495
Liabilities related to assets held for sale	20	510,489	-
		<u>4,289,000</u>	<u>2,407,054</u>
Long-term debt	11	540,217	627,689
Lease obligations		202,947	270,254
		<u>5,032,164</u>	<u>3,304,997</u>
Shareholders' equity:			
Share capital	16	16,466,950	16,460,950
Contributed surplus		1,703,517	1,674,620
Deficit		(7,256,418)	(6,263,086)
		<u>10,914,049</u>	<u>11,872,484</u>
Subsequent events	21		
		<u>\$ 15,946,213</u>	<u>\$ 15,177,481</u>

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

Approved on behalf of the Board:

"Peter Gustavson" Director

"Jeremy South" Director

ALUULA COMPOSITES INC.

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

	Note	For the three month period ended		For the six month period ended	
		April 30 2024	April 30 2023	April 30 2024	April 30 2023
Sales		\$ 1,403,151	\$ 1,598,392	\$ 3,400,430	\$ 2,313,925
Cost of sales		841,600	1,037,196	1,937,252	1,604,265
Gross profit		561,551	561,196	1,463,178	709,660
Operating expenses:					
Salaries and benefits		974,347	372,518	1,350,617	650,335
General and administrative		469,239	313,771	640,876	459,909
Marketing		66,178	23,941	143,700	53,750
Research and development		48,670	(9,583)	75,435	(4,162)
Share-based compensation	17	(1,941)	390,317	28,897	395,254
		1,556,493	1,090,964	2,239,525	1,555,086
Loss before interest, tax and amortization		(994,942)	(529,768)	(776,347)	(845,426)
Other income	13	752,379	42,058	760,176	113,940
Listing expense	4	-	(1,640,538)	-	(1,640,538)
Interest expense		(41,049)	(63,606)	(62,841)	(125,822)
Depreciation of capital assets	7	(47,582)	(44,077)	(94,156)	(87,001)
Amortization of intangible assets	8	(66,395)	(65,725)	(132,695)	(131,257)
Loss from continued operations before tax		(397,589)	(2,301,656)	(305,863)	(2,716,104)
Deferred tax recovery		27,909	132,025	53,768	52,371
Net comprehensive loss from continued operations		(369,680)	(2,169,631)	(252,095)	(2,663,733)
Net comprehensive loss from discontinued operations	20	(394,680)	(442,514)	(741,237)	(1,113,563)
Net loss and comprehensive loss		\$ (764,360)	\$ (2,612,145)	\$ (993,332)	\$ (3,777,296)
Loss per share:					
Basic and diluted loss per share - continued operations		\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.02)
Basic and diluted loss per share - discontinued operations		\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
Weighted average shares outstanding, basic and diluted		250,574,612	163,911,260	250,570,043	156,931,713

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

ALUULA COMPOSITES INC.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

For the six months ended	Note	April 30 2024	April 30 2023
Cash flows used in operating activities:			
Net and comprehensive loss - continued operations		\$ (252,095)	\$ (2,663,733)
Items not involving cash:			
Depreciation of capital assets	7	94,156	87,001
Depreciation of capital assets included in inventory	7	35,480	33,242
Amortization of intangible assets	8	132,695	131,257
Share-based compensation	17	28,897	395,253
Government grants and fair value adjustments	13	(749,391)	(33,993)
Accretion of and accrued interest on loans and leases		26,553	65,169
Foreign exchange movement on leases		-	2,915
Loss on disposal of property and equipment	7	-	91,559
Loss on disposal of intangible assets	8	47,902	-
Other gains and losses		-	(549)
Inventory write-downs	6	5,954	114,887
Listing Expense	4	-	1,640,538
Changes in non-cash working capital items:			
Trade and other receivables	5	(223,604)	(577,190)
Inventory	6	(235,019)	470,248
Deferred taxes receivable and payable		(53,768)	(52,371)
Prepaid expenses		27,164	(19,747)
Other assets		8,102	-
Trade and other payables	10	689,794	(72,619)
Customer deposits		69,885	(100,992)
Cash Flows used in operating activities - continued operations		(347,295)	(489,124)
Cash Flows used in operating activities - discontinued operations		(55,608)	(926,892)
Total cash flows used in operating activities		(402,903)	(1,416,016)
Cash flows from (used in) investing activities:			
Cash acquired in RTO		-	1,442,966
Acquisition of net working capital in RTO		-	(83,505)
Acquisition of property and equipment	7	(53,311)	(23,962)
Acquisition of intangible assets	8	(18,451)	(20,644)
Cash Flows from (used in) investing activities - continued operations		(71,762)	1,314,856
Cash Flows from (used in) investing activities - discontinued operations		27,864	(25,519)
Total cash flows used in investing activities		(43,898)	1,289,337
Cash flows from financing activities:			
Issuance of share capital	16	6,000	4,983,003
Transaction costs from share issuance		-	(33,180)
Proceeds on issuance of shares on exercise of options		-	77,601
Proceeds from short-term loan	12	1,000,000	(2,122,802)
Payments for principal portion of lease obligations		(73,174)	(118,096)
Proceeds of long-term debt	11	-	861,525
Repayment of long-term debt	11	(123,800)	(867,934)
Cash Flows from financing activities - continued operations		809,026	2,780,117
Cash Flows used in financing activities - discontinued operations		-	(5,333)
Total cash flows used in investing activities		809,026	2,774,784
Increase in cash and cash equivalents		362,225	2,648,104
Net cash and cash equivalents, beginning of period		773,368	(2,449,320)
Net cash and cash equivalents, end of period ¹		\$ 1,135,593	\$ 198,784
¹ Cash and cash equivalents		\$ 1,135,593	\$ 1,198,784
Bank indebtedness		-	(1,000,000)
Net cash and cash equivalents		\$ 1,135,593	\$ 198,784

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

ALUULA COMPOSITES INC.

Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited)

	Shares outstanding	Share capital	Contributed Surplus	Deficit	Total shareholders' equity
Balance, October 31, 2022	150,179,761	\$ 6,305,977	\$ 52,654	\$ (1,107,659)	\$ 5,250,972
Repayment of shareholder loans (Note 16)	15,660,010	1,983,002	-	-	1,983,002
Share-based compensation (Note 17)	9,169,600	152,585	320,270	-	472,855
BSP SubCo shares (Note 16)	18,223,330	2,174,620	-	-	2,174,620
BSP Financing (Note 16)	6,776,670	792,200	-	-	792,200
BSP Shares (Note 16)	25,000,000	3,000,000	-	-	3,000,000
Net loss	-	-	-	(3,777,296)	(3,777,296)
Balance, April 30, 2023	225,009,371	\$ 14,408,384	\$ 372,924	\$ (4,884,955)	\$ 9,896,353
Balance, October 31, 2023	250,565,623	\$ 16,460,950	\$ 1,674,620	\$ (6,263,086)	\$ 11,872,484
Share-based compensation (Note 17)	-	-	28,897	-	28,897
Option exercise (Note 16)	50,000	6,000	-	-	6,000
Net loss	-	-	-	(993,332)	(993,332)
Balance, April 30, 2024	250,615,623	\$ 16,466,950	\$ 1,703,517	\$ (7,256,418)	\$ 10,914,049

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 interim condensed consolidated financial statements.

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2024 and 2023

(Unaudited)

1. Nature of operations:

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

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

BSP was incorporated under the British Columbia Business Corporations Act on February 24, 2021. The predecessor entity that was operating the business of Aluula was incorporated under the British Columbia Business Corporations Act on July 18, 2019.

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

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, as at April 30, 2024 Ocean Rodeo meets the criteria of a discontinued operation under IFRS 5 – *Non current assets held for sale and discontinued operations*.

2. Basis of preparation:

(a) Statement of compliance:

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). Certain items from the prior year have been reclassified for comparative purposes, see Note 20. These consolidated financial statements were approved by the Board of Directors for issue on June 21, 2024.

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

(b) Basis of measurement:

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, under the historical cost basis, except for certain financial instruments that are measured at fair value as detailed in the Company’s significant accounting policies in Note 3 to the Company’s audited consolidated financial statements for the years ended October 31, 2023 and 2022.

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2024 and 2023

(Unaudited)

2. Basis of preparation (continued):

(c) Basis of consolidation:

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

(d) Functional and presentation currency:

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

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

(e) 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 interim condensed consolidated statement of loss and comprehensive 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 interim condensed 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 unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgements and assumptions that affect the application of accounting methods and the amounts recognized in the unaudited interim condensed consolidated financial statements. These estimates and the underlying assumptions are established and reviewed continuously on the basis of past experience and other factors considered reasonable in the circumstances. Actual results may differ from the estimates.

Significant judgements and estimates relate to:

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2024 and 2023

(Unaudited)

2. Basis of preparation (continued):

(f) Estimates and judgements (continued):

(i) Allowance for credit losses:

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

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

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

(ii) Valuation of inventory:

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

(iii) Internally generated assets:

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

(iv) Long-lived assets valuation:

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

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

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2024 and 2023

(Unaudited)

2. Basis of preparation (continued):

(f) Estimates and judgements (continued):

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

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

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

(v) *Provision for sales returns and warranties:*

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

(vi) *Share-based compensation:*

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

(vii) *Leases:*

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

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

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

2. Basis of preparation (continued):

(f) Estimates and judgements (continued):

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

(viii) *Deferred income tax assets and liabilities:*

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

(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.

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

2. Basis of preparation (continued):

(f) Estimates and judgements (continued):

(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.

(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. Management must also exercise judgement when determining at what date all of the criteria are satisfied for assets to be classified as held for sale. Management 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 significant accounting policies:

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

4. Reverse takeover of Bastion Square Partners:

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

The RTO was structured as a three-cornered amalgamation pursuant to the provisions of the Business Corporations Act (British Columbia) (the "BCBCA"), 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.

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

4. Reverse takeover of Bastion Square Partners (continued):

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 statement of financial position, 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:

	April 30 2024	October 31 2023
Trade receivables	\$ 1,611,601	\$ 1,925,367
Government receivables	210,848	116,045
Sales return allowance	-	(54,258)
Expected credit losses	(169,354)	(18,146)
	\$ 1,653,095	\$ 1,969,008

The October 31, 2023 balance includes \$539,518 trade and other receivables from discontinued operations.

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

5. Trade and other receivables (continued):

Trade receivables net of expected credit losses outstanding at April 30 were aged as follows:

	April 30 2024	October 31 2023
Current	\$ 676,994	\$ 1,210,483
30 - 60 days	119,848	66,506
60 - 90 days	82,556	111,804
Over 90 days	562,849	518,428
	\$ 1,442,247	\$ 1,907,221

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

For the period ended	April 30 2024	October 31 2023
Opening balance	\$ -	\$ 125,991
Additional provisions during the period	-	64,324
Amounts used during the period	-	(19,377)
Reversal of previous allowance	-	(116,680)
	\$ -	\$ 54,258

The sales return balance at October 31, 2023 is from discontinued operations. The sales return allowance at April 30, 2024 is recorded under "Assets held for sale".

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

	April 30 2024	October 31 2023
Opening balance	\$ 3,478	\$ 41,437
Additional provisions during the period	166,083	30,249
Amounts used during the period	(207)	(41,437)
Unused amounts reversed	-	(12,103)
	\$ 169,354	\$ 18,146

The October 31, 2023 balance includes \$14,668 credit losses from discontinued operations.

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

6. Inventory:

Inventory is comprised of the following:

	April 30 2024	October 31 2023
Raw materials	\$ 1,097,670	\$ 1,176,104
Finished goods - composite materials	122,197	278,911
Finished goods - products for resale	-	105,207
	<u>\$ 1,219,867</u>	<u>\$ 1,560,222</u>

The October 31, 2023 balance includes \$569,420 of inventory from discontinued operations.

During the three and six months ended April 30, 2024, inventories totalling \$751,437 and \$1,726,346 respectively (three and six months ended April 30, 2023 - \$1,056,856 and \$1,604,264) were included in cost of sales. Inventory write-downs totalling \$5,954 (April 30, 2023 - \$114,887) were expensed in cost of sales. There were no reversals of write-downs from previous periods.

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2024 and 2023

(Unaudited)

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	850	7,512	-	44,949	-	-	53,311
Disposals	-	-	-	-	-	-	-
Balance, April 30, 2024	\$ 19,519	\$ 27,850	\$ 7,304	\$ 727,642	\$ 646,453	\$ -	\$ 1,428,768
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	933	3,706	732	60,682	63,584	-	129,636
Disposals	-	-	-	-	-	-	-
Balance, April 30, 2024	\$ 3,977	\$ 14,654	\$ 2,863	\$ 254,201	\$ 339,122	\$ -	\$ 614,816
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, April 30, 2024	\$ 15,542	\$ 13,196	\$ 4,442	\$ 473,441	\$ 307,332	\$ -	\$ 813,952

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

During the three and six months ended April 30, 2024, \$17,740 and \$35,480 respectively (three and six months ended April 30, 2023 – \$16,718 and \$33,243) of depreciation was included in the cost of finished goods inventory.

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

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		15,449		9,291	24,741
Disposals		(45,459)		(9,577)	(55,036)
Balance, April 30, 2024	\$	4,144,331	\$	15,565	\$ 4,159,895
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		132,676		19	132,695
Disposals		(845)		-	(845)
Balance, April 30, 2024	\$	396,285	\$	168	\$ 396,453
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, April 30, 2024	\$	3,748,046	\$	15,397	\$ 3,763,443

As at April 30, 2024, intangible assets with a cost of \$19,520 (October 31, 2023 - \$44,126) were recorded for patents, licenses or trademarks management expects to be granted but were still pending approval.

9. Investments:

The Company holds strategic long-term investments in private companies that are not quoted in an active market. Fair value for these investments is determined using available financial and market information which can include financial statements and company projections. At April 30, 2024, the Company recognized an unrealized gain of \$749,391 associated with its investment in XlynX Materials Inc. (2023- nil). The October 31, 2023 investment in GKA Event GmbH has been classified at April 30, 2024 as an asset held for sale, net of a \$36,297 capital reserve repayment received in November 2023.

	April 30 2024		October 31 2023	
XlynX Materials Inc.	\$	750,000	\$	609
GKA Event GmbH		-		50,187
	\$	750,000	\$	50,796

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

10. Trade and other payables:

Trade and other payables are comprised of the following:

	April 30 2024	October 31 2023
Trade payables	\$ 454,796	\$ 415,337
Accrued liabilities	614,575	225,174
Credit cards payable	30,091	51,421
Warranty provision	218,556	245,605
Payroll liabilities	40,890	29,404
Government payables	264	(191)
Royalties payable	28,938	16,561
	<u>\$ 1,388,110</u>	<u>\$ 983,311</u>

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

	April 30 2024	October 31 2023
Opening balance	\$ 210,557	\$ 57,965
Additional provisions during the period	62,182	456,820
Amounts used during the period	(54,183)	-
Unused amounts reversed	-	(269,180)
	<u>\$ 218,556</u>	<u>\$ 245,605</u>

The October 31, 2023 balance includes \$284,997 and \$35,048 in trade payables and warranty provisions, respectively, from discontinued operations.

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 beginning on April 1, 2024. As of April 30, 2024, \$729,114 (October 31, 2023 - \$729,114) of the available funding had been received, and the loan had a discounted balance of \$612,222 (October 31, 2023 - \$606,617).

(b) Western Economic Diversification Canada:

On August 24, 2020, the Company signed an agreement to receive up to \$190,000 through WD Canada's Regional Relief and Recovery Fund ("RRRF") to offset costs of business expansion as prescribed in the funding agreement. This funding is in the form of an interest free loan, repayable in monthly instalments of \$5,275 beginning January 31, 2023. As at April 30th, 2024, \$190,000 (October 31, 2023 - \$190,000) of funding had been received and was acquired as part of the business combination at a discounted balance of \$102,337 (October 31, 2023 - \$131,855).

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

11. Long-term debt (continued):

(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 April 30, 2024 the loan balance was nil (October 31, 2023 - \$39,880).

(d) Government of Canada:

On April 23, 2020, the Company received a \$40,000 interest free loan as part of its Canada Emergency Benefit Account. This loan was expanded to \$60,000 on January 11, 2021. This loan was repaid prior to the January 18, 2024 deadline therefore the Company qualified for \$20,000 debt forgiveness. This loan was acquired as part of the business combination at October 31, 2022, and had a discounted balance at April 30, 2024 of \$nil (October 31, 2023 - \$40,000).

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

	April 30 2024	October 31 2023
Opening Balance	\$ 818,351	\$ 1,259,405
Cash movement:		
Debt repayments	(123,800)	(1,416,068)
Debt advances	-	988,846
Non-cash movement:		
Amortization of non-cash interest	20,008	66,694
Fair value adjustments	-	(80,526)
Ending Balance	714,559	818,351
Less: current portion	174,342	190,662
Long-term portion	\$ 540,217	\$ 627,689

12. 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. Royalties of \$57,601 and \$93,952 were paid during the three and six months ended April 30, 2024 respectively (three and six months ended April 30, 2023 - \$275,000 and \$275,000).

(b) Related parties:

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

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

12. Related parties (continued):

(c) Key management compensation:

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

Total compensation expense paid to the Executive Leadership Team for the three and six months ended April 30, 2024 was \$286,691 and \$457,339 respectively (three and six months ended April 30, 2023 - \$297,388 and \$404,515), which includes \$34,156 and \$34,156 (three and six months ended April 31, 2023 - \$175,326 and \$178,949) in share-based payments. Employment agreements with the members of the Executive Leadership Team provide for severance payments if the executive is terminated without cause totaling \$322,000 (April 30, 2023 - \$328,000). Restructuring payments accrued and owing to key management personnel for the three and six months ended April 30, 2024 were \$346,201 and \$346,201 respectively (three and six months ended April 30, 2023 - \$nil and \$nil). The restructuring payments are recorded as salaries and benefits expense on these Interim Condensed Consolidated Financial Statements.

13. Other income:

Other income is comprised of the following:

	For the three months ended		For the six months ended	
	April 30 2024	April 30 2023	April 30 2024	April 30 2023
Fair value adjustment on investment	\$ 749,391	\$ -	\$ 749,391	\$ -
Interest and other	2,988	244	6,137	(2,843)
Licenses		41,814	4,648	82,790
Fair value adjustment on interest free government loan	-	-	-	33,993
	\$ 752,379	\$ 42,058	\$ 760,176	\$ 113,940

14. Financial instruments:

(a) Fair Value:

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

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

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

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

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

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

14. Financial instruments (continued):

(a) Fair Value (continued):

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

	January 31, 2024		October 31, 2023	
	Level 2	Level 3	Level 2	Level 3
Investments	\$ -	\$ 750,000	\$ -	\$ 50,796

The October 31, 2023 Level 3 balance includes a \$50,187 investment held in discontinued operations.

15. Financial risk and capital management:

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

(a) Credit risk:

Credit risk is the risk that a counterparty will not meet its obligations under a customer contract or financial instrument, leading to a financial loss. The Company transacts only with recognized, creditworthy third parties and requires payment for goods prior to shipment unless the customer has been granted credit terms. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Company's top two customers account for 62.0% (October 31, 2023 – 45.4%) of trade receivables at April 30, 2024, with the largest customer accounting for 38.0% (October 31, 2023 – 33.8%).

(b) Liquidity risk:

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

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

As at April 30, 2024 and October 31, 2023, the contractual maturities of financial liabilities were as follows:

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

15. Financial risk and capital management (continued):

(b) Liquidity risk:

April 30, 2024				
	Contractual cash flow	Up to 1 year	Greater than 1 year	
Financial liabilities				
Trade and other payables	\$ 1,388,110	\$ 1,388,110	\$ -	
Lease obligations	353,674	146,348	207,326	
Debt	1,822,564	1,078,124	744,440	
Total financial liabilities	\$ 3,564,348	\$ 2,612,582	\$ 951,766	
October 31, 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	

(c) Interest rate risk:

Interest rate risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. The Company continuously monitors interest rates and economic conditions. At April 30, 2024, the Company did not have any variable interest bearing credit facilities outstanding (April 30, 2023 - \$1,000,000). 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 (April 30, 2023 - \$7,300) on the consolidated statement comprehensive loss.

(d) Foreign exchange risk:

Foreign exchange risk is the risk that the value of financial instruments or cash flows will fluctuate due to changes in foreign exchange rates. While the Company has a significant amount of foreign currency revenues and associated receivables, natural hedges are in place through the purchase of input materials in foreign currencies. A 1% change in foreign exchange rates would have impacted the statement of comprehensive loss by approximately \$14,500 (April 30, 2023 - \$7,000).

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

15. Financial risk and capital management (continued):

(e) Capital management:

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

	April 30 2024	October 31 2023
Share capital	\$ 16,466,950	\$ 16,460,950
Debt	1,714,559	818,351
	<u>\$ 18,181,509</u>	<u>\$ 17,279,301</u>

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

16. 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 shares in the Company for each Aluula share held immediately before the Amalgamation. October 31, 2023 share amounts presented below have been adjusted to reflect this ratio.

	April 30 2024	October 31 2023
Authorized:		
Unlimited voting common shares		
Unlimited preferred shares		
Issued:		
250,615,623 voting common shares	\$ 16,466,950	\$ 16,460,950

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

16. 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 April 30, 2024	250,615,623	\$ 16,466,950

On April 6, 2023, BSP SubCo completed a non-brokered private placement of 18,223,330 subscription receipts for proceeds of \$2,186,800 less transaction fees of \$12,180. Each subscription receipt automatically converted into one BSP SubCo share immediately prior to completion of the RTO and was then automatically exchanged for one share of the Company.

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

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

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

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

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

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.

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2024 and 2023

(Unaudited)

16. Share capital (continued):

(a) Common shares (continued):

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 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 16 a). The warrants have an exercise price of \$0.25 per share and an expiry date of July 12, 2025.

The weighted average remaining life of the warrants outstanding is 1.44 years.

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

Risk free interest rate	0.95% - 4.52%
Stock price volatility	77.7%
Expected life of warrant	2 years

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

	Number	Weighted average exercise price
Balance, October 31, 2022	375,000	\$ 0.10
Balance, April 30, 2023	375,000	\$ 0.10
Balance, October 31, 2023	27,104,795	\$ 0.25
Balance, April 30, 2024	27,104,795	\$ 0.25
Exercisable, April 30, 2024	27,104,795	\$ 0.25

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2024 and 2023

(Unaudited)

17. 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% - 3.91%	0.95% - 3.91%
Expected dividend yield	0.00%	0.00%
Forfeiture rate	0.00% - 25.9%	0.00% - 16.7%
Stock price volatility	77.7%	100%
Expected life of option	3 - 5 years	3 - 5 years

Expected volatility was based on an evaluation of the Company's historical volatility as well as volatility of publicly traded companies operating in a similar industry.

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 period	(9,169,600)	0.01
Granted in reverse acquisition of BSP	2,500,000	0.10
Granted during the period	9,666,905	0.12
Balance, April 30, 2023	12,166,905	\$ 0.12
Balance, October 31, 2023	12,966,905	\$ 0.12
Exercised during the period	(50,000)	0.12
Granted during the period	11,475,000	0.14
Forfeited during the period	(2,525,000)	0.12
Balance, April 30, 2024	21,866,905	\$ 0.13
Exercisable, April 30, 2024	9,275,423	\$ 0.13

For the three and six months ended April 30, 2024, compensation expense related to share options was (\$1,941) and \$28,897 respectively (three and six months ended April 30, 2023 - \$390,317 and \$395,254).

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

18. 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 soft composite materials for use in various applications and industries. Aluula sells its materials to manufacturers and brand partners.
- The Ocean Rodeo segment relates to the purchase and resale of inventory in the windsport market, and the associated research and development projects that keep the company at the cutting edge of the windsport market. Ocean Rodeo sells its products to dealers, distributors, and end users. 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 20 includes additional information on assets held for sale and discontinued operations.
- The Other segment represents all other costs not directly attributable to an operating segment, such as public company costs.

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

Total assets and liabilities for each segment are as follows:

April 30, 2024	Aluula	Discontinued Operations	Total
Total assets	\$ 15,028,608	\$ 917,605	\$ 15,946,213
Total liabilities	4,521,675	510,489	5,032,164

October 31, 2023	Aluula	Ocean Rodeo	Total
Total assets	\$ 6,814,116	\$ 8,363,365	\$ 15,177,481
Total liabilities	2,787,298	517,699	3,304,997

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2024 and 2023

(Unaudited)

18. Segment information (continued):

(a) Reportable segments (continued):

For the three months ended April 30, 2024	Note	Aluula	Other	Total
Sales		\$ 1,403,151	\$ -	\$ 1,403,151
Cost of sales		841,600	-	841,600
Gross profit		561,551	-	561,551
Salaries and benefits		961,008	13,339	974,347
General and administrative		420,873	48,366	469,239
Marketing		66,178	-	66,178
Research and development		48,670	-	48,670
Share-based compensation		(1,941)	-	(1,941)
Other income		(752,379)	-	(752,379)
Interest expense		41,049	-	41,049
Depreciation of capital assets		47,582	-	47,582
Amortization of intangible assets		66,395	-	66,395
Deferred income tax expense (recovery)		(27,909)	-	(27,909)
Loss from discontinued operations	20			(394,680)
Segment loss		\$ (307,975)	\$ (61,705)	\$ (764,360)

For the three months ended April 30, 2023	Note	Aluula	Other	Total
Sales		\$ 1,598,392	\$ -	\$ 1,598,392
Cost of sales		1,037,196	-	1,037,196
Gross profit		561,196	-	561,196
Salaries and benefits		372,518	-	372,518
General and administrative		201,773	111,998	313,771
Marketing		23,941	-	23,941
Research and development		(9,583)	-	(9,583)
Share-based compensation		17,393	372,924	390,317
Other income		(42,058)	-	(42,058)
Listing expense		-	1,640,538	1,640,538
Interest expense		63,606	-	63,606
Depreciation of capital assets		44,077	-	44,077
Amortization of intangible assets		65,725	-	65,725
Deferred income tax expense (recovery)		(132,025)	-	(132,025)
Loss from discontinued operations	20			(442,514)
Segment loss		\$ (44,171)	\$ (2,125,460)	\$ (2,612,145)

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2024 and 2023

(Unaudited)

18. Segment information (continued):

(a) Reportable segments (continued):

For the six months ended April 30, 2024	Note	Aluula	Other	Total
Sales		\$ 3,400,430	\$ -	\$ 3,400,430
Cost of sales		1,937,252	-	1,937,252
Gross profit		1,463,178	-	1,463,178
Salaries and benefits		1,315,113	35,504	1,350,617
General and administrative		460,432	180,444	640,876
Marketing		143,700	-	143,700
Research and development		75,435	-	75,435
Share-based compensation		28,897	-	28,897
Other income		(760,176)	-	(760,176)
Interest expense		62,841	-	62,841
Depreciation of capital assets		94,156	-	94,156
Amortization of intangible assets		132,695	-	132,695
Deferred income tax expense (recovery)		(53,768)	-	(53,768)
Loss from discontinued operations	20			(741,237)
Segment loss		\$ (36,147)	\$ (215,948)	\$ (993,332)

For the six months ended April 30, 2023	Note	Aluula	Other	Total
Sales		\$ 2,313,925	\$ -	\$ 2,313,925
Cost of sales		1,604,265	-	1,604,265
Gross profit		709,660	-	709,660
Salaries and benefits		650,335	-	650,335
General and administrative		336,010	123,899	459,909
Marketing		53,750	-	53,750
Research and development		(4,162)	-	(4,162)
Share-based compensation		22,330	372,924	395,254
Other income		(113,940)	-	(113,940)
Listing expense		1,640,538	-	1,640,538
Interest expense		125,822	-	125,822
Depreciation of capital assets		87,001	-	87,001
Amortization of intangible assets		131,257	-	131,257
Deferred income tax expense (recovery)		(52,371)	-	(52,371)
Loss from discontinued operations	20			(1,113,563)
Segment loss		\$ (2,166,910)	\$ (496,823)	\$ (3,777,296)

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2024 and 2023

(Unaudited)

18. Segment information (continued):

(b) Geographic information:

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

	For the three months ended		For the six months ended	
	April 30 2024	April 30 2023	April 30 2024	April 30 2023
Sri Lanka	\$ 698,627	\$ 1,262,931	\$ 1,938,007	\$ 1,918,047
United States	3,653	16,936	15,265	17,625
Europe	29,665	252,109	50,844	266,850
Canada	(13,307)	37,374	163,811	65,790
Hong Kong	552,286	15,584	990,785	32,154
Rest of World	132,227	13,458	241,718	13,458
Sales	\$ 1,403,151	\$ 1,598,392	\$ 3,400,430	\$ 2,313,925

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

The following table summarizes sales from discontinued operations by region.

	For the three months ended		For the six months ended	
	April 30 2024	April 30 2023	April 30 2024	April 30 2023
United States	\$ 89,701	\$ 77,302	\$ 252,517	\$ 344,311
Europe	39,387	171,258	91,483	407,408
Canada	84,108	48,469	143,155	254,961
Hong Kong	-	63,469	-	85,689
Rest of World	50,104	-	113,120	-
Sales	\$ 263,299	\$ 360,497	\$ 600,275	\$ 1,092,368

19. Reclassification:

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

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

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

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2024 and 2023

(Unaudited)

19. Reclassification (continued):

	Original six months ended April 30, 2023	Warranty expense reclassification	Shipping revenue reclassification	Restated six months ended April 30, 2023
Sales	\$ 2,293,340	\$ 31,808	\$ (11,223)	\$ 2,313,925
General and administrative	\$ 439,324	\$ 31,808	\$ (11,223)	\$ 459,909

20. 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, as at April 30, 2024 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.

Net and comprehensive loss from discontinued operations for the three and six months ended April 30, 2024 and 2023 are as follows:

	For the three month period ended		For the six month period ended	
	April 30 2024	April 30 2023	April 30 2024	April 30 2023
Sales	\$ 263,299	\$ 360,497	\$ 600,275	\$ 1,092,368
Cost of sales	267,077	327,165	489,330	1,011,363
Gross profit (loss)	(3,778)	33,332	110,945	81,005
Operating expenses:				
Salaries and benefits	116,222	205,816	247,307	428,850
General and administrative	523,558	126,269	727,565	412,530
Marketing	105,311	79,882	194,141	232,577
Research and development	11,592	55,467	32,037	67,290
	756,683	467,434	1,201,050	1,141,247
Loss before interest, tax and amortization	(760,461)	(434,102)	(1,090,105)	(1,060,242)
Other income	369,296	32,421	369,318	36,155
Interest expense	(954)	(26,752)	(2,098)	(56,530)
Depreciation of capital assets	(11,447)	(11,482)	(23,019)	(27,748)
Amortization of intangible assets	(3,348)	(2,599)	(7,567)	(5,198)
Loss before tax	(406,914)	(442,514)	(753,471)	(1,113,563)
Income tax recovery	12,234	-	12,234	-
Net loss and comprehensive loss	\$ (394,680)	\$ (442,514)	\$ (741,237)	\$ (1,113,563)

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements
For the three and six months ended April 30, 2024 and 2023
(Unaudited)

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

Included in the consolidated statement of financial position at April 30, 2024 are the following major classes of assets held for sale and associated liabilities:

	April 30 2024
Assets held for sale	
Trade and other receivables	\$ 134,539
Inventory	566,270
Prepaid expenses and other current assets	96,438
Property and equipment	54,115
Intangible assets	52,353
Investments	13,890
<u>Total assets held for sale</u>	<u>\$ 917,605</u>
Liabilities associated with assets held for sale	
Trade and other payables	\$ 500,353
Customer deposits	10,136
<u>Total liabilities associated with assets held for sale</u>	<u>510,489</u>
<u>Net assets held for sale</u>	<u>\$ 407,116</u>

21. Subsequent events:

(a) Customer claim:

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

ALUULA COMPOSITES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2024 and 2023

(Unaudited)

21. Subsequent events (continued):

(b) Sale of Xlynx Materials Inc. shares:

On May 31, 2024, the Company entered into a purchase and sale agreement (the "Agreement") with an arm's length third party to sell 176,470 Class A common shares in Xlynx Materials Inc., representing 50% of its shareholdings, for cash consideration of \$375,000. Under the terms of the Agreement, the Buyer has the option to purchase the Company's remaining 176,471 shares (the "Additional Shares") on or before September 30, 2024 for cash consideration of \$375,000. Both the Company and the Buyer can terminate the option to purchase the Additional Shares at any time by delivery of written notice to the other party confirming the termination.

(d) Promissory note extension:

On December 29, 2023, the Company entered into a \$1,000,000 short-term loan agreement with 0876991 B.C. Ltd. ("0876991"), a related party. The loan bears interest at a rate of 12% per annum and is due on July 1, 2024. On June 21, 2024, the Company and 0876991 amended the terms of the promissory note to extend the due date to January 1, 2025. All other terms remain unchanged.