

**Composite Alliance Group Inc.**  
(formerly CanAsia Financial Inc.)

Condensed Consolidated Interim Financial Statements  
September 30, 2019  
(In Canadian dollars)  
(Unaudited)

**Composite Alliance Group Inc.**  
**Condensed Consolidated Interim Statements of Financial Position**  
**(In Canadian dollars)**

	September 30, 2019	December 31, 2018
<b>Assets</b>	<b>(unaudited)</b>	
Current assets		
Cash and cash equivalents	\$ 2,378,850	\$ 397,260
Accounts receivable	7,791,919	6,759,533
Inventory	101,574	137,477
Prepaid expenses and other	623,976	959,260
<b>Total current assets</b>	<b>10,896,319</b>	<b>8,253,530</b>
Property and equipment (Note 5)	1,056,046	238,737
Intangible assets (Note 6)	1,482,992	2,118,826
Other assets	356,467	385,477
<b>Total assets</b>	<b>\$ 13,791,824</b>	<b>\$ 10,996,570</b>
<b>Liabilities</b>		
Short term debt (Note 7)	\$ 60,841	\$ 1,716,156
Accounts payable and accrued liabilities	1,992,057	1,885,540
Current portion of lease obligation (Note 8)	211,320	-
Other current liabilities (Note 7)	5,348,935	1,736,735
<b>Total current liabilities</b>	<b>7,613,153</b>	<b>5,338,431</b>
Convertible debentures	2,889,788	2,391,805
Long term borrowings (Note 15)	2,255,926	1,961,260
Lease obligation (Note 8)	651,297	-
Provisions (Note 9)	250,693	454,054
Investment subsidies	146,459	212,003
<b>Total liabilities</b>	<b>13,807,316</b>	<b>10,357,553</b>
<b>Shareholders' equity (deficit)</b>		
Share capital (Note 10)	4,797,076	2,533,715
Contributed surplus (Note 10)	500,538	-
Equity component of convertible debentures	198,233	-
Accumulated other comprehensive income (loss)	(62,080)	15,319
Deficit	(5,309,962)	(1,754,511)
<b>Total shareholders' equity (deficit) attributable to common shareholders</b>	<b>123,805</b>	<b>794,523</b>
<b>Non-controlling interest</b>	<b>(139,297)</b>	<b>(155,506)</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 13,791,824</b>	<b>\$ 10,996,570</b>

Going concern (Note 1) and Contingency (Note 14)

Subsequent event (Note 13)

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

**Composite Alliance Group Inc.**  
**Condensed Consolidated Interim Statements of Loss and Comprehensive Loss**  
**For the periods ended September 30**  
**(In Canadian dollars)**  
**(Unaudited)**

	<b>Three months ended September 30, 2019</b>	Three months ended September 30, 2018	<b>Nine months ended September 30, 2019</b>	Nine months ended September 30, 2018
<b>Revenue</b>				
Revenue	\$ 4,630,919	\$ 2,282,217	\$ 9,091,891	\$ 5,566,566
<b>Expenses</b>				
Purchased raw material and goods	1,306,374	668,635	2,471,371	1,460,940
Payroll expenses and social security	797,844	650,889	2,444,671	1,924,387
Other purchases and external expenses	1,355,734	751,849	3,158,562	2,382,529
Taxes and related payments	40,502	28,177	111,394	70,219
Depreciation and amortization	222,196	211,669	696,487	642,152
Provision variations	(25,934)	70,703	(201,185)	(53,728)
Other expenses	43,226	13,257	86,032	57,757
	890,977	(112,962)	324,559	(917,690)
<b>Other expenses (income)</b>				
Listing expense (Note 4)	-	-	3,123,147	-
Stock based compensation (Note 4 & 11)	177,195	-	500,538	-
Foreign exchange gain	(27,500)	-	(73,928)	-
Finance costs	109,948	67,139	306,822	205,696
<b>Net income (loss)</b>	\$ 631,334	\$ (180,101)	\$ (3,532,020)	\$ (1,123,386)
<b>Net income (loss) attributable to</b>				
Common shareholders	616,490	(187,761)	(3,555,451)	(1,100,438)
Non-controlling interest	14,844	7,660	23,431	(22,948)
<b>Attributable net income (loss)</b>	631,334	(180,101)	(3,532,020)	(1,123,386)
<b>Loss per common share (Note 12)</b>				
<b>Basic and diluted</b>	0.01	(0.00)	(0.03)	(0.01)
<b>Other comprehensive income (loss)</b>				
Exchange difference on translating foreign operations	(51,533)	19,775	(77,399)	31,947
<b>Total comprehensive income (loss)</b>	579,801	(160,326)	(3,609,419)	(1,091,439)
<b>Comprehensive loss attributable to</b>				
Common shareholders	564,957	(167,986)	(3,632,850)	(1,068,491)
Non-controlling interest	14,844	7,660	23,431	(22,948)
<b>Attributable comprehensive income (loss)</b>	579,801	(160,326)	(3,609,419)	(1,091,439)

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

**Composite Alliance Group Inc.**  
**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity**  
**For the nine-month periods ended September 30**  
**(In Canadian dollars)**

	Share capital	Contributed Surplus	Equity Component of Convertible Debentures	Accumulated Other Comprehensive Income (loss)	Deficit	Non- Controlling Interest ("NCI")	Total
Balance December 31, 2017	2,228,527	-	-	-	(2,264,777)	(113,004)	(149,254)
Convertible debenture converted into share capital	305,188	-	-	-	93,690	-	398,878
Comprehensive loss	-	-	-	31,947	(1,100,438)	(22,948)	(1,091,439)
Balance September 30, 2018 (unaudited)	2,533,715	-	-	31,947	(3,271,525)	(135,952)	(841,815)
<b>Balance December 31, 2018</b>	<b>2,533,715</b>	<b>-</b>	<b>-</b>	<b>15,319</b>	<b>(1,754,511)</b>	<b>(155,506)</b>	<b>639,017</b>
<b>Issued on reverse acquisition (Note 4)</b>	<b>2,263,361</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,263,361</b>
<b>Convertible debenture</b>			<b>198,233</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>198,233</b>
<b>Share based compensation (Note 4, 10 &amp;11)</b>	<b>-</b>	<b>500,538</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>500,538</b>
<b>Comprehensive income (loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(77,399)</b>	<b>(3,555,451)</b>	<b>23,431</b>	<b>(3,609,419)</b>
<b>Other variations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,222)</b>	<b>(7,222)</b>
<b>Balance September 30, 2019 (unaudited)</b>	<b>4,797,076</b>	<b>500,538</b>	<b>198,233</b>	<b>(62,080)</b>	<b>(5,309,962)</b>	<b>(139,297)</b>	<b>(15,492)</b>

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

**Composite Alliance Group Inc.**  
**Condensed Consolidated Interim Statements of Cash Flows**  
**For the nine-month periods ended September 30**  
**(In Canadian dollars)**

	<b>2019</b>	<b>2018</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Operating</b>		
Net income (loss)	\$ (3,532,020)	\$ (1,123,386)
Items not affecting cash:		
Depreciation, amortization and provisions	538,167	703,134
Finance costs	78,756	-
Gain or loss from sale of assets	(1,195)	12,119
Reverse acquisition costs	3,123,147	-
Stock based compensation	500,538	-
Change in working capital requirement		
Change in inventory	26,438	(42,333)
Change in trade and other receivables	(1,469,911)	228,544
Change in trade and other payables	3,872,415	343,623
<b>Net cash provided by operating activities</b>	<b>3,136,335</b>	<b>121,701</b>
<b>Investing</b>		
Acquisition of intangible assets	(14,622)	(11,352)
Acquisition of tangible assets	(67,510)	(93,102)
Proceeds from sale of intangible and tangible assets	1,881	30,386
Acquisition of financial assets	-	(32,845)
Cash acquired through reverse takeover	216,329	-
Proceeds from sale of financing assets	-	16,490
<b>Net cash used in investing activities</b>	<b>136,078</b>	<b>(90,442)</b>
<b>Financing</b>		
Proceeds from new convertible bonds	120,178	134,229
Proceeds from new borrowings	442,918	62,604
Repayment of borrowings	(1,745,281)	(208,498)
Partners' current accounts variation	7,828	29,724
<b>Net cash provided by financing activities</b>	<b>(1,174,357)</b>	<b>18,060</b>
<b>Effect of exchange on cash</b>	<b>(116,466)</b>	<b>(27,116)</b>
<b>Net increase in cash</b>	<b>1,981,590</b>	<b>22,203</b>
Cash and cash equivalents, beginning of period	397,260	144,433
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,378,850</b>	<b>\$ 166,636</b>

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

**Cash and cash equivalents comprise of:**

Cash	2,378,850	166,636
Term deposits	-	-
	<b>\$ 2,378,850</b>	<b>\$ 166,636</b>

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**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**September 30, 2019**  
**(In Canadian dollars)**  
**(unaudited)**

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**1. NATURE OF OPERATIONS**

Composite Alliance Group Inc. (formerly CanAsia Financial Inc.) (the “Company” or “CAG”) was incorporated on June 26, 2008 under the Business Corporations Act (Alberta). The Company completed a reverse acquisition of Techni-Modul Engineering (“TME”) on February 12, 2019. TME which is located in Coudes, France, specializes in industrial turn-key solutions by designing and manufacturing machines and processes that it sells to customers for use in the fabrication of composite materials for the aerospace and automotive industries. The Company’s shares are listed for trading on the TSX Venture Exchange (“TSXV”) under the symbol “CAG”. The Company’s registered office is located at Suite 1600, 333-7 Avenue S.W., Calgary, Alberta, Canada.

**GOING CONCERN**

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are applicable to a going concern which contemplates the realization of assets and settlement of liabilities in the normal course of operations. There are material uncertainties that may cast significant doubt on the validity of this assumption. The Company has been unable to generate a profit from operations up to September 30, 2019. For the period ended September 30, 2019, the Company incurred a net loss of \$3,532,020 (2018 - \$1,123,386) and an accumulated deficit of \$5,309,962 (2018 - \$3,271,525). The Company’s ability to continue as a going concern is dependent on accessing additional funding and generating a profit from TME. These financial statements do not reflect adjustments in the carrying value of the assets and liabilities, the reported revenues and expenses and the statement of financial position classifications that would be necessary if the going concern assumption were not appropriate.

**2. STATEMENT OF COMPLIANCE**

These unaudited condensed consolidated interim financial statements were prepared in accordance with IAS 34 Interim Financial Reporting using accounting policies consistent with IFRS issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on November 29, 2019.

These condensed consolidated interim financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with Composite Alliance Group Inc.’s and TME’s audited annual financial statements for the year ended December 31, 2018.

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments. All financial information is reported in Canadian dollars, unless otherwise noted.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in Note 2 of the December 31, 2018 audited consolidated financial statements, except for the new accounting policies for share based payments and leases.

The fair value of stock options is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company’s share price on the measurement date, the exercise price of the options, the expected volatility of the Company’s shares, the expected life of the options, expected dividends and the risk-free rate of return. The Company estimates volatility based on historical volatilities of peer companies that are publicly traded. The expected life of the options is based on historical experience and estimates of the holder’s behaviour. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. Management also makes an estimate of the number of options that will be forfeited, and the rate is adjusted to reflect the actual number of options that vest.

**2. STATEMENT OF COMPLIANCE (continued)**

The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term. Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

**3. SIGNIFICANT ACCOUNTING POLICIES**

These unaudited condensed consolidated interim financial statements follow the same accounting policies as outlined in the audited financial statements for the year ended December 31, 2018 except as follows:

**(a) IFRS 16, Leases ("IFRS 16")**

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

On adoption of IFRS 16, the Company recognized lease obligations in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2018, adjusted by commitments in relation to arrangements not containing leases, short-term and low-value leases, and discounted using the incremental borrowing rate. No impairments were recognized for the right-of-use assets upon adoption. See Note 5 for the impact of the adoption of IFRS 16.

Upon the adoption of IFRS 16, the Company adopted the following significant accounting policy on leases:

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. A lease obligation is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date discounted using the rate implicit in each lease or, if that cannot be readily determined, the incremental borrowing rate. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the earlier of the asset's useful life and the term of the lease. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease liability.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Share-based payments**

Share-based payments are comprised of stock option awards granted to employees, directors and others which are equity-settled share-based payments.

These equity-settled share-based payments are measured at the fair value of the equity instruments and are recognized as an employee expense with the offsetting credit as an increase to contributed surplus.

Upon exercise of the stock option, the Company issues new shares. The associated fair value amount is reclassified from the contributed surplus to share capital. The proceeds received, net of any directly attributable transaction costs, are credited to share capital when the options are exercised. Where equity instruments are granted to non-employees they are recorded at the fair value of the goods or services received. Where the fair value of goods or services received cannot be reliably measured, it is measured based on the fair value of the equity instrument granted.

**(c) Loss per share**

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares to the extent that they are not antidilutive.

**(d) Functional and presentation currency**

These unaudited condensed consolidated financial statements are presented in Canadian dollars ("CAD"), which is the Company's functional currency and presentation currency. The functional currency of the subsidiary is Euro.

Translation of foreign subsidiaries' financial statements from Euro to Canadian dollar have been performed with translation differences recognized in other comprehensive income.

**(e) Basis of consolidation**

The unaudited condensed consolidated financial statements included the financial statements of all entities controlled by the Company. The entities controlled by the Company include wholly owned subsidiaries, TME, and a 70% interest in Composite Alliance, Corp ("CAC").

All inter-company transactions, balances, income and expense are eliminated on consolidation.

**4. REVERSE TAKEOVER**

On February 12, 2019, the Company closed its reverse takeover transaction (the "Transaction") with Techni-Modul Engineering S.A. ("TME"), a French registered limited (Société Anonyme) company by acquiring a 100% equity interest from the shareholders of TME (the "TME Shareholders").

Pursuant to a share exchange agreement (the "Share Exchange Agreement"), the Company acquired all of the outstanding shares of TME by issuing to the shareholders of TME a total of 87,600,000 Common Shares of the Company at a deemed value of \$0.125 per Common Share for an aggregate consideration of CDN\$10,950,000 and 19,200,000 non-voting series D preferred shares of the Company ("Preferred Shares"). As a result of the Transaction, TME became a wholly owned subsidiary.

**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**(In Canadian dollars)**  
**(unaudited)**

**4. REVERSE TAKEOVER (continued)**

Upon completion of the Transaction, the Company owned 100% of the then issued and outstanding TME Shares and the shareholders of TME owned a sufficient number of common shares of the Company so as to exercise control over the Company (the "Reporting Issuer") upon completion of the Transaction.

Each Series D Preferred Share is convertible into one Common Share only if:

- (i) TME's aggregate earnings before interest, tax, depreciation and amortization has accumulated to at least \$3.5 million euro, on or before 36 months from February 12, 2019; and,
- (ii) Specified executive of the Company continues his employment or corporate mandate for no less than 36 months from February 12, 2019.

If the above conditions are not met, the Company, at its discretion, may cancel all issued and outstanding Series D Preferred Shares.

The Preferred Shares reflect remuneration for post-combination services, whereby the payments are automatically forfeited if employment is terminated. The share-based compensation was measured based on the fair value of the equity instruments granted as there was no ability to reliably estimate the fair value of the services. The fair value of the preferred shares was estimated to be \$1,920,000 with the expense being recognized over 36 months. During the six months ended June 30, 2019, the Company recognized \$241,973 (2018 - \$nil) of shared based compensation on the consolidated statement of loss.

The Company did not meet the definition of a business at the time of the reverse takeover ("RTO"), therefore the transaction is outside of the scope of IFRS 3 Business Combinations. Instead, the transaction was accounted for as a reverse acquisition under IFRS 2 Share-based Payment. Under this basis of accounting, the entity is considered to be a continuation of TME, with the net identifiable assets of the Company (accounting acquiree) deemed to have been acquired by TME (accounting acquirer). The purchase consideration below was estimated based on the fair value of the Company's common shares that TME would have had paid to the Company pursuant to the reverse acquisition. Upon completion of the proposed transaction, the fair value of all identifiable assets and liabilities acquired was determined. The difference between fair value of the shares issued and the fair value of net assets acquired is recorded as a cost of public listing.

The Company has made a determination of the fair value of the shares issued and the fair value of the net assets acquired below:

<b>Fair value of the consideration received by the pre-acquisition shareholders of the Company</b>	
Total fair value of consideration – common shares (Note 10)	2,263,361
<b>Identifiable net assets of the Company acquired by TME</b>	
Cash	216,329
Prepaid legal fees for listing	70,463
Accounts payable and accrued liabilities	(390,991)
Convertible bonds	(486,891)
Equity component of convertible debentures	(198,233)
Total fair value of identifiable net assets acquired by TME	(789,323)
Cost of public listing	2,263,361
Legal and listing fees	70,463
<b>Reverse takeover transaction expense</b>	<b>3,123,147</b>

The share issuance to TME is detailed in Note 10.

**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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(In Canadian dollars)  
(unaudited)

**5. Property and Equipment**

<b>Cost</b>	<b>December 2018</b>	<b>Additions</b>	<b>Foreign Exchange</b>	<b>September 30, 2019</b>
Right of use assets	-	1,036,086	(34,532)	1,001,554
Technical facilities, equipment and industrial tools	335,434	42,119	(26,648)	350,905
Other tangible assets	687,126	25,391	(52,558)	659,959
<b>Cost</b>	<b>1,022,560</b>	<b>1,103,596</b>	<b>(113,738)</b>	<b>2,012,418</b>
<b>Depreciation and impairment</b>	<b>December 2018</b>	<b>Additions</b>	<b>Foreign Exchange</b>	<b>September 30, 2019</b>
Right-of-use asset	-	165,250	(5,508)	159,742
Technical facilities, equipment and industrial tools	235,149	30,390	(18,710)	246,829
Other tangible assets	548,674	43,881	(42,754)	549,801
<b>Depreciation and impairment</b>	<b>783,823</b>	<b>239,521</b>	<b>(66,972)</b>	<b>956,372</b>
<b>Net tangible assets</b>	<b>238,737</b>	<b>864,075</b>	<b>(46,766)</b>	<b>1,056,046</b>

There were no indicators of impairment at September 30 2019.

**6. INTANGIBLE ASSETS**

<b>Costs</b>	<b>December 31, 2018</b>	<b>Additions</b>	<b>Foreign Exchange</b>	<b>September 30, 2019</b>
Development projects	5,139,315	-	(386,773)	4,752,542
Concessions, patents and similar rights	375,338	14,622	(28,734)	361,226
<b>Costs</b>	<b>5,514,653</b>	<b>14,622</b>	<b>(415,507)</b>	<b>5,113,768</b>
<b>Amortization and impairment</b>	<b>December 31, 2018</b>	<b>Additions</b>	<b>Foreign Exchange</b>	<b>September 30, 2019</b>
Development projects	3,031,938	501,707	(244,898)	3,288,747
Concessions, patents and similar rights	363,889	5,716	(27,576)	342,029
<b>Amortization and impairment</b>	<b>3,395,827</b>	<b>507,423</b>	<b>(272,474)</b>	<b>3,630,776</b>
<b>Net intangible assets</b>	<b>2,118,826</b>	<b>(492,801)</b>	<b>(143,033)</b>	<b>1,482,992</b>

**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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**(In Canadian dollars)**  
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**7. SHORT TERM DEBT AND OTHER CURRENT LIABILITIES**

The following facilities are available to the Company as at September 30, 2019:

(i) An aggregate credit line up to a maximum of €500,000 for advanced payment refunds for its French customers that are due on demand, bear weighted average interest at 1.2% per annum (December 31, 2018 – limit of €800,000 at 1.31% per annum). These facilities will be used when the Company must produce letters of guarantees of restitution of deposit, good execution of contract or retention of guarantee for its French customers. As at September 30, 2019 and December 31, 2018, no amounts were outstanding on these facilities.

(ii) An aggregate bank guarantees up to a maximum of €1,100,000 for advanced payment refunds for its foreign customers that are due on demand, bear weighted average interest at 1.83% per annum (December 31, 2018 – €600,000 at 2.00% per annum). These facilities will be used when the Company must produce letters of guarantees of restitution of deposit, good execution of contract or retention of guarantee for its foreign customers. As at September 30, 2019, €281,320 and USD \$213,930 were outstanding on these facilities (December 31, 2018 - \$nil).

(iii) Factoring facility for its French customers up to a maximum of €550,000, secured by 10% of the amount in factoring, due on the maturity of invoices issued to its customers and bears interest at 3-month Euribor rate plus 2% per annum. (December 31, 2018 – €550,000 at 3-month Euribor rate plus 2% per annum). This facility will be used to finance its working capital prior to the payment receipt from its French customers. As at September 30, 2019, no amount was outstanding on this facility (December 31, 2018 - €200,000).

(iv) Pre-financing on orders in progress for an aggregated amount of €1,350,000, unsecured, due on the maturity of invoices issued to its customers and bears interest at 1-month Euribor rate plus 2% per annum. (December 31, 2018 – €850,000 at 1-month Euribor rate plus 2% per annum). This facility will be used to finance its working capital prior to the delivery of goods to its foreign customers. As at September 30, 2019, no amount was outstanding on this facility (December 31, 2018 - €849,000).

**8. LEASE OBLIGATION**

The Company has a number of property rental and movable property rental leases whose maturity goes from September 2021 to April 2027. The leases have an effective interest rate ranging from 2 to 5%.

	<b>September 30, 2019</b>	
Balance, beginning of period	\$	1,083,063
Lease payments		(143,727)
Foreign exchange		(76,719)
<b>Balance, end of period</b>	<b>\$</b>	<b>862,617</b>

Current portion of the lease obligation is \$211,320.

**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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(In Canadian dollars)  
(unaudited)

**9. LONG TERM PROVISION**

<b>LONG TERM PROVISION</b>	<b>December 31, 2018</b>	<b>Increase</b>	<b>Decrease</b>	<b>Foreign Exchange</b>	<b>September 30, 2019</b>
Litigation provision	17,461	-	(16,704)	(757)	-
Provision for losses to completion	138,956	-	(120,980)	(6,425)	11,551
Other provisions for contingent liabilities	62,452	-	(37,340)	(3,455)	21,657
Provision for retirement indemnities	235,185	-	-	(17,700)	217,485
<b>Provision for risks and charges</b>	<b>454,054</b>	<b>-</b>	<b>(175,024)</b>	<b>(28,337)</b>	<b>250,693</b>

A provision is recorded when the Company has an obligation to a third party prior to the statement of financial position date, and where the loss or liability is likely and can be reliably measured. If the loss or liability is not likely and cannot be reliably estimated, but remains possible, the Company discloses it as a contingent liability. Provisions are calculated on a case-by-case or statistical basis and discounted when due in over a year.

**10. SHARE CAPITAL**

**Authorized:** an unlimited number of voting common shares, no par value  
an unlimited number of preferred shares, no par value

**Shares issued:**

<b>Common Shares</b>	<b>Number of shares</b>	<b>Amount (\$)</b>
<b>Balance December 31, 2017</b>	113,168,052	2,228,527
Share issued on convertible debt	-	305,188
<b>Balance December 31, 2018</b>	<b>113,168,052</b>	<b>2,533,715</b>
Shares consolidation	<b>(90,534,442)</b>	-
Shares issued to TME shareholders (Note 4)	<b>87,600,000</b>	<b>2,263,361</b>
<b>Balance September 30, 2019</b>	<b>110,233,610</b>	<b>4,797,076</b>

**Preferred Shares**

The issuance of 19,200,000 Preferred Shares is detailed in Note 4. The management has determined that the ability of the holder of these Preferred Shares to convert into Commons Shares is contingent on meeting an earnings target and the continuing employment of specified executive of the Company. Therefore, the issuance is related to services rendered post acquisition. It is management's opinion that such conditions will be met. Accordingly, the transaction has been treated as equity-settled share-based payment as per IFRS 2 Share-Based Payment. During the nine months ended September 30, 2019, the Company recognized \$403,287 (2018 – \$nil) of share-based compensation on the consolidated statement of loss.

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**10. SHARE CAPITAL (continued)**

- (i) Prior to the RTO transaction, the Company completed a share consolidation on a 5:1 basis.
- (ii) On February 12, 2019, the Company issued 87,600,000 common shares to the shareholders of TME as part of the Transaction. The fair value of the shares was based on the share price of the Company on February 12, 2019 of \$0.10 and on 22,633,610 shares outstanding prior to the RTO.
- (iii) An aggregate of 81,685,129 Common Shares and 17,901,398 Preferred Shares held by the Principals of the Company are subject to Tier 2 Value Escrow and will be released from escrow as follows: ten percent (10%) of the escrowed shares will be released from escrow on the issuance of the Final Exchange bulletin and an additional fifteen percent (15%) will be released every 6 months thereafter.
- (iv) In addition, an aggregate of 5,924,871 Common Shares and 1,298,601 Preferred Shares held by certain non-principal shareholders of CAG are subject to TSX Venture Exchange ("TSXV") seed share resale restrictions (SSRR) and will be released as follows: thirty-three percent (33%) will be released every anniversary of the Final Exchange Bulletin.

**11. OPTIONS**

The Company has an equity settled stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. The purpose of the plan is to advance the interests of the Company by encouraging these individuals to acquire shares in the Company and thereby remain associated with, and seek to maximize the value of, the Company. Under the plan, the number of shares reserved for issuance pursuant to the exercise of all options under the plan may not exceed 10% of the issued and outstanding common shares on a non-diluted basis at any time. The options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company, and vest over terms determined at the time of grant.

During the nine months ended September 30, 2019, the Company granted options to purchase 2,400,000 common shares, the options will vest equally over three years with the first tranche vesting immediately with each other tranche vesting on the anniversary date from grant. The fair value of the options was estimated at \$126,007 (\$0.05 per option) using the Black-Scholes option pricing model.

During the nine months ended September 30, 2019, the Company recognized \$97,251 (2018 – \$nil) of share-based compensation on the consolidated statement of loss.

The following tables summarize information about stock options outstanding as at:

	<u>September 30, 2019</u>		<u>December 31, 2018</u>	
	<i>Options</i>	<i>Weighted – average exercise price</i>	<i>Options</i>	<i>Weighted – average exercise price</i>
Opening	-	-	-	-
Granted	2,400,000	\$ 0.125	-	-
Closing	2,400,000	\$ 0.125	-	-

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**11. OPTIONS (continued)**

The Black-Scholes pricing model was used to estimate the fair value of options granted based on the following significant assumptions:

	2019	2018
Weighted average exercise per option	<b>\$0.125</b>	-
Risk-free interest rate	<b>0.50%</b>	-
Expected volatility	<b>100%</b>	-
Weighted average expected life	<b>2.5 years</b>	-
Weighted average fair value per option	<b>\$0.053</b>	-

**12. NET INCOME (LOSS) PER COMMON SHARE**

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Net income (loss) attributable to common shareholders for the period	\$ (3,555,451)	\$ (1,100,438)
Issued common shares at beginning of period	<b>87,600,000</b>	87,600,000
Weighted average number of common shares - basic	<b>106,668,609</b>	87,600,000

**13. SUBSEQUENT EVENT**

On October 7, 2019, the Company completed a non-brokered private placement of unsecured debentures in the principal amount of USD\$351,507.25. The debentures accrue interest at 5% per annum, mature October 7, 2024 and are payable at any time by the Company without penalty. The proceeds from the sale of the debentures will be used to acquire the exclusive distributorship of certain equipment-related products. The debentures are subject to a four month hold period from the date of issuance. The subscriber to the debentures is Team Alpha Limited, an entity controlled by one of the officers of the Company.

**14. CONTINGENCY**

A former customer of TME in Belgium is taking a legal action. The amount claimed for this litigation is \$1,350,000. The Company has not made a provision regarding this litigation as the claim is excessive and the Company is confident about the outcome of the dispute.

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**15. RELATED PARTY TRANSACTIONS AND BALANCES**

Key management includes all persons named or performing the duties of Chief Executive Officer, Chief Financial Officer, President, Vice-President and Directors of the Company. The compensation paid or accrued to key management for services is shown below:

	<b>Nine months ended September 30, 2019</b>	Nine months ended September 30, 2018
Stock based compensation to directors and officers of the Company	\$ 97,250	\$ -
Director fees to non-executive directors	7,875	-
Salaries	599,904	508,398

The following is a summary of the Company's other related party transactions during the period:

	<b>Nine months ended September 30, 2019</b>	Nine months ended September 30, 2018
Real property leases paid to a company controlled by a director of the Company	\$ 86,254	\$ 118,409
Finance cost paid or accrued to a company controlled by a director of the Company	295,651	304,400
Finance cost paid or accrued to two of the directors of the Company	78,756	-
Stock based compensation to companies controlled by directors of the Company	403,288	-
Professional fees paid to a company controlled by a director of the Company	18,843	-

The following is a summary of financial instruments held by related parties:

	<b>September 30, 2019</b>	December 31, 2018
Receivable from a company controlled by a director of the Company	\$ 285,797	\$ 309,056
Convertible debentures issued to a company controlled by a director of the Company	2,365,627	2,391,805
Long term borrowing advanced from a company controlled by a director of the Company	1,667,104	1,739,146
Long term borrowing advanced from a company controlled by an officer of the Company	403,836	-
Convertible debentures issued to two of the directors of the Company	561,812	479,335