

**COMPOSITE ALLIANCE GROUP INC.**  
**(formerly CanAsia Financial Inc.)**  
Financial Statements  
For the Years Ended December 31, 2018 and 2017  
(Expressed in Canadian Dollars)



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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of

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

### *Opinion*

We have audited the financial statements of Composite Alliance Group Inc. (formerly CanAsia Financial Inc.) (the Company), which comprise the statement of financial position as at December 31, 2018 and the statements of loss and comprehensive loss, changes in equity and cash flows for the year ended December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Basis for Opinion*

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

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 of the financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified with respect of this matter.

### *Other Matter*

The financial statements for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 30, 2018.

### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

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

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(continues)

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

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

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

RSM Alberta LLP

Edmonton, Alberta  
April 30, 2019

Chartered Professional Accountants

**COMPOSITE ALLIANCE GROUP INC.**  
**(formerly CanAsia Financial Inc.)**  
 Statements of Financial Position  
 December 31, 2018 and 2017  
*(Expressed in Canadian Dollars)*

|   | <b>2018</b>               | <b>2017</b>            |
|---|---------------------------|------------------------|
| <b>ASSETS</b>                                       |                           |                        |
| <b>Current Assets</b>                               |                           |                        |
| Cash and cash equivalents                           | <u>\$ 304,082</u>         | <u>\$ 3,578</u>        |
|   | <u><b>304,082</b></u>     | <u><b>3,578</b></u>    |
| <b>LIABILITIES</b>                                  |                           |                        |
| <b>Current Liabilities</b>                          |                           |                        |
| Accounts payables and accrued liabilities (Note 5)  | <u>\$ 349,864</u>         | <u>\$ 93,137</u>       |
| Loans payable (Note 3)                              | <u>---</u>                | <u>60,000</u>          |
|   | <b>349,864</b>            | <b>153,137</b>         |
| Convertible debentures (Note 4)                     | <u><b>479,335</b></u>     | <u>---</u>             |
|   | <u><b>829,199</b></u>     | <u><b>153,137</b></u>  |
| <b>EQUITY</b>                                       |                           |                        |
| Share capital (Note 6)                              | <b>1,839,802</b>          | 1,839,802              |
| Warrant Reserve (Note 6)                            | ---                       | 244,324                |
| Share premium                                       | <b>997,920</b>            | 997,920                |
| Contributed surplus                                 | <b>636,181</b>            | 391,857                |
| Equity component of convertible debentures (Note 4) | <b>198,233</b>            | ---                    |
| Deficit   | <u><b>(4,197,253)</b></u> | <u>(3,623,462)</u>     |
|   | <u><b>(525,117)</b></u>   | <u>(149,559)</u>       |
|   | <u><b>\$ 304,082</b></u>  | <u><b>\$ 3,578</b></u> |

**Going concern** (Note 1)  
**Subsequent events** (Note 11)

Approved and authorized for issue on behalf of the Board of Directors on April 30, 2019:

"Ron Love"  
 Signed \_\_\_\_\_  
 Director

"Dale Burstall"  
 Signed \_\_\_\_\_  
 Director

*See accompanying notes to the financial statements*

**COMPOSITE ALLIANCE GROUP INC.**  
**(formerly CanAsia Financial Inc.)**  
 Statements of Loss and Comprehensive Loss  
 December 31, 2018 and 2017  
*(Expressed in Canadian Dollars)*

|  | <b>2018</b>         | 2017                |
|--|---------------------|---------------------|
| <b>Expenses</b>                        |                     |                     |
| General and administrative             | \$ 178,988          | \$ 107,096          |
| Reverse acquisition cost (Note 11)     | 377,235             | ---                 |
| Finance costs                          | <u>17,568</u>       | <u>---</u>          |
|  | <u>573,791</u>      | <u>107,096</u>      |
| <b>Net loss and comprehensive loss</b> | <u>\$ (573,791)</u> | <u>\$ (107,096)</u> |
| <br>                                   |                     |                     |
| Earnings per share                     |                     |                     |
| - basic (Note 6)                       | \$ (0.03)           | \$ (0.01)           |
| - diluted (Note 6)                     | \$ (0.03)           | \$ (0.01)           |

See accompanying notes to the financial statements

**COMPOSITE ALLIANCE GROUP INC.**  
**(formerly CanAsia Financial Inc.)**  
**Statements of Changes in Equity**  
**December 31, 2018 and 2017**  
*(Expressed in Canadian Dollars)*

|                                    | Common<br>Shares    | Preferred<br>Shares | Total               | Warrant<br>Reserve | Share<br>Premium  | Contributed<br>Surplus | Equity<br>Component of<br>Convertible<br>Debentures | Deficit               | Equity              |
|------------------------------------|---------------------|---------------------|---------------------|--------------------|-------------------|------------------------|---|-----------------------|---------------------|
| <b>Balance, December 31, 2016</b>  | \$ 1,351,029        | \$ 488,773          | \$ 1,839,802        | \$ 244,324         | \$ 997,920        | \$ 391,857             | \$ ---  | \$ (3,516,366)        | \$ (42,463)         |
| Net loss for the year              | ---                 | ---                 | ---                 | ---                | ---               | ---                    | ---   | (107,096)             | (107,096)           |
| <b>Balance, December 31, 2017</b>  | 1,351,029           | 488,773             | 1,839,802           | 244,324            | 997,920           | 391,857                | ---   | (3,623,462)           | (149,559)           |
| Warrants expired                   | ---                 | ---                 | ---                 | (244,324)          | ---               | 244,324                | ---   | ---                   | ---                 |
| Conversion of preferred shares     | 488,773             | (488,773)           | ---                 | ---                | ---               | ---                    | ---   | ---                   | ---                 |
| Issuance of convertible debentures | ---                 | ---                 | ---                 | ---                | ---               | ---                    | 198,233   | ---                   | 198,233             |
| Net loss for the year              | ---                 | ---                 | ---                 | ---                | ---               | ---                    | ---   | (573,791)             | (573,791)           |
| <b>Balance, December 31, 2018</b>  | <u>\$ 1,839,802</u> | <u>\$ ---</u>       | <u>\$ 1,839,802</u> | <u>\$ ---</u>      | <u>\$ 997,920</u> | <u>\$ 636,181</u>      | <u>\$ 198,233</u>                                   | <u>\$ (4,197,253)</u> | <u>\$ (525,117)</u> |

See accompanying notes to the financial statements

**COMPOSITE ALLIANCE GROUP INC.****(formerly CanAsia Financial Inc.)**

Statements of Cash Flows

December 31, 2018 and 2017

*(Expressed in Canadian Dollars)*

|   | <b>2018</b>              | 2017            |
|---|--------------------------|-----------------|
| <b>Cash Provided by (Used in):</b>                      |                          |                 |
| <b>Operating Activities</b>                             |                          |                 |
| Net loss  | \$ (573,791)             | \$ (107,096)    |
| Finance costs   | 17,568                   | ---             |
| Items not affecting cash:                               |                          |                 |
| Changes in non-cash working capital:                    |                          |                 |
| Accounts payables and accrued liabilities               | <u>256,727</u>           | <u>56,524</u>   |
|   | <u>(299,496)</u>         | <u>(50,572)</u> |
| <b>Financing Activities</b>                             |                          |                 |
| Advance of loans payable                                | ---                      | 50,000          |
| Convertible debentures                                  | <u>600,000</u>           | <u>---</u>      |
|   | <u>600,000</u>           | <u>50,000</u>   |
| <b>Increase (decrease) in cash and cash equivalents</b> | <b>300,504</b>           | <b>(572)</b>    |
| <b>Cash and cash equivalents, beginning of year</b>     | <u><b>3,578</b></u>      | <u>4,150</u>    |
| <b>Cash and cash equivalents, end of year</b>           | <u><b>\$ 304,082</b></u> | <u>\$ 3,578</u> |

*See accompanying notes to the financial statements*

# COMPOSITE ALLIANCE GROUP INC.

## (formerly CanAsia Financial Inc.)

### Notes to the Financial Statements

December 31, 2018 and 2017

(Expressed in Canadian Dollars)

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#### 1. Nature of Operations

Composite Alliance Group Inc. (formerly CanAsia Financial Inc.) (the "Company") was incorporated on June 26, 2008 under the *Business Corporations Act* (Alberta). The Company completed a reverse acquisition of Techni Modul Engineering S.A. ("TME") subsequent to year end (see Note 11). TME specializes in industrial turn-key solutions by designing and manufacturing the machines and processes that it sells to customers whom use those machines and processes to fabricate composite materials for the aerospace and automotive industries and is located in Coudes, France. 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 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 December 31, 2018. For the year ended December 31, 2018, the Company incurred a net loss of \$573,791 (2017 - \$107,096) and an accumulated deficit of \$4,197,253 (2017 - \$3,623,462). 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 balance sheet classifications that would be necessary if the going concern assumption were not appropriate.

#### 2. Significant Accounting Policies

##### a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on a historical cost basis.

The financial statements were approved by the Board of Directors on April 30, 2019.

##### b) Functional and presentation currency

These financial statements are presented in Canadian dollars ("CAD"), which is the Company's functional currency and presentation currency.

##### c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on deposit with banks, cash on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments with initial maturities of three months or less.

## COMPOSITE ALLIANCE GROUP INC.

### (formerly CanAsia Financial Inc.)

#### Notes to the Financial Statements

December 31, 2018 and 2017

*(Expressed in Canadian Dollars)*

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## 2. Significant Accounting Policies (Continued)

### d) Measurement uncertainty

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other resources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The amounts recorded for deferred income taxes are based on estimates of the probability of the Company utilizing the deferred tax assets. To the extent assumptions regarding future probability change, there can be a change in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period the change occurs.

The discount rate used to estimate the fair value of the liability component of convertible debentures is subject to estimate.

### e) Income taxes

Income taxes for the year is comprised of any current tax and changes in deferred tax assets and liabilities. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, plus any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the assets can be utilized, are recognized.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted. The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and changes therein, are presented separately from each other and are not offset.

**COMPOSITE ALLIANCE GROUP INC.**  
**(formerly CanAsia Financial Inc.)**  
Notes to the Financial Statements  
December 31, 2018 and 2017  
*(Expressed in Canadian Dollars)*

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**2. Significant Accounting Policies (Continued)**

f) Provisions and contingent liabilities

Provisions and contingent liabilities are recognized when there is a present legal or constructive obligation arising as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. Provisions and contingent liabilities are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

g) Share-based compensation

The Company maintains a stock option incentive plan that grants stock options on its common shares to employees, directors, officers and consultants. The purpose of the stock option plan is to align interests with those of shareholders by providing an additional incentive to improve company performance and increase the share price on a long-term basis. The grant of stock options represents a benefit and is recorded as share-based compensation. The compensation expense is equal to the fair value of the option at the grant date, measured using the Black-Scholes option pricing model. Non-employee options are measured at the fair value of the goods or services received unless such value is not reliably determinable. The fair value is recognized over the vesting period of the option, with a corresponding credit to contributed surplus.

h) Earnings per share

The Company presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential common shares.

i) Financial instruments

The Company recognizes financial assets and financial liabilities when the Company becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets and financial liabilities classified as fair value through profit or loss, are measured at fair value plus or minus transaction costs on initial recognition. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

## **COMPOSITE ALLIANCE GROUP INC.**

### **(formerly CanAsia Financial Inc.)**

Notes to the Financial Statements

December 31, 2018 and 2017

*(Expressed in Canadian Dollars)*

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## **2. Significant Accounting Policies (Continued)**

### **i) Financial instruments (Continued)**

The following summarizes the Company's classification and measurement of financial assets and financial liabilities:

- Cash and cash equivalents are classified as amortized cost.
- Accounts payable and accrued liabilities, loan payable and convertible debentures are classified as amortized cost.

Measurement in subsequent periods depends on the classification of the financial instrument:

#### **Financial assets at amortized cost**

Cash and cash equivalents are held with the objective of collecting contractual cash flows and classified as amortized cost.

Subsequent to initial recognition, these assets are carried at amortized cost, using the effective interest method, less any impairment loss. The carrying amount of the financial asset is reduced through an allowance account, and the amount of the loss is recognized in the statement of income. Any subsequent reversal of an impairment loss is recognized in profit or loss.

#### **Financial liabilities at amortized cost**

Accounts payable and accrued liabilities, loan payable and convertible debentures are classified as amortized cost.

Subsequent to initial recognition, these liabilities are carried at amortized cost, using the effective interest method. The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

#### **Financial liabilities at FVTPL**

Financial liabilities are classified as FVTPL if it is classified as held for trading, or they are derivative liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes recognized in the consolidated statement of income. There are no financial instruments in this category.

#### **Impairment of financial assets**

At each reporting date, each financial asset measured at amortized cost is assessed for impairment under an expected credit loss (ECL) model.

# COMPOSITE ALLIANCE GROUP INC.

## (formerly CanAsia Financial Inc.)

### Notes to the Financial Statements

December 31, 2018 and 2017

(Expressed in Canadian Dollars)

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## 2. Significant Accounting Policies (Continued)

### j) Convertible debentures

Compound financial instruments issued by the Company comprise convertible debentures that are convertible to share capital at the option of the holder, and the number of shares to be issued are at a fixed number at a fixed amount, and do not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. Upon conversion to equity, the liability and equity components of a compound financial instruments are included in the fair value of the common shares issued and charged to share capital.

### k) Accounting Standards Implemented

#### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The effective date for IFRS 9 is for periods beginning on or after January 1, 2018.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities.

The Company adopted IFRS 9 Financial Instruments on January 1, 2018 using the modified retrospective basis with no restatement of comparative periods. The adoption of the new standard by the Company resulted in no change in measurement or the carrying amount of financial assets and liabilities however the classification of financial assets and financial liabilities changed as follows:

- Cash and cash equivalents that were classified as fair value through profit and loss is now classified as amortized cost.
- Accounts payable and accrued liabilities and loans payable that were classified as other financial liabilities are now classified as amortized cost.

IFRS 9 utilizes a forward-looking expected credit loss model (ECL). The ECL model requires a more timely recognition of expected credit losses using judgement determined on a probability-weighting basis. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost.

## COMPOSITE ALLIANCE GROUP INC.

### (formerly CanAsia Financial Inc.)

#### Notes to the Financial Statements

December 31, 2018 and 2017

(Expressed in Canadian Dollars)

## 2. Significant Accounting Policies (Continued)

### l) Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB that are mandatory for accounting periods beginning after December 31, 2017. Many are not applicable or do not have a significant impact to the Company and have been excluded from below. The following has not yet been adopted and the Company does not expect any significant impact on its financial statements from the adoption of the new standard.

#### *IFRS 3 Business Combinations*

The amendments to IFRS 3 clarify whether a transaction meets the definition of a business combination. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendment is effective for periods beginning on or after January 1, 2020 with earlier application permitted. The Company is assessing the impact this standard will have on its financial statements.

## 3. Loans Payable

|   | <u>2018</u>   | <u>2017</u>      |
|---|---------------|------------------|
| Due to a director of the Company                            | \$ ---        | \$ 10,000        |
| Due to a company controlled by a director<br>of the Company | ---           | <u>50,000</u>    |
|   | <u>\$ ---</u> | <u>\$ 60,000</u> |

The loans payable are unsecured, bear no interest and have no terms of repayment. The loans payable were converted to convertible debentures during the year.

## 4. Convertible debentures

On November 15, 2018, the Company completed a private placement of convertible unsecured debentures in the principal amount of \$660,000. The convertible debentures were issued to two directors of the Company. The convertible debentures accrue interest at 5% per year, mature two years from the date of issuance, are payable at any time by the Company without penalty and are convertible by the holder at any time into common shares of the Company at a conversion price of \$0.125 per share. The debentures issued and the underlying common shares issuable upon conversion are subject to a four month hold period from the date of the offering.

The value of the conversion option was calculated by subtracting the net present value of the debenture from the face value of the convertible debenture. The net present value of the debenture was calculated using a discount rate of 25.5% over a term of two years. An amount of \$461,767 and \$198,233 was allocated to the liability and equity component of the convertible debenture respectively. Accrued interest of \$4,159 has been recorded as finance costs for the year ended December 31, 2018. Accretion expense of \$13,409 was recorded as finance costs to accrete the liability to its principal amount.

# COMPOSITE ALLIANCE GROUP INC.

(formerly CanAsia Financial Inc.)

Notes to the Financial Statements

December 31, 2018 and 2017

(Expressed in Canadian Dollars)

## 5. Related Party Transactions

During the year, the Company has paid professional fees of \$203,337 (2017 – \$44,908) to a Company controlled by a director of the Company. Accounts payable and accrued liabilities includes an amount of \$56,301 payable to directors of the Company for reimbursement of expenses and \$189,733 payable to TME for reimbursement of expenses it incurred for the reverse acquisition.

The compensation paid to key management personnel, which is comprised of the Chief Executive Officer and the Chief Financial Officer, during the year is \$nil (2017 – \$nil).

## 6. Share Capital

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Issued:

|                                     | Common Shares      |                     | Preferred Shares |               | Total               | Warrants      |               |
|-------------------------------------|--------------------|---------------------|------------------|---------------|---------------------|---------------|---------------|
|                                     | Number             | Amount              | Number           | Amount        |                     | Number        | Amount        |
| Balance, December 31, 2016 and 2017 | 98,168,052         | \$ 1,351,029        | 15,000,000       | \$ 488,773    | \$ 1,839,802        | \$ 7,500,000  | \$ 244,324    |
| Conversion of preferred shares      | 15,000,000         | 488,773             | (15,000,000)     | (488,773)     | ---                 | ---           | ---           |
| Warrants expired                    | ---                | ---                 | ---              | ---           | ---                 | (7,500,000)   | (244,324)     |
| <b>Balance, December 31, 2018</b>   | <b>113,168,052</b> | <b>\$ 1,839,802</b> | <b>---</b>       | <b>\$ ---</b> | <b>\$ 1,839,802</b> | <b>\$ ---</b> | <b>\$ ---</b> |

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All common shares issued rank equally with regard to the Company's residual assets subject to the rights of the preferred shares.

The preferred shares are non-voting. Each preferred share is convertible into one common share of the Company. The preferred shares are comprised of 15,000,000 Series C Preferred Shares. The holders of Series C Preferred Shares have the right for a period of five years from September 9, 2013 to convert any or all Series C Preferred Shares into common shares of the Company on the basis of one Series C Preferred Share for one common share of the Company. If not converted within the five-year period, on September 9, 2018 the Series C Preferred Shares will be cancelled. On September 6, 2018, 15,000,000 Series C Preferred shares were converted to 15,000,000 common shares of the Company.

The 7,500,000 warrants are exercisable at \$0.20 per share to acquire one common share of the company until September 9, 2018 at which time the warrants expire. The warrants were not exercised and expired on September 9, 2018.

**COMPOSITE ALLIANCE GROUP INC.**  
**(formerly CanAsia Financial Inc.)**  
Notes to the Financial Statements  
December 31, 2018 and 2017  
*(Expressed in Canadian Dollars)*

6. **Share Capital** (Continued)

**Earnings per share amounts**

The weighted average number of common shares used in computing earnings per share have been restated for the current and comparative figures to reflect the share consolidation that occurred subsequent to year end (See Note 11). The Company completed a share consolidation of one post-consolidation common share for every five pre-consolidation common share. Basic and diluted earnings per share has been calculated using the weighted average number of common shares of 20,587,035 (2017 – 19,633,610).

7. **Stock Options**

The Company has a stock option plan (the “Plan”), which provides employees, directors, officers and consultants of the Company with the opportunity to acquire common shares of the Company through the exercise of stock options. The maximum number of unissued common shares that may be subject to options granted and outstanding under the Plan at any time shall be 10% of the number of the issued and outstanding common shares at the time the options are granted. Stock options granted under the Plan are limited to a maximum term of five years and vest immediately.

There are no stock options issued and outstanding as at December 31, 2018 and 2017.

8. **Taxation**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

|   | <u>2018</u>      | <u>2017</u>      |
|---|------------------|------------------|
| Deferred tax assets:                    |                  |                  |
| Non-capital tax loss carry forward      | \$ 889,296       | \$ 734,110       |
| Net capital loss carry forward          | 28,105           | 28,105           |
| Tax basis in excess of accounting basis | <u>4,014</u>     | <u>4,276</u>     |
|   | <b>921,414</b>   | 766,491          |
| Less deferred tax asset not recognized  | <u>(921,414)</u> | <u>(766,491)</u> |
| Net deferred income tax assets          | <u>\$ ---</u>    | <u>\$ ---</u>    |

The income tax provision reported differs from the amount computed by applying the combined federal and provincial rate to income before income taxes. The reasons for the differences and the related tax effects are as follows:

**COMPOSITE ALLIANCE GROUP INC.****(formerly CanAsia Financial Inc.)**

Notes to the Financial Statements

December 31, 2018 and 2017

*(Expressed in Canadian Dollars)***8. Taxation (Continued)**

|  | <u>2018</u>   | <u>2017</u>    |
|--|---------------|----------------|
| Net income (loss) before income taxes          | \$ (573,791)  | \$ (107,096)   |
| Taxation at income tax rate                    | <u>27.00%</u> | <u>27.00%</u>  |
| Expected tax expense (recovery)                | (154,924)     | (28,916)       |
| Tax effect of non-deductible expenses          | ---           | (302)          |
| Tax effect of unused tax losses not recognized | 155,186       | 31,491         |
| Share issuance costs                           | <u>(262)</u>  | <u>(2,273)</u> |
|  | <u>\$ ---</u> | <u>\$ ---</u>  |

No deferred tax assets have been recognized in respect of the unused tax losses due to the unpredictability of future profit streams. The Company had the following estimated tax losses available to offset against future taxation, which expire as follows:

|      |                     |
|------|---------------------|
| 2028 | \$ 152,942          |
| 2029 | 274,656             |
| 2030 | 113,876             |
| 2031 | 367,556             |
| 2032 | 370,017             |
| 2033 | 398,022             |
| 2034 | 212,876             |
| 2035 | 712,349             |
| 2037 | 116,633             |
| 2038 | <u>574,761</u>      |
|      | <u>\$ 3,293,688</u> |

**9. Capital Management**

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to complete its acquisition of an operating company.

The Company's capital structure is regularly reviewed and managed. Adjustments are made to the capital structure based on financing requirements as well as in response to economic conditions affecting the Company.

The Company's capital includes the following:

|                        | <u>2018</u>        | <u>2017</u>        |
|------------------------|--------------------|--------------------|
| Shareholders' equity   | \$ (525,117)       | \$ (149,559)       |
| Loan payable           | ---                | 60,000             |
| Convertible debentures | <u>479,335</u>     | <u>---</u>         |
|                        | <u>\$ (45,782)</u> | <u>\$ (89,559)</u> |

## COMPOSITE ALLIANCE GROUP INC.

### (formerly CanAsia Financial Inc.)

#### Notes to the Financial Statements

December 31, 2018 and 2017

*(Expressed in Canadian Dollars)*

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#### 10. Financial Instruments and Risk Management

The Company is exposed to credit and liquidity risks in the normal course of the Company's operations. These risks are mitigated by the Company's financial management policies and practices described below.

a) Credit risk

The Company is exposed to credit risk associated with cash and cash equivalents. The risk is mitigated as the cash and cash equivalents are maintained with major financial institutions in Canada.

b) Liquidity risk

The Company's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liabilities when due. The Company has cash of \$304,082 (2017 - \$3,578).

The Company's contractual obligations consist of accounts payables and accrued liabilities, loans payable and convertible debentures. The accounts payable and accrued liabilities is expected to be paid within one year and the convertible debenture has a term which expires in 2020.

c) Fair values

The fair values of the Company's cash and cash equivalents, accounts payable and accrued liabilities and loans payable approximate their carrying values due to their short-term nature.

The fair value of the convertible debentures approximates its carrying value as there have been no changes in the market interest rate.

The following provides an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

As at December 31, 2018, the Company had no financial instruments measured at fair value. All financial instruments are measured at amortized cost using the effective interest rate method.

# COMPOSITE ALLIANCE GROUP INC.

## (formerly CanAsia Financial Inc.)

### Notes to the Financial Statements

December 31, 2018 and 2017

*(Expressed in Canadian Dollars)*

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#### 11. Subsequent Events

- a) On February 12, 2019, the Company closed its reverse takeover transaction with Techni Modul Engineering S.A. ("TME"). The Company's common shares commenced trading on the TSX Venture Exchange under the symbol "CAG". Pursuant to the share exchange agreement, the Company acquired all of the outstanding shares of TME for aggregate consideration of CAN \$10,950,000 and 19,200,000 non-voting series D preferred shares of the Company. The Company also amended its articles to change its name to Composite Alliance Group Inc. and to complete a share consolidation of all of its issued and outstanding common shares on the basis of one post-consolidation common share for every five pre-consolidation common shares.
- b) On February 15, 2019, the Company announced the granting of stock options to purchase 2,400,000 common shares of the Company to directors and officers subject to regulatory and TSX Venture Exchange approval. The options are issued with an exercise price of \$0.125 per share, vest as to one-third immediately and one third on each of the first and second anniversaries of the grant date and have a three year term from the date of issuance.