

## **COMPOSITE ALLIANCE GROUP INC.**

### **MANAGEMENT DISCUSSION & ANALYSIS**

#### **FORM 51-102F1**

#### **For the Quarter Ended September 30, 2020**

This Management Discussion and Analysis (“**MD&A**”) is dated November 25, 2020.

This MD&A of the financial condition of Composite Alliance Group Inc. (“**CAG**” or the “**Company**”) and results of operations supplements but does not form part of the financial statements and accompanying notes of the Company for the quarter ended September 30, 2020. Consequently, the following discussion and analysis of the results of operations and the financial condition of the Company should be read in conjunction with the unaudited consolidated financial statements for Composite Alliance Group Inc. for the quarter ended September 30, 2020. Additional information can be found on CAG on the SEDAR website ([www.sedar.com](http://www.sedar.com)).

#### **FORWARD LOOKING STATEMENTS**

This MD&A may contain forward-looking statements. Forward looking statements include, but are not limited to, words such as “believes” “expects”, “will”, “intends”, “projects”, “anticipates”, “estimates”, “continues”, “plans” or similar words thereof. These forward statements reflect the Company’s future financial position, future growth, business strategy, budgets, internal projects and objectives of management based on information currently available to the Company.

The Company believes that the expectations represented in such forward-looking statements are reasonable. However, the Company cannot assure that the plans, intentions or expectations upon which these forward looking statements are based will prove to be correct as they are subject to risks, uncertainties and assumptions.

Any such forward-looking statements are expressly qualified in their entirety by this cautionary statement. Moreover, the Company does not assume responsibility for the accuracy or completeness of such forward-looking statements. The forward-looking statements included in this MD&A are made as of the date of this MD&A. The Company undertakes no obligation to publicly update or revise forward-looking statements, other than as required by applicable law. The reader should not place undue reliance on forward-looking statements.

#### **CORPORATE STRUCTURE**

The Company was incorporated on June 26, 2008 under the *Business Corporation Act* (Alberta). The Company’s head office is located at Suite 1600, 333 – 7 Avenue S.W., Calgary, Alberta, Canada.

The Company owns 100% of Techni-Modul Engineering (“**TME**”), an S.A.S company registered in France, through a reverse takeover in February 2019.

In September 2019, the Company established Composite Alliance Asia Limited in Hong Kong (“**CAA**”). The Company plans to position CAA as its sales and after-sales hub for Asian customers in the future. As of the date of this MD&A, CAA has not yet engaged in any business activities.

The Company conducts its sales activities in North America through its Dallas based subsidiary, Composite Alliance Corp (“**CAC**”), which TME owned 70% until January 2<sup>nd</sup> 2020 when the Company acquired 70% of CAC from TME, and another 20% from a director of the Company. After this shareholding restructuring,

the Company now owns 90% of CAC, and plans to invest more resources into CAC to further expand in the North American markets.

## BUSINESS FOCUS

The Company's subsidiary in France, 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 subsidiary in the USA, CAC, serves as the sales office for TME and other strategic partners in Europe and is located in Dallas, Texas.

Starting from the fourth quarter of 2019, the Company entered into a new business of distributing dispensing equipment of Magnus Venus Products ("MVP") in the People's Republic of China through sub-distributors.

## SUMMARY OF FINANCIAL RESULTS

The annual and quarterly financial information of the reverse takeover acquirer, TME, have been presented below for all periods prior to the reverse takeover transaction effected on February 12, 2019. The quarterly financial information presented for the period ended September 30, 2020 is comprised of the consolidated financial information of Composite Alliance Group Inc. and its legal subsidiaries TME and CAC. All the financial information below is reported in Canadian Dollars ("CAD"). Figures are reported in accordance with International Financial Reporting Standards ("IFRS").

ANNUAL	December 31, 2019 Audited	December 31, 2018 Audited	December 31, 2017 Audited
Total Revenue	\$14,734,750	\$ 10,391,612	\$ 5,217,713
Total expenses	13,689,719	9,608,650	7,270,569
Other expenses	4,127,363	272,711	233,955
Net income (loss)	(3,082,332)	510,251	(2,286,811)
Basic earnings (loss) per share	(0.03)	0.01	(0.03)
Diluted earnings (loss) per share	(0.03)	0.01	(0.03)
Comprehensive income (loss)	(3,192,303)	535,853	(2,302,659)
Current Assets	8,591,490	8,253,530	3,638,129
Non-current Assets	3,176,813	2,743,040	3,390,510
Total Assets	11,768,303	10,996,570	7,028,638
Current Liabilities	5,114,930	5,532,587	2,251,523
Non-current Liabilities	5,509,083	4,250,998	4,932,206
Total Liabilities	10,624,013	9,783,585	7,183,730

QUARTERLY	3 Months Ended September 30, 2020 Unaudited	3 Months Ended September 30, 2019 Unaudited	3 Months Ended June 30, 2020 Unaudited	3 Months Ended June 30, 2019 Unaudited	3 Months Ended March 31, 2020 Unaudited	3 Months Ended March 31, 2019 Unaudited	3 Months Ended December 31, 2019 Unaudited	3 Months Ended December 31, 2018 Unaudited
Total Revenue	\$1,034,894	\$4,630,919	\$1,008,208	\$2,737,235	\$2,393,086	\$1,723,737	\$5,642,859	\$4,825,045
Total operating expenses	1,728,224	3,739,942	1,981,439	2,871,524	3,210,469	2,155,868	4,922,387	3,124,394
Other expenses	327,540	259,643	258,218	229,916	327,346	3,367,019	270,784	67,015
Net income (loss)	(1,020,870)	631,334	(1,231,449)	(364,205)	(1,144,729)	(3,799,150)	449,688	1,633,637
Comprehensive income (loss)	(1,000,393)	579,801	(1,258,087)	(357,247)	(1,034,895)	(3,831,974)	417,116	1,627,292
Earnings per share:								
Basic	(0.01)	0.01	(0.01)	(0.00)	(0.01)	(0.04)	0.00	0.02
Diluted	(0.01)	0.01	(0.01)	(0.00)	(0.01)	(0.04)	0.00	0.02

## Revenue

During the third quarter of 2020, the Company's total revenue declined by 77.7% from the third quarter of 2019.

### Revenue Breakdown (\$000) by Product

PRODUCT	3Q20	3Q19	GROWTH
TME OWN PRODUCTS	\$1,000.7	\$4,630.9	-78.4%
MVP PRODUCTS	\$24.2	\$0.0	N.A.
OTHERS	\$10.0	\$0.0	N.A.
TOTAL	\$1,034.9	\$4,630.9	-77.7%

#### (1) TME own products

The travel bans imposed by most countries since the outbreak of Covid-19 continued to adversely impact TME's ability to deliver projects during the third quarter of 2020, resulting in a revenue decline of 78.4% in the third quarter of 2020 from the same quarter of 2019. Considering on-site installation of machines at the customers' premises will not be possible until the global travel ban is lifted, TME engaged local third party contractors to help with on-site installment for certain customers starting from the third quarter. By doing so, TME is able to mitigate the delay in project delivery although higher operating expenses are expected as a result.

As of the date of this MD&A, TME has successfully solicited several new projects. Majority of them will be delivered in 2021.

#### (2) MVP Products

As a result of the launch of several promotional campaigns in China in June, the MVP business doubled during this quarter from the second quarter this year.

### Expenses

Purchases of raw materials and goods declined by 69.9% while purchases from sub-contractors declined by 76.4% during the third quarter of 2020 from the same period of 2019. The decline in these two purchase costs (“**Total Purchases**”) was due to less projects delivered. In the third quarter of 2020, Total Purchases to revenue (“**Total Purchase %**”) was 57.8%, compared to 46.9% in the same period of 2019. The higher Total Purchase % in the third quarter this year was due to budget overrun on some projects, an impact from the lockdown of France earlier this year.

Payroll expenses and social security contributions declined by 10.4% in the third quarter of 2020 from the same period of 2019. The decrease was mainly due to less number of employees (including part-time) in 2020 than 2019.

Selling, general and administration expenses decreased by 62.3% in the third quarter of 2020 over the same period of 2019, mainly due to inactive sales activities (such as traveling expenses).

Depreciation and amortization grew by 34.8% in the third quarter of 2020 from the same period in 2019 mainly because of the amortization associated with the license of MVP distribution business acquired in the fourth quarter of 2019.

In sum, total operating expenses declined by 53.8% in the third quarter of 2020 from the same period in 2019.

#### Breakdown of Operating Expense (\$000)

EXPENSE ITEMS	3Q20	% TO REVENUE	3Q19	% TO REVENUE	GROWTH
PURCHASED RAW MATERIALS AND PRODUCTS	\$399.3	38.6%	\$1,325.4	28.6%	-69.9%
PAYROLL EXPENSES AND SOCIAL SECURITY CONTRIBUTION	\$715.0	69.1%	\$797.8	17.2%	-10.4%
SUBCONTRACTOR	\$199.2	19.2%	\$844.7	18.2%	-76.4%
SELLING, GENERAL AND ADMINISTRATIVE	\$185.7	17.9%	\$492.0	10.6%	-62.3%
TAXES AND RELATED PAYMENTS	\$23.7	2.3%	\$40.5	0.9%	-41.4%
DEPRECIATION AND AMORTIZATION	\$299.5	28.9%	\$222.2	4.8%	+34.8%

PROVISION VARIATIONS	\$(34.4)	(3.3)%	\$(25.9)	(0.6%)	N.A.
MISCELLANEOUS EXPENSES	\$(59.8)	(5.8)%	\$43.2	0.9%	N.A.
TOTAL	\$1,728.2	167%	\$3,739.9	80.8%	-53.8%

### Other Expenses (Income)

Total other expenses increased by 26.2% in the third quarter of 2020 from the third quarter of 2019, mainly due to foreign exchange loss.

#### Breakdown of Other Expense (Income) (\$000)

EXPENSE (INCOME) ITEM	3Q20	% TO REVENUE	3Q19	% TO REVENUE	GROWTH
LISTING EXPENSE	\$0.0	0.0%	\$0.0	0.0%	N.A.
STOCK BASED COMPENSATION	\$166.6	16.1%	\$177.2	3.8%	-6.0%
FOREIGN EXCHANGE LOSS (GAIN)	\$60.2	5.8%	\$(27.5)	(0.6%)	N.A.
FINANCE COSTS	\$100.7	9.7%	\$109.9	2.4%	-8.4%
TOTAL	\$327.5	31.6%	\$259.6	5.6%	+26.2%

### Profits

Overall, the Company posted an operating loss of \$693,332 and a net loss of \$1,020,870 in the third quarter of 2020, compared to an operating profit of \$890,977 and a net profit of \$631,334 in the same period of 2019.

### CAPITAL RESOURCES MANAGEMENT

For the nine-month period ended September 30 in 2020, the Company generated positive cash flows of \$493,439 from operating activities, compared to positive cash flows of \$3,136,335 during the same period of 2019. This decline in the operating cash flows was mainly due to the trimming of accounts payable and also non-cash expense in the prior year relating to the listing expense.

The Company had negative cash flows of \$157,993 from investing activities in the first nine months of 2020, compared to positive cash flows of \$136,078 from investing activities in the same period of 2019. The cash outflows in 2020 was mainly for the purchases of hardware and software such as ERP, servers and workstations etc.

During the first nine months of 2020, the Company posted positive cash flows of \$1,654,429 from financing activities, compared to negative cash flows of \$1,174,357 from financing activities in the first nine months of 2019. The higher cash flows from financing activities in 2020 was due to higher borrowings from the banks (including the relief loans supported by the French government).

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. As of September 30, 2020, the Company had cash of \$2,742,098 and working capital of \$2,358,201, compared to \$735,750 and \$3,476,560 as of December 31, 2019, respectively. The increase in cash balance was mainly from the increase in cash flows from the financing activities, while the decrease in working capital was mainly from the decrease in contract assets.

### **GOING CONCERN AND COVID-19**

The outbreak of the novel strain of coronavirus, identified as "COVID-19", was declared a pandemic by the World Health Organization on March 11, 2020, resulting in governments worldwide enacting several emergency measures such as lockdown, travel bans and social distancing. These measures could negatively impact the Company's operations, especially in China, France and North America. As China's economy seems to gradually pick up during the second half of 2020, France and North America are still facing the second, or the third waves of the pandemic attack. Specifically in France, the French government published a decree for a second lockdown from October 30 until December 1, 2020 to stop the spread of Covid-19. TME thus has asked most employees to work from home ever since. For those employees whom still have to work on-site, they are required to follow strict hygiene requirements such as wearing masks and keeping social distancing at all times. The operations of TME will be affected by these restrictions imposed by the French government and the Company will continue to monitor the rapidly changing developments concerning the pandemic.

The Company's going concern remains dependent upon its ability to generate enough operating cash flows from existing and new projects and/or raise or borrow additional funds. Other than continuing to collect its accounts receivable from customers, the Company has or will manage its cash flows with the following actions:

- Receipt of bank loans guaranteed by the French government in the amount of EUR 1,100,000 for a duration of up to five years during the second quarter of 2020; and possibly applying for more relief loans guaranteed by the French government by the end of 2020.
- Receipt of additional bank financing of \$40,000 through Canada Emergency Business Account in July 2020.
- The restructure of debts from related parties, including the convertible debentures and loans was concluded in November 2020.

### **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company is exposed to interest, 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.

#### **Interest Rate Risk**

The Company is susceptible to interest rate cash flow risk and fair value risk on its floating and fixed rate financial liabilities, respectively.

**Credit Risk**

The Company is exposed to credit risk associated with cash and cash equivalent and accounts receivable. The risk is mitigated as the cash and cash equivalents are maintained with major financial institutions. The credit risk on accounts receivable is mitigated with a diverse customer base and close monitoring of the collection of the accounts receivable by the Company.

**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 \$2,742,098 and working capital of \$2,358,201 as of September 30, 2020.

**ACCOUNTING POLICIES****Basis of Preparation**

The financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting using accounting principles consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IASB”).

The financial statements are expressed in Canadian dollars unless otherwise stated.

**Functional and Presentation Currency**

These financial statements are presented in Canadian dollars (“CAD”), which is the Company’s presentation currency and is consistent with the functional currency of the Company. The functional currency of TME and CAC is Euro.

**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.

Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. The discount rate used to determine the liability component of the convertible debentures is also subject to estimate. Measurement inputs used in determining the fair value of stock options are also subject to estimate by Management. The incremental borrowing rates used to determine the carrying value of the right-of-use assets and lease obligations are also subject to management estimate.

### **Off-Balance Sheet Arrangements and Financing Facilities**

As of the date of this MD&A, the Company, through TME, received the following support from banks and financial institutions:

An aggregate credit line up to a maximum of €500,000 (CAD \$781,550) for advanced payment refunds for its French customers that are due on demand, bear weighted average interest at 1.2% per annum (December 31, 2019 – limit of €500,000 at 1.2% 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, 2020, CAD \$nil (€nil) was outstanding on the facility (December 31, 2019 – CAD \$nil (€nil)).

Credit facility up to a maximum of €550,000 (CAD \$859,705), secured by 10% of the amount in factoring, due on the maturity of invoices issued to its customers and bears weighted average interest at 3-month Euribor rate plus 2.51% per annum (December 31, 2019 - €550,000 at 3-month Euribor rate plus 2.32% 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, 2020, CAD \$nil was outstanding on this facility (December 31, 2019 – CAD \$331,902 (€227,595)).

Credit facility for an aggregated amount of €1,350,000 (CAD \$2,110,185), unsecured, due on the maturity of invoices issued to its customers and bears weighted average interest at 1-month Euribor rate plus 1.80% per annum (December 31, 2019 – limit of €1,350,000 at 1-month Euribor rate plus 1.93% 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, 2020, CAD \$nil (€nil) was outstanding on this facility (December 31, 2019 – CAD \$nil (€nil)).

An aggregate bank guarantees up to a maximum of €1,100,000 (CAD \$1,719,410) for advanced payment refunds for its foreign customers that are due on demand, bear weighted average interest at 1.72% per annum (December 31, 2019 – limit of €1,110,000 at 1.83% 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, 2020, there were \$174,755 guarantees outstanding (December 31, 2019 – CAD \$258,556).

An aggregate foreign exchange cover line up to a maximum of €4,500,000 (CAD \$7,033,950) (December 31, 2019 - €4,500,000). The notional amount of these foreign exchange contracts as of September 30, 2020 was €890,732 (December 31, 2019 - €2,625,895).

Import credit line up to a maximum of €100,000 (CAD \$156,310) to facilitate the negotiation of the purchases from suppliers by offering the certainty of payment through the drafting of an import credit line contract. Each party is required to comply with the obligations outlined in the contract. The import credit line bears interest at 1.25% per annum (December 31, 2019 - €nil). As at September 30, 2020, CAD \$nil (€nil) was outstanding on this facility (December 31, 2019 - CAD \$nil (€nil)).

### **Transaction Between Related Parties**

During the first half of 2020, the Company has the following related party transactions:

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Stock based compensation to directors and officers of the Company	\$20,772	\$97,251
Director fees to non-executive directors	7,875	7,875
Salaries	751,438	617,206

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

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Real property leases paid to a company controlled by a director of the Company	\$105,462	\$86,254
Finance cost paid or accrued to a company controlled by a director of the Company	200,627	295,651
Finance cost paid or accrued to two of the directors of the Company	110,599	78,756
Stock based compensation to companies controlled by directors of the Company	480,438	403,287
Professional fees paid to a company controlled by a director of the Company	27,729	26,519
Commissions paid or accrued to the two companies controlled by two directors of the Company	147,690	201,441

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

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Receivable from a company controlled by a director of the Company	\$309,413	\$288,668
Convertible debentures issued to a company controlled by a director of the Company	2,129,913	1,854,364
Long term borrowing advanced from a company controlled by a director of the Company	1,784,625	1,700,298
Long term borrowing advanced from a company controlled by an officer of the Company	915,824	870,730
Convertible debentures issued to two of the directors of the Company	705,513	594,914

### Changes in Accounting Policies

None.

**Disclosure of Share Information**

Shares outstanding:

110,233,610 commons shares outstanding as at the date hereof

Stock options outstanding:

2,400,000 stock options to purchase common shares are outstanding as at the date hereof

**APPROVAL**

The Board of Directors have reviewed and approved this document pursuant to its mandate and charter.