

Composite Alliance Group Inc.

Condensed Consolidated Interim Financial Statements
September 30, 2021
(In Canadian dollars)
(Unaudited)

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

	September 30, 2021 (Unaudited)	December 31, 2020
Assets		
Cash and cash equivalents	\$ 3,380,219	\$ 2,929,679
Accounts receivable	3,220,274	5,240,788
Contract asset	1,840,595	68,858
Prepaid expense and others	420,668	237,195
Other receivables	479,606	1,014,757
Total current assets	9,341,362	9,491,277
Other assets and receivables (Note 4)	366,762	385,353
Property and equipment (Note 5)	631,455	910,835
Intangible assets (Note 6)	672,828	1,180,269
Total assets	\$ 11,012,407	\$ 11,967,734
Liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 4,281,103	\$ 4,273,678
Contract liabilities	513,741	256,327
Current portion of lease obligation (Note 10)	137,343	256,310
Current portion of long-term borrowings (Note 11 & 18)	1,908,105	1,152,684
Total current liabilities	6,840,292	5,938,999
Convertible debentures (Note 9 & 18)	2,073,266	2,391,863
Lease obligation (Note 10)	355,911	471,224
Long-term borrowings (Note 11 & 18)	3,912,681	4,015,296
Long-term provisions (Note 12)	-	161,029
Post-employment benefits plans	244,760	286,961
Research tax credit	87,210	364,102
Total liabilities	13,514,120	13,629,474
Shareholders' equity		
Share capital (Note 13)	4,890,766	4,890,766
Contributed surplus (Note 9, 11, 13 & 14)	1,038,622	1,528,065
Equity component of convertible debentures (Note 9)	458,553	553,346
Accumulated other comprehensive loss	(105,768)	(163,488)
Deficit	(8,712,072)	(8,414,317)
Total shareholders' equity attributable to common shareholders	(2,429,899)	(1,605,628)
Non-controlling interest	(71,814)	(56,112)
Total liabilities and shareholders' equity	\$ 11,012,407	\$ 11,967,734

Going concern (Note 1)
Contingency (Note 16)
Subsequent event (Note 17)

The accompanying notes are an integral part of these condensed consolidated 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)

	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenue	\$ 1,415,843	\$ 1,034,894	\$ 4,026,419	\$ 4,436,188
Expenses				
Purchased raw material and goods	252,751	399,300	1,104,209	1,621,483
Payroll expenses and social security	546,917	715,027	2,074,534	2,275,162
Subcontractor	496,898	199,186	1,097,950	980,607
Selling, general and administrative	377,461	185,692	963,461	1,165,593
Property and apprenticeship taxes	19,537	23,743	66,048	78,971
Depreciation and amortization	246,104	299,482	739,601	827,749
Provision variations	(110,335)	(34,406)	(484,154)	(3,779)
	(413,490)	(753,130)	(1,535,230)	(2,509,598)
Other expenses (income)				
Stock based compensation (Note 13 & 14)	-	166,609	(1,402,058)	501,210
Foreign exchange loss (gain)	(14,070)	60,195	(3,284)	26,197
Finance costs	181,541	100,736	415,055	385,697
Other income (Note 9 & 11)	(1,305)	(59,798)	(231,805)	(25,652)
Net loss	(579,656)	(1,020,872)	(313,138)	(3,397,050)
Net loss attributable to				
Common shareholders	(576,269)	(1,015,794)	(297,755)	(3,395,166)
Non-controlling interest	(3,387)	(5,078)	(15,383)	(1,884)
Net loss	(579,656)	(1,020,872)	(313,138)	(3,397,050)
Loss per common share (Note 15) Basic and diluted	(0.00)	(0.01)	(0.00)	(0.03)
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss				
Exchange difference on translating foreign operations	36,247	20,479	57,401	103,675
Total comprehensive loss	(543,409)	(1,000,393)	(255,737)	(3,293,375)
Comprehensive loss attributable to				
Common shareholders	(538,191)	(996,594)	(240,035)	(3,290,005)
Non-controlling interest	(5,218)	(3,799)	(15,702)	(3,370)
Attributable comprehensive loss	(543,409)	(1,000,393)	(255,737)	(3,293,375)

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

	Share capital	Contributed Surplus	Equity Component of Convertible Debentures	Accumulated Other Comprehensive Income (loss)	Deficit	Non- Controlling Interest ("NCI")	Total
Balance December 31, 2019	4,890,766	662,014	751,579	(71,763)	(4,914,428)	(173,878)	1,144,290
Share based compensation (Note 13 &14)	-	501,210	-	-	-	-	501,210
Equity acquired from NCI (Note 1)	-	-	-	(360)	(118,531)	115,919	(2,972)
Comprehensive income (loss)	-	-	-	105,161	(3,395,166)	(3,370)	(3,293,375)
Balance September 30, 2020 (unaudited)	4,890,766	1,163,224	751,579	33,038	(8,428,125)	(61,329)	(1,650,847)
Balance December 31, 2020	4,890,766	1,528,065	553,346	(163,488)	(8,414,317)	(56,112)	(1,661,740)
Share based compensation (Note 13 &14)	-	(1,402,058)	-	-	-	-	(1,402,058)
Gain on loan extinguishments (Note 9 &11)	-	912,615	(94,793)	-	-	-	817,822
Comprehensive income (loss)	-	-	-	57,720	(297,755)	(15,702)	(255,737)
Balance September 30, 2021 (unaudited)	4,890,766	1,038,622	458,553	(105,768)	(8,712,072)	(71,814)	(2,501,713)

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

	2021	2020
Operating		
Net loss	\$ (313,138)	\$ (3,397,050)
Items not affecting cash:		
Depreciation and amortization	739,601	827,749
Provisions	(484,154)	(3,779)
Finance costs	356,229	371,660
Other income	(54,524)	46,499
Stock based compensation	(1,402,058)	501,210
Change in working capital		
Change in prepaid expense and other	(206,628)	50,816
Change in trade and other receivables	1,096,089	1,707,321
Change in trade and other payables	(207,623)	362,760
Net cash provided (used in) by operating activities	(476,206)	467,186
Investing		
Acquisition of tangible assets	(35,126)	(157,993)
Net cash used in investing activities	(35,126)	(157,993)
Financing		
Proceeds from new borrowings	1,516,763	1,942,472
Repayment of borrowings	(265,482)	(76,867)
Repayment of lease obligation	(198,878)	(184,923)
Net cash provided by financing activities	1,052,403	1,680,682
Effect of exchange on cash	(90,531)	16,473
Net increase in cash	450,540	2,006,348
Cash and cash equivalents, beginning of period	2,929,679	735,750
Cash and cash equivalents, end of period	\$ 3,380,219	\$ 2,742,098

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

1. NATURE OF OPERATIONS

Composite Alliance Group 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 that it sells to customers for use in the fabrication of composite materials for the aerospace and automotive industries. In order to facilitate the Company’s role as an exclusive regional distributor, the Company set up a wholly owned subsidiary Composite Alliance Asia (“CAA”) in Hong Kong in September 2019.

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 condensed consolidated interim 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 outbreak of the novel strain of coronavirus, identified as “COVID-19”, was declared a pandemic by the World Health Organization on March 11, 2020, resulted in governments worldwide enacting several emergency measures such as lockdown, travel bans and social distancing. These measures have negatively impacted the Company’s operations, especially in China, France and North America. The aeronautic sector which TME and CAC focus on continues to suffer from such downturn. As of the date of these condensed consolidated interim financial statements, the extent to which COVID-19 impacts the Company’s results will depend on future developments, which are highly uncertain and cannot be predicted. COVID-19 may have an effect on the Company’s ability to generate a profit from operations, and accordingly affect the going concern uncertainty. The Company has negative cash flow generated from operating activities of \$476,206 and an accumulated deficit of \$8,712,072 (December 31, 2020 - \$8,414,317). As disclosed in Note 11, during the nine months ended September 30, 2021, the Company, through TME, has successfully acquired additional relief loans in the total amount of €1,000,000 backed by the French government. Meanwhile, the Company was able to amend some of the existing long-term borrowings in order to extend the maturity and reduce the associated interest rates. The Company’s ability to continue as a going concern is dependent on continued support from related parties, generating a profit from operations, and obtaining additional financing as required.

These condensed consolidated interim 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. These adjustments could be material.

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, 2021.

These condensed consolidated interim financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company’s audited annual consolidated financial statements for the year ended December 31, 2020.

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis. 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, 2020 audited consolidated financial statements.

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, 2020.

4. OTHER ASSETS AND RECEIVABLES

Other assets and receivables consist of:

	September 30, 2021		December 31, 2020
Long term investments	\$ 13,885	\$	14,642
Deposit and guarantees	58,562		61,755
Amount receivable from shareholder (Note 18)	294,315		308,956
	\$ 366,762	\$	385,353

Amount receivable from shareholder is unsecured, bears no interest and has no terms of repayment.

Composite Alliance Group Inc.
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5. PROPERTY AND EQUIPMENT

Cost	December 31, 2020	Additions	Reductions	Foreign Exchange	September 30, 2021
Right of use assets	1,196,494	-	-	(61,864)	1,134,630
Technical facilities, equipment and industrial tools	746,153	29,618	(19,652)	(38,690)	717,429
Leaseholds and furniture	306,785	5,508	-	(15,834)	296,459
Cost	2,249,432	35,126	(19,652)	(116,388)	2,148,518
Depreciation	December 31, 2020	Additions	Reductions	Foreign Exchange	September 30, 2021
Right of use assets	496,869	185,653	-	(27,757)	654,765
Technical facilities, equipment and industrial tools	612,811	46,738	-	(32,205)	627,344
Leasehold and furniture	228,917	17,984	-	(11,947)	234,954
Depreciation	1,338,597	250,375	-	(71,909)	1,517,063
Net tangible assets	910,835	(215,249)	(19,652)	(44,479)	631,455
Cost	December 31, 2019	Additions	Reductions	Foreign Exchange	December 31, 2020
Right of use assets	1,011,613	111,519	-	73,362	1,196,494
Technical facilities, equipment and industrial tools	770,459	79,019	(157,348)	54,023	746,153
Leaseholds and furniture	270,443	15,312	-	21,030	306,785
Cost	2,052,515	205,850	(157,348)	148,415	2,249,432
Depreciation	December 31, 2019	Additions	Reductions	Foreign Exchange	December 31, 2020
Right of use assets	215,704	261,966	-	19,199	496,869
Technical facilities, equipment and industrial tools	637,304	80,448	(157,348)	33,811	612,811
Leasehold and furniture	189,392	24,015	-	15,510	228,917
Depreciation	1,042,400	366,429	(157,348)	68,520	1,338,597
Net tangible assets	1,010,115	(160,579)	-	79,895	910,835

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6. INTANGIBLE ASSETS

Costs	December 31, 2020	Additions	Foreign Exchange	September 30, 2021
Development costs	5,137,673	-	(265,643)	4,872,030
Software	71,875	19,652	(3,935)	87,592
Concessions, patents and distribution rights	858,600	-	(20,190)	838,410
Costs	6,068,148	19,652	(289,768)	5,798,032
Amortization	December 31, 2020	Additions	Foreign Exchange	September 30, 2021
Development costs	4,395,511	411,316	(231,846)	4,574,981
Software	-	-	-	-
Concessions, patents and distribution rights	492,368	77,663	(19,808)	550,223
Amortization	4,887,879	488,979	(251,654)	5,125,204
Net intangible assets	1,180,269	(469,327)	(38,114)	672,828
Costs	December 31, 2019	Additions	Foreign Exchange	December 31, 2020
Development costs	4,800,271	-	337,402	5,137,673
Software	-	71,875	-	71,875
Concessions, patents and distribution rights	832,956	-	25,644	858,600
Costs	5,633,227	71,875	363,046	6,068,148
Amortization	December 31, 2019	Additions	Foreign Exchange	December 31, 2020
Development costs	3,479,025	658,618	257,868	4,395,511
Software	-	-	-	-
Concessions, patents and distribution rights	347,551	120,210	24,607	492,368
Amortization	3,826,576	778,828	282,475	4,887,879
Net intangible assets	1,806,651	(706,953)	80,571	1,180,269

7. SHORT-TERM DEBT

The following facilities are available to the Company as at September 30, 2021 and December 31, 2020:

- i) An aggregate credit line up to a maximum of €500,000 (CAD \$745,700) for advanced payment refunds for its French customers that are due on demand, bear weighted average interest at 1.2% per annum (December 31, 2020 – 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. When these facilities are used, an amount of cash equal to 50% of the guaranteed amount has to be deposited and held in escrow by the bank until the guarantee expires. As at September 30, 2021, CAD \$nil (€nil) was outstanding on the facility (December 31, 2020 – CAD \$nil (€nil)).
- ii) Credit facility up to a maximum of €550,000 (CAD \$820,270), 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, 2020 – €550,000 at 3-month Euribor rate plus 2.51% 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, 2021, CAD \$nil (€nil) was outstanding on this facility (December 31, 2020- CAD \$nil (€nil)).
- iii) Credit facility for an aggregated amount of €1,350,000 (CAD \$2,013,390), 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, 2020 – €1,350,000 at 1-month Euribor rate plus 1.80% 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, 2021, CAD \$nil (€nil) was outstanding on this facility (December 31, 2020 – CAD \$nil (€nil)).
- iv) An aggregate bank guarantee facility up to a maximum of €1,800,000 (CAD \$2,684,520) for advanced payment refunds for its foreign customers that are due on demand, bear weighted average interest at 1.75% per annum (December 31, 2020 – €1,100,000 at 1.72% 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, 2021, there were \$129,304 (€86,700) guarantees outstanding (December 31, 2020 - \$174,497 (€111,800)).
- v) An aggregate foreign exchange cover line up to a maximum of €3,500,000 (CAD \$5,219,900) (December 31, 2020 – €4,500,000). As at September 30, 2021, CAD \$nil (€nil) was outstanding on this facility (December 31, 2020– CAD \$nil (€nil)).
- vi) Import credit line up to a maximum of €100,000 (CAD \$149,140) to facilitate the negotiation of the purchases from suppliers by offering the certainty of payment through the drafting of an import credit line contract. (December 31, 2020 – €100,000). Each party is required to comply with the obligations outlined in the contract. The import credit line bears interest at 1.25% per annum. This facility was made available during 2020 and was cancelled during the year. As at September 30, 2021, CAD \$nil (€nil) was outstanding on this facility (December 31, 2020– CAD \$nil (€nil)).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2021	December 31, 2020
Trade payable	\$ 2,993,838	\$ 3,214,712
Social security payable	463,444	566,231
Value added tax payable	714,952	370,929
Other liabilities	108,869	121,806
	\$ 4,281,103	\$ 4,273,678

9. CONVERTIBLE DEBENTURES

The Company completed a series of private placement of convertible unsecured debentures between December 2016 and March 2017. A total of 31,915 bonds were issued at €47 each, for a total principal amount of €1,500,005 (CAD \$2,187,457), to a shareholder of the Company. The convertible debentures accrue interest at 3% per annum, mature in December 2022. All or any of the debentures are convertible by the holder into common shares of TME at a conversion price of €18.16 per share at any time prior to the maturity date, or at any time subsequent to the maturity date if and only if the Company has failed to repay the full amount of the debentures at maturity. The early conversion prior to the maturity date is subject to approval by TSXV. 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 8%. An amount of CAD \$1,651,352 (€1,132,382) and CAD \$553,346 (€367,623) was allocated to the liability and equity component of the convertible debenture respectively. The amount outstanding as at September 30, 2021 is \$2,073,266 (December 31, 2020 - \$2,391,863). Accrued interest of \$50,379 has been recorded as finance costs for the nine months ended September 30, 2021 (September 30, 2020 - \$51,368). Accretion expense of \$85,532 (September 30, 2020 – \$87,177) was recorded as finance costs to accrete the liability to its principal amount.

Effective September 27, 2021, the maturity date of the convertible debentures has been extended to January 31, 2026. Also, effective October 1, 2021, the convertible debentures accrue interest at 2% per annum. The net present value of the debenture was calculated using a discount rate of 6.5%. An amount of CAD \$2,073,266 (€1,400,761) and CAD \$458,553 (€309,812) was allocated to the liability and equity component of the convertible debenture respectively. As such, the initial debentures were treated as extinguishment and new debentures was recognized at its fair value of €1,710,573 (CAD \$2,531,819) and gain on extinguishment of €280,311 (CAD \$414,888) was recorded in contributed surplus.

10. 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 incremental borrowing rate ranging from 2 to 5% and interest expense for the period ended September 30, 2021 was \$20,512 (September 30, 2020 - \$30,528).

	September 30, 2021		December 31, 2020	
Balance, beginning of period	\$	727,534	\$	813,450
Additions		-		107,182
Lease payments		(198,878)		(247,434)
Foreign exchange		(35,402)		54,336
		493,254		727,534
Less: current portion		(137,343)		(256,310)
	\$	355,911	\$	471,224

Future lease payments are as follows:

Less than one year	\$	54,948
1-3 years		226,821
3-5 years		162,813
More than 5 years		100,183
		544,765
Less: finance costs		(51,511)
	\$	493,254

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(Unaudited)

11. LONG-TERM BORROWINGS

	September 30, 2021	December 31, 2020
Loan denominated in Euro is guaranteed by the French government "PGE", bears interest at 0.25%, accrued interest and principal amount repayable at maturity and matures on February 2, 2022	\$ 1,480,100	\$ -
Loan denominated in Euro is unsecured, bears interest at 1.70%, Interest only payments and matures on January 31, 2026	1,148,932	-
Loan denominated in Euro is guaranteed by the French government "PGE", bears interest at 1.00%, monthly blended payment of €9,425 and matures on May 20, 2026	762,909	858,440
Loan denominated in Euro is guaranteed by the French national fund guarantee "Garantie Atout PME", bears interest at 2.50%, quarterly payment of €30,555 plus interest and matures on May 31, 2025	678,382	858,440
Loan denominated in USD is unsecured, bears interest at 2.00%, Interest only payments and matures on October 7, 2026	352,978	-
Loan denominated in CAD is unsecured, bears interest at 2.00%, Interest only payments and matures on January 31, 2026	325,799	-
Loan denominated in CAD is unsecured, bears interest at 2.00% per annum, and with interest only payments and matures on November 15, 2025.	284,370	-
Loan denominated in Euro is unsecured, bears interest at 0.95%, monthly blended payment of €4,228 and matures on March 4, 2023	111,798	176,214
Loan denominated in USD is unsecured, non-interest bearing and with no repayment term	93,009	92,944
Loan denominated in USD is unsecured, non-interest bearing and with no repayment term	46,505	46,472
Loan denominated in CAD is unsecured, non-interest bearing and matures on December 31, 2022.	40,000	30,000
Loan denominated in Euro is unsecured, bears interest at 1.50%, quarterly payments of principal and interest of €4,159 and matures on March 31, 2022	12,244	32,098
Loan denominated in USD is unsecured, bears interest at 5.00%, Interest only payments and matures on October 7, 2024. This loan was extinguished during the year	-	447,539
Loan denominated in CAD is unsecured, bears interest at 5.00%, Interest only payments and matures on January 31, 2026. This loan was extinguished during the year	-	400,000

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11. LONG-TERM BORROWINGS (continued)

	September 30, 2021	December 31, 2020
Loan denominated in CAD is unsecured, bears interest at 5.00% per annum, and with interest only payments and matures on November 15, 2025. This loan was extinguished during the year	-	264,829
Loan denominated in Euro is unsecured, bears interest at 5.72%, Interest only payments and matures on December 31, 2022. This loan was extinguished during the year	-	1,482,760
	5,337,026	4,689,736
Add: accrued interest	483,760	478,244
Less: current portion	(1,908,105)	(1,152,684)
	\$ 3,912,681	\$ 4,015,296

Principal repayments are as follows:

Remaining of 2021	\$	109,839
2022		1,942,572
2023		362,167
2024		345,046
2025		540,641
2026		1,897,245
Thereafter		139,516
	\$	5,337,026

The following long-term borrowings were amended during the nine-month period ended September 30, 2021:

- i) The Company reached an agreement with a related party to reduce the interest rate on a long-term borrowing denominated in Euro from 5.72% to 1.70% per annum, effective January 1, 2021. The initial long-term borrowing was treated as extinguishment and new borrowing was recognized at its fair value of €866,015 (CAD \$1,312,979) and gain on extinguishment of €83,985 (CAD \$124,307) was recorded in contributed surplus. Accrued interest of \$18,014 has been recorded as finance costs for the nine months ended September 30, 2021. Accretion expense of \$44,502 was recorded as finance costs to accrete the liability to its principal amount for the nine months ended September 30, 2021.

Effective September 27, 2021, the maturity of this borrowing was extended to January 31, 2026. As a result of this amendment, the long-term borrowing was treated as extinguishment and new borrowing was recognized at its fair value of €776,253 (CAD 1,148,932) and gain on extinguishment of €131,529 (CAD \$194,675) was recorded in contributed surplus.

11. LONG-TERM BORROWINGS (continued)

- ii) The Company reached an agreement with a related party to reduce the interest rate on a long-term borrowing denominated in CAD from 5% to 2% per annum, effective October 1, 2021. The initial long-term borrowing was treated as extinguishment and new borrowing was recognized at its fair value of \$325,799 and gain on extinguishment of \$74,201 was recorded in contributed surplus.
- iii) The Company reached an agreement with a related party to reduce the interest rate on a long-term borrowing denominated in USD from 5% to 2% per annum, effective October 1, 2021. Effective September 27, 2021, the maturity date of this long-term borrowing has been extended to October 7, 2026. The initial long-term borrowing was treated as extinguishment and new borrowing was recognized at its fair value of USD \$277,041 (CAD \$352,978) and gain on extinguishment of USD \$74,466 (CAD \$94,878) was recorded in contributed surplus.
- iv) The Company reached an agreement with two related parties to reduce the interest rate on a long-term borrowing denominated in CAD from 5% to 2% per annum, effective October 1, 2021. The initial long-term borrowing was treated as extinguishment and new borrowing was recognized at its fair value of \$284,370 and gain on extinguishment of \$9,666 was recorded in contributed surplus.
- v) The Company reached an agreement with a related party to reduce the interest rate on a long-term borrowing denominated in CAD from 5% to 2% per annum, effective October 1, 2021. No amount has been drawn as at September 30, 2021.

12. LONG TERM PROVISION

LONG TERM PROVISION	December 31, 2020	Increase	Decrease	Foreign Exchange	September 30, 2021
Provisions for contingent liabilities	\$ 161,029	-	(154,423)	(6,606)	-

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.

13. SHARE CAPITAL

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

Shares issued:

Common Shares	Number of shares	Amount (\$)
Balance September 30, 2021 and December 31, 2020	110,233,610	4,890,766

- i) 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 has been released from escrow as follows: ten percent (10%) of the escrowed shares has been released from escrow on the issuance of the Final Exchange bulletin and an additional fifteen percent (15%) will be released every 6 months thereafter.
- ii) 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.

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13. SHARE CAPITAL (continued)

Preferred Shares

19,200,000 Preferred Shares were issued as part of the reverse acquisition completed on February 12, 2019. The holder of these Preferred Shares has the ability to convert into Common Shares, contingent on meeting an earnings target and the continuing employment of a specified executive of the Company. The Company has the right to cancel the preferred shares if the conditions are not met. Therefore, the issuance is related to services rendered post acquisition. It was management's opinion that such conditions would be met. Accordingly, at the time the preferred shares were issued, the transaction has been treated as equity-settled share-based payment as per IFRS 2 Share-Based Payment. The fair value of the preferred shares was estimated to be \$0.10 per share for a total of \$1,920,000 and was to be recognized over a three year period.

During the period ended September 30, 2021, management has determined that the likelihood on meeting the earnings target is remote. During the nine months ended September 30, 2021, the Company recognized \$1,404,590 (September 30, 2020 – \$480,438 of expense) of share-based compensation recovery on the condensed consolidated interim statement of income (loss) and a corresponding debit to contributed surplus on the condensed consolidated interim statement of financial position to reflect management's assumption that no preferred shares will vest.

14. 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 nine months ended September 30, 2021, the Company recognized \$2,532 (September 30, 2020 – \$15,478) of share-based compensation on the condensed consolidated interim statement of loss with a corresponding credit to contributed surplus on the condensed consolidated interim statement of financial position.

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

	September 30, 2021		December 31, 2020	
	Options	Weighted-average exercise price	Options	Weighted- average exercise price
Opening	2,400,000	\$0.125	2,400,000	\$0.125
Granted	-	-	-	-
Closing	2,400,000	\$0.125	2,400,000	\$0.125

The following table summarizes information on stock options outstanding and exercisable at September 30, 2021:

Exercise Price	Number Outstanding	Number Exercisable	Weighted Average Contractual Life (years)
\$0.125	2,400,000	2,400,000	0.38

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15. NET INCOME (LOSS) PER COMMON SHARE

	Nine months ended September 30, 2021		Nine months ended September 30, 2020	
Net loss	\$	(313,138)	\$	(3,397,050)
Net loss attributable to common shareholders for the period	\$	(297,755)	\$	(3,395,166)
Weighted average number of common shares – basic and diluted		110,233,610		110,233,610

16. CONTINGENCY

A former customer of TME in Belgium is taking a legal action against the Company. The amount claimed for this litigation is \$1,350,000. The court ruling for this claim was first postponed to September 2020 but then was delayed again. In November, the court accepted the Belgium company's request to have a technical expert involved before making any final ruling. While the result is still pending, the Company has not made a provision regarding this litigation as the claim is excessive and the amount of outflow is uncertain.

17. SUBSEQUENT EVENT

On November 1, 2021, the Company withdrew \$600,000 from the unused long-term borrowing extended by a related party as disclosed in Note 11.

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18. 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:

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Stock based compensation to directors and officers of the Company	\$ 2,532	\$ 20,772
Director fees to non-executive directors	7,875	7,875
Salaries	672,324	751,438

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

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Real property leases paid to a company controlled by a director of the Company	\$ 103,715	\$ 105,462
Finance cost paid or accrued to a company controlled by a director of the Company	198,423	200,627
Finance cost paid or accrued to two of the directors of the Company	50,436	110,599
Stock based compensation to companies controlled by directors of the Company (Note 13)	(1,404,590)	480,438
Professional fees paid to a partnership controlled by a director of the Company	19,468	27,749
Commission expense paid or accrued to two companies controlled by two directors of the Company	111,314	147,690

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

	September 30, 2021	December 31, 2020
Receivable from a company controlled by a director of the Company	\$ 294,315	\$ 308,956
Convertible debentures issued to a company controlled by a director of the Company	2,073,266	2,391,863
Long term borrowing advanced from a company controlled by a director of the Company	1,563,795	1,896,321
Long term borrowing advanced from a company controlled by an officer of the Company	678,777	900,120
Long term borrowing advanced from companies controlled by two of the directors of the Company	379,120	334,897