

## **Composite Alliance Group Inc.**

### **MANAGEMENT DISCUSSION & ANALYSIS**

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

#### **For the Quarter Ended September 30, 2021**

This Management Discussion and Analysis (“**MD&A**”) is dated November 29, 2021.

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, 2021. 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 Company’s annual audited consolidated financial statements for the year ended December 31, 2020 and the unaudited condensed consolidated interim financial statements for the quarter ended September 30, 2021. Additional information about the Company can be found 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.

The Company conducts its sales activities in North America through its Dallas based subsidiary, Composite Alliance Corp (“**CAC**”), which the Company owns 90% of the equity capital.

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.

## 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 (the "Territory") through sub-distributors.

## SUMMARY OF ANNUAL FINANCIAL RESULTS

The annual 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 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, 2020 Audited	December 31, 2019 Audited	December 31, 2018 Audited
Total Revenue	6,779,139	\$14,734,750	\$ 10,391,612
Total expenses	9,179,980	13,689,719	9,608,650
Other expenses (income)	979,734	4,127,363	272,711
Net income (loss)	(3,380,575)	(3,082,332)	510,251
Basic earnings (loss) per share	(0.03)	(0.03)	0.01
Diluted earnings (loss) per share	(0.03)	(0.03)	0.01
Comprehensive income (loss)	(3,470,876)	(3,192,303)	535,853
Current Assets	9,491,277	8,591,490	8,253,530
Non-current Assets	2,476,457	3,176,813	2,743,040
Total Assets	11,196,734	11,768,303	10,996,570
Current Liabilities	5,938,999	5,114,930	5,532,587
Non-current Liabilities	7,690,475	5,509,083	4,250,998
Total Liabilities	13,629,474	10,624,013	9,783,585

QUARTERLY	3 Months Ended September 30, 2021 Unaudited	3 Months Ended September 30, 2020 Unaudited	3 Months Ended June 30, 2021 Unaudited	3 Months Ended June 30, 2020 Unaudited	3 Months Ended March 31, 2021 Unaudited	3 Months Ended March 31, 2020 Unaudited	3 Months Ended December 31, 2020 Unaudited	3 Months Ended December 31, 2019 Unaudited
Total Revenue	1,415,843	\$1,034,894	\$541,103	\$1,008,208	\$2,069,473	\$2,393,086	\$2,342,951	\$5,642,859
Total operating expenses	1,829,333	1,728,224	1,424,695	1,981,439	2,307,621	3,210,469	2,259,846	4,922,387
Other expenses (income)	166,166	327,540	(1,516,748)	258,218	128,489	327,346	471,801	270,784
Net income (loss)	(579,656)	(1,020,870)	633,155	(1,231,449)	(366,637)	(1,144,729)	16,473	449,688
Comprehensive income (loss)	(543,409)	(1,000,393)	654,815	(1,258,087)	(367,143)	(1,034,895)	(177,501)	417,116
Earnings per share:								
Basic	(0.00)	(0.01)	0.01	(0.01)	(0.00)	(0.01)	(0.00)	0.00
Diluted	(0.00)	(0.01)	0.01	(0.01)	(0.00)	(0.01)	(0.00)	0.00

## Revenue

Total revenue grew by 36.8% in 3Q2021 to \$1,415,843 from the same period in 2020, among which, machines sales grew by 37.3% while MVP products grew by 71.9%.

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

Product	3Q21	3Q20	Growth
Machine sales – TME and CAC (gross)	\$1,374.2	\$1,000.7	+37.3%
MVP Products (net)	41.6	24.2	+71.9%
Others	-	10.0	N.A.
Total	1,415.8	1,034.9	+36.8%

#### (1) Machine sales – TME and CAC

Revenue from machine sales grew by 37.3% in the third quarter in 2021, comparing to the same period in 2020. The growth was due to a slow recovery of order books in 2021 from 2020.

#### (2) MVP Products

Sales on the MVP product started to pick up certain momentum after a sluggish second quarter. However, the economy outlook in China is still dismayed and unclear because of electricity shortage during the second half of this year.

## Expenses

The total purchase costs (defined as purchases of raw materials and goods plus sub-contractors, “**Total Purchases**”) increased by 25.3% during the third quarter of 2021 from the same quarter of 2020 while Total Purchases accounted for 52.9% of revenue in the third quarter of 2021, compared to 57.8% in the same period of 2020. The improved margin was due to a different product mix delivered during the third quarter in 2021, and also a result of different delivery phases of the products between these two quarters.

Payroll expenses and social security decreased by 23.5% in the third quarter in 2021 from the same period in 2020 mainly due to less headcounts.

Selling, general and administration expenses increased by 103.3% in the third quarter in 2021 over the same period in 2020, mainly due to higher sales commissions and general expenses associated with the annual general assembly in 2021 (nil in the same quarter in 2020). Despite of the growth in this quarter, the Company still managed to post a decline of 17.3% in selling, general and administrating expenses during the nine months ended September 30, 2021 over the same period in 2020.

Provision variations appeared more significant during the third quarter of 2021 than the same quarter in 2020 due to foreign exchange variations.

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

Expense Items	3Q21	% to revenue	3Q20	% to revenue	Growth
Purchased raw materials and goods	\$252.8	17.9%	\$399.3	38.6%	-36.7%
Subcontractor	496.9	35.1%	199.2	19.2%	+149.5%
Payroll expenses and social security	546.9	38.6%	715.0	69.1%	-23.5%
Selling, general and administrative	377.5	26.7%	185.7	17.9%	+103.3%
Property and apprenticeship taxes	19.5	1.4%	23.7	2.3%	-17.7%
Depreciation and amortization	246.1	17.4%	299.5	28.9%	-17.8%
Provision variations	(110.3)	(7.8)%	(34.4)	(3.3)%	N.A.
Miscellaneous Expenses	-	-	(59.8)	(5.8)%	N.A.
Total	1,829.3	129.2%	1,728.2	167%	-40.4%

#### **Other Expenses (Income)**

As the Company had completed amortizing the expenses associated with options issued to the management, and reversed the expenses associated with the preferred shares issued during the reverse takeover in 2019 as a result of management's assessment that the conditions for the preferred shares will not be met and the preferred shares will be cancelled, the Company did not incur any stock based compensation in the third quarter of 2021.

Finance cost increased by 80.2% during the third quarter of 2021 over the same period in 2020. The increase was mainly due to foreign exchange variations.

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

<b>Expense (Income) Item</b>	<b>3Q21</b>	<b>% to revenue</b>	<b>3Q20</b>	<b>% to revenue</b>	<b>GROWTH</b>
Stock based compensation	\$0.0	0.0%	\$166.7	16.1%	N.A.
Foreign exchange gain	(14.1)	(1.0)%	60.2	5.8%	N.A.
Finance costs	181.5	12.8%	100.7	9.7%	80.2%
<b>OTHER EXPENSES (INCOME)</b>	(1.3)	0.1%	(59.8)	5.78%	N.A.
Total	166.1	11.7%	327.5	31.6%	N.A.

During the period ended September 30, 2021, the Company restructured certain outstanding loans held with related parties by lowering the embedded interest rates and/or extending the maturities (the amended terms are summarized in the table below). Such restructuring resulted in the recognition of gain from debt modification that has been recorded in contributed surplus during the first three quarters in 2021 since the debt modification occurred with a related party.

**Summary of Loan Restructuring in September 2021**

<b>No.</b>	<b>Debenture/Loan</b>	<b>Principal (\$)</b>	<b>Terms Amended</b>	
			<b>Annual Interest Rate*</b>	<b>Maturity</b>
1	July 2019 loan	CAD 400,000	From 5% to 2%	-
2	Oct 2019 loan	USD 351,507.25	From 5% to 2%	From Oct 7 2024 to Jan 31 2026
3	Nov 2020 loan-01	CAD 600,000	From 5% to 2%	-
4	Nov 2020 loan-02	CAD 60,000	From 5% to 2%	-
5	Nov 2020 loan-03	CAD 1,000,000	From 5% to 2%	-
6	Convertible debenture	EUR 1,500,005	From 3% to 2%	From Dec 31 2022 to Jan 31 2026
7	Loans	EUR 950,000	-	From Dec 31 2022 to Jan 31 2026

\*Effective from October 1, 2021

**Profits**

The Company posted an operating loss of \$413,490 and a net loss of \$579,656 in the third quarter of 2021, compared to an operating loss of \$753,130 and a net loss of \$1,020,872 in the same period of 2020.

**CAPITAL RESOURCES MANAGEMENT**

During the nine months ended September 30, 2021, the Company generated negative cash of \$476,206 from operating activities, compared to positive cash flows of \$467,186 during the same period of 2020. This negative cash inflow was mainly resulted from the adjustments of non-cash items in other income and the reversal of the stock based compensation.

During the nine months ended September 30, 2021, the Company had negative cash flows of \$35,126 from investing activities, compared to negative cash flows of \$157,993 during the same period of 2020. The negative cash outflows in 2021 was mainly for investments in technical equipment which were less than the same period in 2020.

During the nine months ended September 30, 2021, the Company posted positive financing cash flows of \$1,052,403, compared to positive cash flows of \$1,680,682 during the same period of 2020. The cash inflows during this period were mainly from the new borrowing in France, and such borrowing was less than the same period in 2020.

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, 2021, the Company had cash of \$3,380,219 and working capital of \$2,501,070, compared to \$2,929,679 and \$3,552,278, respectively as of December 31, 2020. The increase in cash balance in 2021 was mainly from the new borrowing in France.

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

The world is now facing a new wave of threat from COVID-19 Delta Variant. Although full lockdowns appear less now with the rising vaccination coverage, global travel bans and social distancing are still commonly seen in various countries. These measures could negatively impact the Company's operations. The aeronautic sector which TME and CAC focus on continues to suffer from such downturn.

The Company's going concern remains dependent upon its ability to generate enough operating cash flows from existing and new projects, obtain continuous support from related parties, and/or raise or borrow additional funds. During the first quarter of 2021, the Company, through TME, has successfully acquired additional relief loans in the total amount of EUR 1,000,000 backed by the French government. In August and November 2021, the Company successfully acquired an additional \$20,000 CEBA loan and an additional \$600,000 related party loan, respectively. The Company also successfully restructured part of its related party debentures in September 2021 by lowering the embedded interest rates and/or extending the maturities.

As of the date of this MD&A, the Company does not foresee any significant risk in collecting its accounts receivable from customers, a primary source of its cash flows, and will continue watching the development of the pandemic closely in order to formulate effective counter measures on a timely manner.

## **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 fixed and floating rate financial liabilities.

### **Credit Risk**

The Company is exposed to credit risk associated with cash and cash equivalent, accounts receivable, and other receivables. 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 had cash of \$3,380,219 and working capital of \$2,501,070 as of September 30, 2021.

## **ACCOUNTING POLICIES**

### **Basis of Preparation**

The unaudited condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting using accounting policies 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 and the fair value of loans 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 September 30, 2021, 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 \$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 that 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)).

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)).

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)).

An aggregate bank guarantees 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)).

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)).

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)).

### Transaction Between Related Parties

During the third quarter of 2021, the Company has the following related party transactions:

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

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

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

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

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

### **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.