

## **Composite Alliance Group Inc.**

### **MANAGEMENT DISCUSSION & ANALYSIS FORM 51-102F1 For the Year Ended December 31, 2020**

This Management Discussion and Analysis (“**MD&A**”) is dated April 30, 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 year ended December 31, 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 audited consolidated financial statements for Composite Alliance Group Inc. for the year ended December 31, 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, 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, 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 (the "Territory") through sub-contractors.

## **OVERALL PERFORMANCE IN 2020**

The outbreak of the COVID-19 pandemic since the beginning of 2020 had an adverse impact on the Company's operations as a whole. In China, the whole country was in a nationwide lockdown since late January 2020 for almost three months. In France and North America, similar mandatory lockdowns have been imposed for several times starting from March 2020 until now. During the lockdowns, the Company's production and sales activities were put on halt because of work stoppage of the Company itself, its customers and its suppliers, resulting in significant sales and profitability decline to the Company in 2020 from 2019. The Company also experienced slowdown in soliciting new projects since the outbreak.

While the Company's employees were advised to work from home and prohibited from traveling most of the time in 2020, the Company managed to conduct sales and R&D research activities off-site, envisaging a more solid foundation for the Company's business in 2021.

In summary, the Company's revenue totaled \$6,779,139 in 2020, compared to revenue of \$14,734,750 in 2019, and an operating loss of \$2,400,841, compared to an operating profit of \$1,045,031 in 2019. The Company also incurred other expenses of \$979,734, compared to those of \$4,127,363 in 2019. The Company's net loss for 2020 was \$3,380,575, compared to a net loss of \$3,082,332 in 2019. The Company reported a total comprehensive loss of \$3,470,876 in 2020, compared to a total comprehensive loss of \$3,192,303 in 2019.

## **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 annual financial information presented ended December 31, 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, 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	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

## ANNUAL RESULTS OF OPERATIONS

### Revenue

Total revenue declined by 54% in 2020 to \$6,779,139 from 2019, mainly due to the sales decline of TME.

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

Product	2020	2019	Growth
Machine sales – TME and CAC (gross)	6,683.9	\$14,683.4	-54.5%
MVP Products (net)	95.3	51.3	+85.8%
Total	\$6,779.1	\$14,734.7	-54%

#### (1) Machine sales – TME and CAC

Revenue from machine sales declined by 54.5% in 2020 from 2019. The aeronautic sector which TME and CAC focus most on suffered from a direct hit by the pandemic, which resulting in less demand for TME products. While such a downturn was universally seen in every region where TME and CAC conduct sales activities, the Company experienced larger sales decline in Europe and Asia in 2020. Thanks to the efforts which CAC had spent in cultivating North American customers in the past years, the North America market had become the largest market (accounting for 40% of the revenue) for TME in 2020, followed by the European market (accounting for 32% of the revenue).

**TME Revenue Breakdown (%) by Geography\***

<b>Product</b>	<b>2020</b>	<b>2019</b>
Asia	28%	31%
Europe	32%	46%
North America	40%	23%
Total	100%	100%

In 2021, viewing the markets might slowly pick up eventually, TME and CAC continue to pursue new projects from existing and prospective customers, with a plan to launch the delayed SMART solution products, a platform that enables customers to use one interface (SMART PILOT) for more integrated manufacturing process, during the second half of the year.

The travel ban imposed by most of the countries in the world made the installation of machines impossible for TME and CAC in 2020. While as of today intercontinental travelling still shows no sign of full recovery, CAC hired a senior technician locally at the beginning of 2021. TME and CAC could now rely on this senior technician to help with the installation on customers premises in North America, as well as to provide local after-sales services in the future.

While TME and CAC continue to actively seek for more alternatives to service its customers under the current circumstances, it remains difficult to predict when TME's and CAC's sales activity is able to return to the same level pre-COVID-19 in 2021.

## (2) MVP Products

The Company distributes MVP products through sub-distributors. To better manage its working capital, the Company orders from MVP only after it has received confirmed orders from sub-distributors. The Company thus records revenue on a 'net basis' (revenue net costs of goods sold). Experiencing a slowdown in sales in the Territory during the first half of 2020, the Company collaborated with sub-distributors and launched a few promotional campaigns during the second half of 2020. In 2020, the MVP business generated a net revenue of \$95,267 for the Company, a rise of 85.8% from 2019.

## Expenses

Purchases of raw materials and goods declined by 46.1% in 2020 from 2019. Purchases from sub-contractors also declined by 54% in 2020 from 2019. These two purchase costs ("**Total Purchases**") together accounted for 50.9% of revenue ("**Total Purchase %**"), compared to 47.8% in 2019. The decline in the Total Purchase was due to less projects delivered, while the rising Total Purchases % was due to budget overrun on some projects, an impact from the lockdown of France and North America in 2020.

Payroll expenses and social security contributions declined by 20.5% in 2020 from 2019. The decrease was mainly due to the termination of certain employees in TME. The table below summarizes the change of the number of paid-employees of each company in 2019 and 2020.

Selling, general and administration expenses decreased by 33.5% in 2020 over 2019. The decrease mainly came from variable costs directly associated with project delivery, and the absence of industrial shows and traveling expenses in 2020. Consisting of some fixed general and administrative expenses, the SG&A expenses, however, accounted for higher percentage of revenue in 2020, reaching 21.8% vs. 15.1% in 2019.

Depreciation and amortization grew by 23.1% in 2020 from 2019, mainly because of the additional amortization from the concession fee paid to the former distributor of MVP products in the Territory for the acquisition of the Distribution Agreement with MVP in September 2019.

#### **Number of Paid Employees**

<b>Company</b>	<b>As of December 31 2020</b>	<b>As of December 31 2019</b>	<b>Growth</b>
CAG	2	2	+0
TME	35	46	-11
CAC	2	2	+0
Total	39	50	-11

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

<b>Expense Items</b>	<b>2020</b>	<b>% to revenue</b>	<b>2019</b>	<b>% to revenue</b>	<b>Growth</b>
Purchased raw materials and goods	\$2,078.5	30.7%	\$3,858.7	26.2%	-46.1%
Subcontractor	1,579.5	23.3%	3,180.3	21.6%	-50.3%
Payroll expenses and social security contributions	2,656.4	39.2%	3,340.3	22.7%	-20.5%
Selling, general and administrative	1,476.4	21.8%	2,219.4	15.1%	-33.5%
Taxes and related payments	112.3	1.7%	152.1	1.0%	-26.2%
Depreciation and amortization	1,127.4	16.6%	916.0	6.2%	+23.1%
Provision variations	149.6	2.2%	(72.7)	(0.5%)	N.A.
Miscellaneous expenses	0.0	0.0%	95.7	0.6%	N.A.
Total	9,178.0	135.4%	13,689.7	92.9%	-32.9%

#### **Other Expenses**

While the Company didn't issue any new stock based compensation in 2020, the stock based compensation stayed rather flat in 2020 from 2019.

The finance costs increased to \$632,830 in 2020, a 48.4% growth from 2019, mainly due to the additional debentures acquired from local financial institutions by TME as part of the relief programs offered by the French government.

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

<b>Expense (Income) Item</b>	<b>2020</b>	<b>% to revenue</b>	<b>2019</b>	<b>% to revenue</b>	<b>GROWTH</b>
Listing expense	\$0.0	0.0%	\$3,123.1	21.2%	N.A.
Stock based compensation	667.8	9.9%	662.0	4.5%	+0.9%
Foreign exchange gain	84.3	1.2%	(84.1)	(0.6)%	N.A.
Finance costs	632.8	9.3%	426.3	2.9%	+48.4%
Other income	(405.2)	(6.0)%	-	-	N.A.
Total	979.7	19.3%	4,127.4	28.0%	-76.3%

**Profits**

The Company posted an operating loss of \$1,995,670 in 2020, compared to an operating income of \$1,045,031 in 2019. After considering the other expense items, the Company posted a net loss of \$3,380,575 in 2020, compared to a net loss of \$3,082,332 in 2019.

**SUMMARY OF QUARTERLY FINANCIAL RESULTS**

The quarterly financial information of the reverse takeover acquirer, TME, have been presented below for all periods prior to the reverse takeover transaction. Subsequent to the reverse takeover transaction effected on February 12, 2019, the quarterly financial information presented for the interim period ended December 31, 2019 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”).

<b>QUARTERLY</b>	<b>3 Months Ended December 31, 2020 Unaudited</b>	<b>3 Months Ended December 31, 2019 Unaudited</b>	<b>3 Months Ended September 30, 2020 Unaudited</b>	<b>3 Months Ended September 30, 2019 Unaudited</b>	<b>3 Months Ended June 30, 2020 Unaudited</b>	<b>3 Months Ended June 30, 2019 Unaudited</b>	<b>3 Months Ended March 31, 2020 Unaudited</b>	<b>3 Months Ended March 31, 2019 Unaudited</b>
Total Revenue	\$2,342,951	\$5,642,859	\$1,034,894	\$4,630,919	\$1,008,208	\$2,737,235	\$2,393,086	\$1,723,737
Total operating expenses	2,259,846	4,922,387	1,728,224	3,739,940	1,981,439	2,871,524	3,210,469	2,155,868
Other expenses	471,801	270,784	327,540	259,643	258,218	229,916	327,346	3,367,019
Net income (loss)	16,473	449,688	(1,020,870)	631,335	(1,231,449)	(364,205)	(1,144,729)	(3,799,150)
Comprehensive income (loss)	(177,501)	417,116	(1,000,393)	579,802	(1,258,087)	(357,247)	(1,034,895)	(3,831,974)
Earnings per share:								
Basic	(0.00)	0.00	(0.01)	0.01	(0.01)	(0.00)	(0.01)	(0.04)
Diluted	(0.00)	0.00	(0.01)	0.01	(0.01)	(0.00)	(0.01)	(0.04)

**FOURTH QUARTER RESULTS OF OPERATIONS**

For the three-month period ended December 31, 2020, the Company’s revenue totaled \$2,342,951, compared to revenue of \$5,642,859 during the same period in 2019, and an operating profit of \$83,105, compared to an operating profit of \$720,472 in 2019. The Company also incurred other expenses of \$66,630, compared to those of \$270,784 during the same period in 2019. The Company’s net income for the three-month period ended December 31, 2020 was \$16,473, compared to a net profit of \$449,688 during

the same period in 2019. The Company reported a total comprehensive loss of \$177,501, compared to a total comprehensive profit of \$417,116 during the same period in 2019.

## **CAPITAL RESOURCES MANAGEMENT**

During 2020, the Company generated positive cash of \$774,305 from operating activities, compared to positive cash flows of \$1,390,516 in 2019. This lower cash flow was mainly resulted from larger loss in 2020 and larger non-cash expense relating to the listing expense in the prior year.

The Company had negative cash flows of \$166,206 from investing activities in 2020, compared to negative cash flows of \$352,105 in 2019. The cash outflows in 2020 were mainly due to the purchases of hardware and software such as ERP, servers and workstations etc.

In 2020, thanks to the relief packages offered by the French government, the Company was able to acquire low-cost financing in France and posted positive financing cash flows of \$1,537,259, compared to negative cash flows of \$799,703 in 2019 which were mostly relating to the repayment of borrowings.

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 December 31, 2020, the Company had cash of \$2,929,679 and working capital of \$3,552,278, compared to \$735,750 and \$3,476,560, respectively as of December 31, 2019. The increase in cash balance were resulted mainly from the increase in borrowings.

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

The world is still seriously affected by COVID-19 since the outbreak more than one year ago. Lockdowns, global travel bans and social distancing are still commonly seen in various countries. These measures could negatively impact the Company's operations, especially in France and North America. The aeronautic sector which TME and CAC focus on continues to suffer from the downturn. 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. 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. In order to cope with the adverse circumstances, the Company has taken the following actions to mitigate the impact of the COVID-19 on its cash flows since the start of the pandemic:

- Applied for French government subsidies for employee on technical unemployment.
- Receipt of 2 bank loans guaranteed by the French government in the total amount of EUR 1,100,000 for a duration of up to five years in 2020, and additional 3 similar loans in the total amount of EUR 1,000,000 in 2021.
- Receipt of bank financing of \$40,000 through Canada Emergency Business Account in July 2020.
- One related party agreed to lower the interest rates on two long-term loans it lent to TME from 5.72% to 1.70% per annum, effective from January 1 2021.
- The restructure of CAG's debts from related parties, including the convertible debentures and loans, was concluded in November 2020. Upon this restructure, the convertible debenture is converted into a straight loan while the maturities of the debts are generally extended for additional four to five years.
- A credit facility of \$1,000,000 provided to CAG by a related party from which CAG could withdraw funds at any time when needed.

## **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 has cash of \$2,929,679 and working capital of \$3,552,278 as of December 31, 2020.

## **ACCOUNTING POLICIES**

### **Basis of Preparation**

The financial statements have been prepared in accordance 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 \$780,400) for advanced payment refunds for its French customers that are due on demand, bear weighted average interest at 1.2% per annum (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 December 31, 2020, CAD \$nil (€nil) was outstanding on the facility (2019 – CAD \$nil (€nil)).

Credit facility up to a maximum of €550,000 (CAD \$858,440), 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 (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 December 31, 2020, CAD \$nil was outstanding on this facility (2019 – CAD \$331,902 (€227,595)).

Credit facility for an aggregated amount of €1,350,000 (CAD \$2,107,080), 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 (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 December 31, 2020, CAD \$nil (€nil) was outstanding on this facility (2019 – CAD \$nil (€nil)).

An aggregate bank guarantees up to a maximum of €1,100,000 (CAD \$1,716,880) for advanced payment refunds for its foreign customers that are due on demand, bear weighted average interest at 1.72% per annum (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 December 31, 2020, there were \$174,497 (€111,800) guarantees outstanding (2019 – \$530,826 (€142,300 and USD \$248,930)).

An aggregate foreign exchange cover line up to a maximum of €4,500,000 (CAD \$7,023,600) (2019 - €4,500,000).

Import credit line up to a maximum of €100,000 (CAD \$156,080) 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 (2019 - €nil). As at December 31, 2020, CAD \$nil (€nil) was outstanding on this facility (2019 - CAD \$nil (€nil)).

### Transaction Between Related Parties

In 2020, the Company has the following related party transactions:

	December 31, 2020	December 31, 2019
Stock based compensation to directors and officers of the Company	\$26,065	\$97,411
Director fees to non-executive directors	10,500	7,500
Salaries	981,242	1,021,182

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

	December 31, 2020	December 31, 2019
Real property leases paid to a company controlled by a director of the Company	\$141,356	\$114,394
Finance cost paid or accrued to a company controlled by a director of the Company	228,174	173,261
Finance cost paid or accrued to two of the directors of the Company	178,845	129,766
Stock based compensation to companies controlled by directors of the Company	30,640	34,549
Professional fees paid to a company controlled by a director of the Company	641,753	564,603
Commissions paid or accrued to the two companies controlled by two directors of the Company	86,083	406,674

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

	December 31, 2020	December 31, 2019
Receivable from a company controlled by a director of the Company	\$308,957	\$288,668
Convertible debentures issued to a company controlled by a director of the Company	2,391,863	2,070,044
Long term borrowing advanced from a company controlled by a director of the Company	1,896,321	1,700,298
Long term borrowing advanced from a company controlled by an officer of the Company	900,120	870,730
Convertible debentures issued to two of the directors of the Company	-	594,914
Long term borrowing advanced from companies controlled by two of the directors of the Company	334,897	-

### Changes in Accounting Policies

The Company adopted the amendments to IFRS 3, 16, 7, 9 and IAS 39 on January 1, 2020, however, they did not have a material impact to the Company's consolidated financial statement.

**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.