

Composite Alliance Group Inc.

Condensed Consolidated Interim Financial Statements
September 30, 2022
(In Canadian dollars)
(Unaudited)

Notice to Reader

The accompanying unaudited condensed interim financial statements of Composite Alliance Group Inc. (the “Corporation”) have been prepared by and are the responsibility of management. The unaudited condensed interim financial statements have not been reviewed by the Corporation’s auditors.

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

	September 30, 2022 (Unaudited)	December 31, 2021
Assets		
Cash and cash equivalents	\$ 1,354,914	\$ 2,070,582
Accounts receivable	3,157,210	5,405,097
Contract asset	1,043,637	3,256
Prepaid expense and others	166,221	266,653
Other receivables	396,506	569,411
Total current assets	6,068,488	8,314,999
Other assets and receivables (Note 4)	318,893	356,601
Property and equipment (Note 5)	1,447,279	560,603
Intangible assets (Note 6)	1,242,877	983,707
Total assets	\$ 9,077,537	\$ 10,215,910
Liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 2,528,308	\$ 2,910,034
Contract liabilities	967,175	389,381
Current portion of lease obligation (Note 10)	192,343	104,307
Current portion of long-term borrowings (Note 11 & 15)	553,422	410,770
Total current liabilities	4,241,248	3,814,492
Convertible debentures (Note 9 & 15)	1,996,145	2,047,736
Lease obligation (Note 10)	966,949	334,812
Long-term provision	3,723	-
Long-term borrowings (Note 11 & 15)	5,047,656	5,543,113
Post-employment benefits plans	177,293	249,570
Research tax credit	336,321	50,065
Total liabilities	12,769,335	12,039,788
Shareholders' equity		
Share capital (Note 12)	4,890,766	4,890,766
Contributed surplus (Note 13)	1,442,199	1,442,199
Equity component of convertible debentures (Note 9)	458,553	458,553
Accumulated other comprehensive loss	(215,46)	(153,047)
Deficit	(10,267,856)	(8,462,349)
Total shareholders' equity attributable to common shareholders	(3,691,798)	(1,823,878)
Total liabilities and shareholders' equity	\$ 9,077,537	\$ 10,215,910

Going concern (Note 1)
Contingency (Note 7)

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 nine-month period ended September 30
(In Canadian dollars)
(Unaudited)

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Revenue	\$ 1,108,066	\$ 1,415,843	\$ 2,681,052	\$ 4,026,419
Expenses				
Purchased raw material and goods	(62,283)	252,751	432,616	1,104,209
Payroll expenses and social security	337,763	546,917	1,758,142	2,074,534
Subcontractor	413,158	496,898	572,663	1,097,950
Selling, general and administrative	304,100	377,461	1,215,121	963,461
Property and apprenticeship taxes	15,497	19,537	48,525	66,048
Depreciation and amortization	127,122	246,104	468,174	739,601
Provision variations	(28,775)	(110,335)	(64,296)	(484,154)
	1,484	(413,490)	(1,749,893)	(1,535,230)
Other expenses (income)				
Stock based compensation (Note 12 & 13)	-	-	-	(1,402,058)
Foreign exchange loss (gain)	(238,878)	(14,070)	(218,462)	(3,284)
Finance costs	122,181	181,541	355,985	415,055
Other expense (income)	220,174	(1,305)	(81,909)	(231,805)
Net (loss) income	(101,993)	(579,656)	(1,805,507)	(313,138)
Net (loss) income attributable to				
Common shareholders	(101,993)	(576,269)	(1,805,507)	(297,755)
Non-controlling interest (Note 1)	-	(3,387)	-	(15,383)
Net (loss) income	(101,993)	(579,656)	(1,805,507)	(313,138)
(Loss) income per common share (Note 14) Basic and diluted	(0.00)	(0.00)	(0.02)	(0.00)
Other comprehensive (loss) income				
Items that will be reclassified subsequently to profit or loss				
Exchange difference on translating foreign operations	51,565	36,247	(62,413)	57,401
Total comprehensive (loss) income	(50,428)	(543,409)	(1,867,920)	(255,737)
Comprehensive (loss) income attributable to				
Common shareholders	(50,428)	(538,191)	(1,867,920)	(240,035)
Non-controlling interest (Note 1)	-	(5,218)	-	(15,702)
Attributable comprehensive (loss) income	(50,428)	(543,409)	(1,867,920)	(255,737)

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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, 2020	4,890,766	1,528,065	553,346	(163,488)	(8,414,317)	(56,112)	(1,661,740)
Share based compensation (Note 12 & 13)	-	(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	4,890,766	1,038,622	458,553	(105,768)	(8,712,072)	(71,814)	(2,501,713)
Balance December 31, 2021	4,890,766	1,442,199	458,553	(153,047)	(8,462,349)	-	(1,823,878)
Comprehensive loss	-	-	-	(62,413)	(1,805,507)	-	(1,867,920)
Balance September 30, 2022	4,890,766	1,442,199	458,553	(215,460)	(10,267,856)	-	(3,691,798)

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

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

	2022	2021
Operating		
Net (loss) income	\$ (1,805,507)	\$ (313,138)
Items not affecting cash:		
Depreciation and amortization	468,174	739,601
Provisions	(64,296)	(484,154)
Finance costs	355,587	356,229
Other income (expense)	(234,790)	(54,524)
Stock based compensation	-	(1,402,058)
Change in working capital requirement		
Change in prepaid and others	170,031	(206,628)
Change in trade and other receivables	1,425,450	1,096,089
Change in trade and other payables	139,817	(207,623)
Net cash provided by (used in) operating activities	434,466	(476,206)
Investing		
Acquisition of tangible assets	(12,480)	(35,126)
Acquisition of intangible assets	(818,325)	-
Net cash used in investing activities	(830,805)	(35,126)
Financing		
Proceeds from new borrowings	-	1,516,763
Repayment of borrowings	(362,611)	(265,482)
Repayment of lease obligation	(158,796)	(198,878)
Grant received	313,771	-
Net cash (used in) provided by financing activities	(207,635)	1,052,403
Effect of exchange on cash	(111,694)	(90,531)
Net increase (decrease) in cash	(715,668)	450,540
Cash and cash equivalents, beginning of period	2,070,582	2,929,679
Cash and cash equivalents, end of period	\$ 1,354,914	\$ 3,380,219

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

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 which has been inactive to date.

Prior to January 2, 2020, the Company owned 70% of the issued shares of Composite Alliance, Corp (“CAC”), a company registered in Delaware, US and based in Dallas, US. Effective January 2, 2020, the Company acquired an additional 20% shares from a non-controlling shareholder of CAC, giving a 90% interest in CAC. The acquisition of the additional 20% interest was accounted for as an equity transaction. Effective December 16, 2021, the Company acquired the remaining 10% shares from a non-controlling shareholder of CAC, giving a 100% interest in CAC. The acquisition of the additional 10% interest was accounted for as an equity transaction.

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 800, 333-7 Avenue S.W., Calgary, Alberta T2P 2Z1, 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 incurred a net loss of \$1,805,507 (September 30, 2021 – \$313,138) and as of that date, an accumulated deficit of \$10,267,856 (December 31, 2021 - \$8,462,349). 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 21, 2022.

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, 2021.

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, 2021 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, 2021.

4. OTHER ASSETS AND RECEIVABLES

Other assets and receivables consist of:

	September 30, 2022		December 31, 2021
Long term investments	\$ 510	\$	13,500
Deposit and guarantees	52,950		56,939
Amount receivable from shareholder (Note 15)	265,433		286,162
	\$ 318,893	\$	356,601

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

Composite Alliance Group Inc.
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2022
(In Canadian dollars)
(Unaudited)

5. PROPERTY AND EQUIPMENT

Cost	December 31, 2021	Additions	Reductions	Foreign Exchange	September 30, 2022
Right of use assets	1,125,799	937,417	(78,748)	(95,172)	1,889,296
Technical facilities, equipment and industrial tools	697,555	246,757	-	(53,548)	890,764
Leaseholds and furniture	295,332	806	-	(20,444)	275,694
Cost	2,118,686	1,184,980	(78,748)	(169,164)	3,055,754

Depreciation	December 31, 2021	Additions	Reductions	Foreign Exchange	September 30, 2022
Right of use assets	698,845	158,796	(39,245)	(51,222)	767,174
Technical facilities, equipment and industrial tools	624,754	22,114	-	(44,180)	602,688
Leasehold and furniture	234,484	20,688	-	(16,559)	238,613
Depreciation	1,558,083	201,598	(39,245)	(111,961)	1,608,475

Net tangible assets	560,603	983,382	(39,503)	(57,203)	1,447,279
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Cost	December 31, 2020	Additions	Disposals	Foreign Exchange	December 31, 2021
Right of use assets	1,196,494	23,286	-	(93,981)	1,125,799
Technical facilities, equipment and industrial tools	746,153	29,342	-	(77,940)	697,555
Leaseholds and furniture	306,785	12,717	-	(24,170)	295,332
Cost	2,249,432	65,345	-	(196,091)	2,118,686

Depreciation	December 31, 2020	Additions	Disposals	Foreign Exchange	December 31, 2021
Right of use assets	496,869	248,034	-	(46,058)	698,845
Technical facilities, equipment and industrial tools	612,811	61,541	-	(49,598)	624,754
Leasehold and furniture	228,917	23,998	-	(18,431)	234,484
Depreciation	1,338,597	333,573	-	(114,087)	1,558,083

Net tangible assets	910,835	(268,228)	-	(82,004)	560,603
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Composite Alliance Group Inc.
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2022
(In Canadian dollars)
(Unaudited)

6. INTANGIBLE ASSETS

Costs	December 31, 2021	Additions	Foreign Exchange	September 30, 2022
Development costs	5,196,379	577,103	(374,940)	5,398,542
Software	85,166	6,139	(6,082)	85,223
Concessions, patents and distribution rights	828,152	-	(25,219)	802,933
Costs	6,109,697	583,242	(406,241)	6,286,698

Amortization	December 31, 2021	Additions	Foreign Exchange	September 30, 2022
Development costs	4,560,331	197,811	(323,182)	4,434,960
Software	6,433	288	(456)	6,265
Concessions, patents and distribution rights	559,226	68,477	(25,107)	602,596
Amortization	5,125,990	266,576	(348,745)	5,043,821

Net intangible assets	983,707	316,666	(57,496)	1,242,877
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Cost	December 31, 2020	Additions	Foreign Exchange	December 31, 2021
Development costs	5,137,673	473,265	(414,559)	5,196,379
Software	71,875	19,470	(6,179)	85,166
Concessions, patents and distribution rights	858,600	-	(30,448)	828,152
Cost	6,068,148	492,735	(451,186)	6,109,697

Amortization	December 31, 2020	Additions	Foreign Exchange	December 31, 2021
Development costs	4,395,511	522,976	(358,156)	4,560,331
Software	-	6,628	(196)	6,433
Concessions, patents and distribution rights	492,368	96,764	(29,905)	559,226
Amortization	4,887,879	626,368	(388,257)	5,125,990

Net intangible assets	1,180,269	(133,633)	(62,929)	983,707
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7. SHORT-TERM DEBT

The following facilities are available to the Company as at September 30, 2022 and December 31, 2021:

- i) An aggregate credit line up to a maximum of €nil (CAD \$nil) for advanced payment refunds for its French customers that are due on demand, bear weighted average interest at 1.5% per annum (December 31, 2021 – limit of €500,000 at 1.5% 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, 2022, CAD \$nil (€nil) was outstanding on the facility (December 31, 2021 – CAD \$nil (€nil)).
- ii) Credit facility up to a maximum of €nil (CAD \$nil), 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 2.00% per annum. (December 31, 2021 – €200,000 at 3-month Euribor rate plus 2.00% 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, 2022, CAD \$nil (€nil) was outstanding on this facility (December 31, 2021 – CAD \$nil (€nil)).
- iii) Credit facility for an aggregated amount of €1,350,000 (CAD \$1,806,705), 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, 2021 – €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, 2022, CAD \$nil (€nil) was outstanding on this facility (December 31, 2021 – CAD \$nil (€nil)).
- iv) Aggregate bank guarantees up to a maximum of €1,200,000 (CAD \$1,605,960) for advanced payment refunds for its foreign customers that are due on demand, bear weighted average interest at 1.76% per annum (December 31, 2021 – €1,300,000 at 1.73% 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, 2022, there were \$434,808 (€111,860 and USD \$208,000) guarantees outstanding (December 31, 2021 - \$828,994 (€576,050)).
- v) An aggregate foreign exchange cover line up to a maximum of €3,500,000 (CAD \$4,684,050) (December 31, 2021 – €3,500,000). As at September 30, 2022, CAD \$2,480,863 (USD \$1,809,924) was outstanding on this facility (December 31, 2021 – CAD \$nil (€nil)).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2022	December 31, 2021
Trade payable	\$ 1,690,935	\$ 2,156,207
Social security payable	448,127	510,401
Value added tax payable	57,312	126,383
Other liabilities	331,934	117,043
	\$ 2,528,308	\$ 2,910,034

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.

Effective September 27, 2021, the maturity date of the convertible debentures has been extended to January 31, 2026. Also, effective October 1, 2021, the maturity date of the convertible debentures has been extended to January 31, 2026 and interest was reduced to 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 were 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. Accrued interest of \$30,029 has been recorded as finance costs for the nine months ended September 30, 2022 (September 30, 2021 - \$nil). Accretion expense of \$61,813 (September 30, 2021 - \$nil) was recorded as finance costs accrete the liability to its principal amount.

10. LEASE OBLIGATION

The Company has a number of property rental and movable property rental leases whose maturities range from May 2024 to January 2031. The leases have an incremental borrowing rates ranging from 2 to 5% and interest expense for the period ended September 30, 2022 was \$27,858 (September 30, 2021 - \$29,191).

	September 30, 2022	December 31, 2021
Balance, beginning of period	\$ 439,121	\$ 727,534
Additions	924,268	23,286
Lease payments	(158,796)	(262,013)
Foreign exchange	(45,301)	(49,688)
	1,159,292	439,119
Less: current portion	(192,343)	(104,307)
	\$ 966,949	\$ 334,812

Future lease payments are as follows:

Less than one year	\$ 240,453
1-3 years	416,819
3-5 years	355,406
More than 5 years	343,497
	1,356,175
Less: finance costs	(196,883)
	\$ 1,159,292

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(In Canadian dollars)
(Unaudited)

11. LONG-TERM BORROWINGS

	September 30, 2022	December 31, 2021
Loan denominated in Euro is guaranteed by the French government "PGE", bears interest at 0.25%. The loan has been extended, bears interest at 0.70%-0.74% with interest only payment up to February 2023, after which monthly blended payment of €21,144 and matures on February 2, 2027	\$ 1,338,300	\$ 1,439,100
Loan denominated in Euro is unsecured, bears interest at 1.70%, interest only payments and matures on January 31, 2026	969,306	1,042,314
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	544,687	702,901
Loan denominated in CAD is unsecured, bears interest at 2.00% per annum, with interest only payments and matures on November 15, 2025	526,694	495,695
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	449,823	615,618
Loan denominated in USD is unsecured, bears interest at 2.00%, interest only payments and matures on October 7, 2026	394,561	345,091
Loan denominated in CAD is unsecured, bears interest at 2.00%, interest only payments and matures on January 31, 2026	339,395	320,800
Loan denominated in CAD is unsecured, bears interest at 2.00% per annum, with interest only payments and matures on November 15, 2025	302,575	240,492
Loan denominated in USD is unsecured, non-interest bearing and with no repayment term	100,061	92,549
Loan denominated in CAD is unsecured, non-interest bearing and matures on December 31, 2023	40,000	40,000
Loan denominated in Euro is unsecured, bears interest at 0.95%, monthly blended payment of €4,228 and matures on March 4, 2023	33,856	90,692
Loan denominated in Euro is unsecured, bears interest at 1.50%, quarterly payments of principal and interest of €4,159 and matured during the period	-	5,963
	5,039,258	5,431,215
Add: accrued interest	561,820	522,668
	5,601,078	5,953,883
Less: current portion	(553,422)	(410,770)
	\$ 5,047,656	\$ 5,543,113

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Notes to the Condensed Consolidated Interim Financial Statements
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11. LONG-TERM BORROWINGS (continued)

Principal repayments are as follows:

Remaining of 2022	\$	94,313
2023		659,802
2024		645,163
2025		1,396,553
2026		2,104,103
2027		39,260
Thereafter		100,064
	\$	5,039,258

The Company obtained bank financing of \$40,000 through Canada Emergency Business Account (“CEBA”) during the year ended December 31, 2020. It is an interest-free loan until December 31, 2022. Repaying the loan on or before December 31, 2022 will result in loan forgiveness of \$10,000. If the loan is not repaid by December 31, 2022, it will be extended for an additional 3-year term with no specific principal repayment until maturity, bearing interest at 5% per annum. Management has determined that the Company will be able to meet the repayment requirement by December 31, 2022, therefore, has recognized the forgivable portion of the loan of \$10,000 as other income during the year ended December 31, 2020. The Company obtained an additional \$20,000 through CEBA during the year ended December 31, 2021. Repaying the loan on or before December 31, 2022 will result in additional loan forgiveness of \$10,000. Management has recognized the forgivable portion of the loan of \$10,000 as other income during the year ended December 31, 2021. As at January 12, 2022, the federal government extended the repayment deadline for CEBA loan to qualify for partial loan forgiveness from December 31, 2022 to December 31, 2023. The outstanding loan would subsequently convert to two-year term loan with interest at 5% per annum.

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.
- 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.

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11. LONG-TERM BORROWINGS (continued)

- 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.

12. 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, 2022 and December 31, 2021	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 will be released from escrow as follows: ten percent (10%) of the escrowed shares will be released from escrow on the issuance of the Final Exchange bulletin and an additional fifteen percent (15%) will be released every 6 months thereafter. As at September 30, 2022, these Common Shares and Preferred Shares have been fully released from escrow.
- ii) In addition, an aggregate of 5,924,871 Common Shares and 1,298,602 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. As at September 30, 2022, these Common Shares and Preferred Shares have been fully released from escrow.

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. Therefore, the issuance is related to services rendered post acquisition. It was management's opinion that such conditions will be met. Accordingly, 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.

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 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.

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13. 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, 2022, the Company recognized \$nil (September 30, 2021 – \$2,532) 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, 2022		December 31, 2021	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Opening	2,400,000	\$0.125	2,400,000	\$0.125
Expired	(2,400,000)	(\$0.125)	-	-
Closing	-	\$-	2,400,000	\$0.125

14. NET LOSS PER COMMON SHARE

	Nine months ended September 30, 2022		Nine months ended September 30, 2021	
Net loss	\$	(1,805,507)	\$	(313,138)
Net loss attributable to common shareholders for the period	\$	(1,805,507)	\$	(297,755)
Weighted average number of common shares – basic and diluted		110,233,610		110,233,610

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15. 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, 2022	Nine months ended September 30, 2021
Stock based compensation to directors and officers of the Company	\$ -	\$ 2,532
Director fees to non-executive directors	5,250	7,875
Salaries	613,978	672,324

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

	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Real property leases paid to a company controlled by a director of the Company	\$ 94,531	\$ 103,715
Finance cost paid or accrued to a company controlled by a director of the Company	47,089	198,423
Finance cost paid or accrued to two of the directors of the Company	9,873	50,436
Stock based compensation to companies controlled by directors of the Company	-	(1,404,590)
Professional fees paid to a partnership controlled by a director of the Company	14,252	19,468
General administrative fee paid to a company controlled by an officer of the Company	7,857	-
Commission expense paid or accrued to two companies controlled by two directors of the Company	25,163	111,314

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

	September 30, 2022	December 31, 2021
Receivable from a company controlled by a director of the Company	\$ 265,433	\$ 286,162
Convertible debentures issued to a company controlled by a director of the Company	1,996,145	2,047,736
Long term borrowings advanced from a company controlled by a director of the Company	1,442,076	1,469,247
Long term borrowings advanced from a company controlled by an officer of the	1,352,325	1,255,121
Long term borrowing advanced from companies controlled by two of the directors of the Company	397,326	335,243