

Composite Alliance Group Inc.

MANAGEMENT DISCUSSION & ANALYSIS FORM 51-102F1 For the Quarter Ended September 30, 2022

This Management Discussion and Analysis (“**MD&A**”) is dated November 21, 2022.

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, 2022. Consequently, the following discussion and analysis of the results of operations and the financial condition of the Company should be unaudited condensed consolidated interim financial statements for the quarter ended September 30, 2022. Additional information can be found on CAG on the SEDAR website (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 September 26, 2008 under the *Business Corporation Act* (Alberta). The Company’s head office is located at Suite 800, 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**”). CAC was 90% owned by CAG until CAG purchased the remaining 10% equity shares of CAC from one non-controlling shareholder on December 16, 2021. As of the date of this MD&A, CAC is 100% owned by CAG.

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 AND QUARTERLY FINANCIAL RESULTS

Subsequent to the reverse takeover by the acquirer TME effected on February 12, 2019, the annual financial information presented ended December 31, 2021 and the quarter financial information presented ended September 30, 2022 are 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, 2021 Audited	December 31, 2020 Audited	December 31, 2019 Audited
Total revenue	\$ 5,886,876	\$ 6,779,139	\$14,734,750
Total expenses	7,205,426	9,179,980	13,689,719
Other expenses (income)	(1,282,224)	979,734	4,127,363
Net income (loss)	(36,326)	(3,380,575)	(3,082,332)
Basic earnings (loss) per share	0.00	(0.03)	(0.03)
Diluted earnings (loss) per share	0.00	(0.03)	(0.03)
Comprehensive income (loss)	(27,752)	(3,470,876)	(3,192,303)
Current Assets	8,314,999	9,491,277	8,591,490
Non-current Assets	1,900,911	2,476,457	3,176,813
Total Assets	10,215,910	11,967,734	11,768,303
Current Liabilities	3,814,492	5,938,999	5,114,930
Non-current Liabilities	8,225,296	7,690,475	5,509,083
Total Liabilities	12,039,788	13,629,474	10,624,013

QUARTERLY	3 Months Ended September 30, 2022 Unaudited	3 Months Ended September 30, 2021 Unaudited	3 Months Ended September 30, 2021 Unaudited	3 Months Ended September 30, 2022 Unaudited	3 Months Ended September 30, 2021 Unaudited	3 Months Ended March 31, 2022 Unaudited	3 Months Ended March 31, 2021 Unaudited	3 Months Ended December 31, 2021 Unaudited
Total Revenue	\$1,108,066	\$1,415,843	\$541,103	\$594,695	\$541,103	\$978,291	\$2,069,473	\$1,860,457
Total operating expenses	1,106,582	1,829,333	1,424,695	1,668,239	1,424,695	1,656,124	2,307,621	1,643,777
Other expenses (income)	103,477	166,166	(1,516,748)	64,535	(1,516,748)	16,672	128,489	(60,131)
Net income (loss)	(101,993)	(579,656)	633,155	(1,009,009)	633,155	(694,505)	(366,637)	276,812
Comprehensive income (loss)	(50,428)	(543,409)	654,815	(1,110,675)	654,815	(706,817)	(367,143)	227,985
Earnings per share:								
Basic	(0.00)	(0.00)	0.01	0.01	0.01	(0.01)	(0.00)	0.00
Diluted	(0.00)	(0.00)	0.01	0.01	0.01	(0.01)	(0.00)	0.00

Revenue

Total revenue decrease by 21.7% in the thirds quarter of 2022 to \$ 1,108.1 from the same period in 2021.

Revenue Breakdown (\$000) by Product

Product	3Q22	3Q21	Growth
Machine sales – TME and CAC (gross)	\$1,100.4	\$1,374.3	-19.9%
MVP Products (net)	7.7	41.5	-81.4%
Total	1,108.1	1,415.8	-21.7%

(1) Machine sales – TME and CAC

Revenue from machine sales decrease by 19.9% in the third quarter in 2022 from the third quarter in 2021 due to a timing effect in signing new projects in 2022. As a result, the revenue recognition rate was slower in Q3 2022 than in Q3 2021.

(2) MVP Products

During the third quarter of 2022, the company posted lower sales of MVP products compared to the third quarter of 2021. Indeed, the ongoing lockdowns in some major cities in China such as Shanghai introduced new uncertainties to this business, and the management is watching the market development cautiously.

Expenses

Purchases of raw materials and goods declined by 124.6% while purchases from sub-contractors declined by 16.9% during the third quarter of 2022 from the third quarter of 2021. These two purchase costs (“**Total Purchases**”) together accounted for 31.7% of revenue (“**Total Purchase %**”) in the third quarter of 2022, compared to 52.9% in the same period of 2021. The improved margin was mainly due to the capitalization of R&D projects in Q3 2022.

Payroll expenses and social security contributions decreases by 38.2% during the third quarter in 2022 from the third quarter in 2021. The decrease was mainly due to the capitalization of working hours related to R&D projects during Q3 2022.

Selling, general and administration expenses decreased by 19.4% in the third quarter in 2022 over the same period in 2021. The decrease was mainly due to capitalization of general expenses related to R&D projects during Q3 2022.

Depreciation and amortization decreased by 48.3% in the third quarter of 2022 from the same period of 2021 because the amortization of previously capitalized robotized products was completed in 2021, and the new amortization schedule from the capitalized R&D projects at the end of 2021 was much smaller in scale.

Provision variations were less in the third quarter of 2022 than the same period in 2021 because TME reversed certain provisions put aside for the retirement benefits of TME's former CFO in 2021.

Breakdown of Operating Expense (\$000)

Expense Items	3Q22	% to revenue	3Q21	% to revenue	Growth
PURCHASED RAW MATERIALS AND GOODS	\$(62.3)	-5.6%	\$ 252.8	17.9%	-124.6%
SUBCONTRACTOR	413.1	37.3%	496.9	35.1%	-16.9%
PAYROLL EXPENSES AND SOCIAL SECURITY	337.8	30.5%	546.9	38.6%	-38.2%
SELLING, GENERAL AND ADMINISTRATIVE	304.1	27.4%	377.5	26.7%	-19.4%
PROPERTY AND APPRENTICESHIP TAXES	15.4	1.4%	19.5	1.4%	-20.7%
DEPRECIATION AND AMORTIZATION	127.1	11.5%	246.1	17.4%	-48.3%
PROVISION VARIATIONS	(28.8)	-2.6%	(110.3)	-7.8%	-73.9%
TOTAL	1,106.6	99.9%	1,829.3	129.2%	-39.5%

Other Expenses (Income)

Finance cost decreased by 32.5% during the third quarter of 2022 from the same period of 2021, mainly due to the expiry of the financial guarantees on some projects.

Other expense during the third quarter of 2022 consisted of mainly impact from foreign exchange translation and EU subsidies. EU subsidies were much less in 2022 than 2021.

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

EXPENSE (INCOME) ITEM	3Q22	% TO REVENUE	3Q21	% TO REVENUE	GROWTH
STOCK BASED COMPENSATION	\$0	0.0%	\$0	0.0%	N.A.
FOREIGN EXCHANGE GAIN	(238.9)	-21.6%	(14.1)	-1.0%	N.A.
FINANCE COSTS	122.2	11.0%	181.5	12.8%	-32.7%
OTHER EXPENSE (INCOME)	220.2	19.9%	(1.3)	-0.1%	N.A.
TOTAL	103.5	9.3%	166.2	11.7%	-37.7%

Profits

The Company posted an operating profit of \$1,484 and a net loss of \$50,428 in the third quarter of 2022, compared to an operating loss of \$413,490 and a net loss of \$533,409 in the same period of 2021.

CAPITAL RESOURCES MANAGEMENT

During the third quarter of 2022, the Company generated positive cash flows of \$434,466 from operating activities, compared to negative cash flows of \$476,206 during the same period of 2021. This cash inflow was mainly resulted from no stock-based compensation paid in 2022.

During the third quarter of 2022, the Company had negative cash flows of \$830,805 from investing activities, compared to negative cash flows of \$35,126 during the third quarter of 2021. This cash outflow was resulted from significant investments made during the third quarter of 2022.

During the third quarter of 2022, the Company posted negative financing cash flows of \$207,635, compared to positive financing cash flows of \$1,052,403 during the same period of 2021. This cash outflow was resulted from no new borrowings added in 2022.

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, 2022, the Company had cash of \$1,354,914, compared to \$3,380,219 in Q3 2021 and \$4,535,771, respectively as of December 31, 2021. The decrease in cash balance is resulted mainly from decrease in financing cash flows.

GOING CONCERN AND COVID-19

The world continued to face new waves of threats from COVID-19 Variant until today. Although full lockdowns in different countries appear less and less with the rising vaccination coverage, global travel bans are still commonly seen in most countries in Asia, especially in China, where major cities such as

Shanghai are being mandatory lockdown starting from April 2022. These measures could negatively impact the Company's operations.

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 2021, the Company extended most of its French government backed loans with a 5-year repayment scheme, and successfully restructured most of its related party loans with longer maturities and/or lower interest rates. The Company also received an additional \$20,000 CEBA loan and withdrew \$600,000 from the existing loan facility provided by a related party to finance its working capital needs in 2021 and 2022.

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. The Company also has an existing loan facility from a related party in the amount of \$400,000, which could be mobilized at any time should the Company require extra financing. The Company 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 \$1,354,914 as of September 30, 2022.

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 \$1,867,920 (September 30, 2021 – net loss of \$255,737) and as of that date, an accumulated deficit of \$10,165,863 (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

ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IASB”).

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

Functional and Presentation Currency

These consolidated 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 consolidated 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 consolidated 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 September 30, 2022, the Company, through TME, received the following support from banks and financial institutions:

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)).

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)).

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)).

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)).

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)).

Import credit line up to a maximum of €nil (CAD \$nil) 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, 2021– €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, 2022, CAD \$nil (€nil) was outstanding on this facility (December 31, 2021– CAD \$nil (€nil))

Transaction Between Related Parties

During the third quarter of 2022, the Company has the following related party transactions:

	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 during the period:

	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

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:

None.

APPROVAL

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