

Composite Alliance Group Inc.

Consolidated Financial Statements
December 31, 2021 and 2020
(In Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Composite Alliance Group Inc.

Opinion

We have audited the consolidated financial statements of Composite Alliance Group Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the Consolidated financial statements, which indicates that the Company incurred a net loss of \$36,326 and negative cash flows from operations of \$1,415,923 during the year ended December 31, 2021 and as of that date, the Company's accumulated deficit was \$8,462,349. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Joseph Man.

RSM Alberta LLP

Chartered Professional Accountants

May 2, 2022

Edmonton, Alberta

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

	December 31, 2021	December 31, 2020
Assets		
Cash and cash equivalents	\$ 2,070,582	\$ 2,929,679
Accounts receivable	5,405,097	5,240,788
Contract asset (Note 18)	3,256	68,858
Prepaid expense and others	266,653	237,195
Other receivables	569,411	1,014,757
Total current assets	8,314,999	9,491,277
Other assets and receivables (Note 4)	356,601	385,353
Property and equipment (Note 5)	560,603	910,835
Intangible assets (Note 6)	983,707	1,180,269
Total assets	\$ 10,215,910	\$ 11,967,734
Liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 2,910,034	\$ 4,273,678
Current portion of long-term borrowings (Note 9 & 19)	410,770	1,152,684
Current portion of lease obligation (Note 10)	104,307	256,310
Contract liabilities (Note 18)	389,381	256,327
Total current liabilities	3,814,492	5,938,999
Convertible debentures (Note 11 & 19)	2,047,736	2,391,863
Long-term borrowings (Note 9 & 21)	5,543,113	4,015,296
Lease obligation (Note 10)	334,812	471,224
Long-term provisions (Note 12)	-	161,029
Post-employment benefits plans (Note 13)	249,570	286,961
Research tax credit	50,065	364,102
Total liabilities	12,039,788	13,629,474
Shareholders' deficiency		
Share capital (Note 14)	4,890,766	4,890,766
Contributed surplus	1,442,199	1,528,065
Equity component of convertible debentures (Note 11)	458,553	553,346
Accumulated other comprehensive loss	(153,047)	(163,488)
Deficit	(8,462,349)	(8,414,317)
Total shareholders' deficiency attributable to common shareholders	(1,823,878)	(1,605,628)
Non-controlling interest	-	(56,112)
Total liabilities and shareholders' deficiency	\$ 10,215,910	\$ 11,967,734

Going concern (Note 1)

Subsequent event (Note 23)

Approved on behalf of the Board of Directors on May 2, 2022:

Jim Hsieh
"Signed"
Director

Ron Love
"Signed"
Director

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

Composite Alliance Group Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31
(In Canadian dollars)

	December 31, 2021	December 31, 2020
Revenue (Note 18)	\$ 5,886,876	\$ 6,779,139
Expenses		
Purchased raw material and goods	1,244,699	2,078,478
Payroll expenses and social security contributions	2,293,060	2,656,408
Subcontractor	1,407,476	1,579,458
Selling, general and administrative	1,327,896	1,476,435
Property and apprenticeship taxes	76,413	112,267
Depreciation and amortization	960,184	1,127,366
Provision variations	(104,302)	149,568
	(1,318,550)	(2,400,841)
Other expenses (income)		
Stock based compensation (Note 14 & 15)	(1,203,824)	667,818
Foreign exchange loss (gain)	(21,442)	84,257
Finance costs	228,250	632,830
Other income	(285,208)	(405,171)
Net loss	\$ (36,326)	\$ (3,380,575)
Net loss attributable to		
Common shareholders	(17,670)	(3,381,358)
Non-controlling interest	(18,656)	783
Net loss	(36,326)	(3,380,575)
Loss per common share (Note 16)		
Basic and diluted	(0.00)	(0.03)
Other comprehensive income (loss)		
Items that will be reclassified subsequently to profit or loss		
Exchange difference on translating foreign operations	8,574	(90,301)
Total comprehensive loss	(27,752)	(3,470,876)
Comprehensive loss attributable to		
Common shareholders	(9,116)	(3,472,723)
Non-controlling interest	(18,636)	1,847
Total comprehensive loss	(27,752)	(3,470,876)

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

Composite Alliance Group Inc.
Consolidated Statements of Changes in Deficiency
For the years ended December 31
(In Canadian dollars)

	Share capital	Contributed Surplus	Equity Component of Convertible Debentures	Accumulated Other Comprehensive Income (loss)	Deficit	Non- Controlling Interest ("NCI")	Total
Balance December 31, 2019	4,890,766	662,014	751,579	(71,763)	(4,914,428)	(173,878)	1,144,290
Equity acquired from NCI (Note 1)	-	-	-	(360)	(118,531)	115,919	(2,972)
Cancelling conversion option of convertible debenture (Note 11)	-	198,233	(198,233)	-	-	-	-
Share based compensation (Note 14 & 15)	-	667,818	-	-	-	-	667,818
Comprehensive loss	-	-	-	(91,365)	(3,381,358)	1,847	(3,470,876)
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 14 & 15)	-	(1,203,824)	-	-	-	-	(1,203,824)
Gain on loan extinguishments and modification (Note 9 & 11)	-	1,013,653	(94,793)	-	-	-	918,860
Gain on related party loan issued (Note 9)	-	104,305	-	-	-	-	104,305
Comprehensive income (loss)	-	-	-	8,554	(17,670)	(18,636)	(27,752)
Equity acquired from NCI (Note 1)	-	-	-	1,887	(30,362)	74,748	46,273
Balance December 31, 2021	4,890,766	1,442,199	458,553	(153,047)	(8,462,349)	-	(1,823,878)

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

Composite Alliance Group Inc.
Consolidated Statements of Cash Flows
For the years ended December 31
(In Canadian dollars)

	2021	2020
Operating		
Net loss	\$ (36,326)	\$ (3,380,575)
Items not affecting cash:		
Depreciation and amortization	960,184	1,127,366
Provisions variations	(104,302)	149,568
Finance costs	221,240	628,772
Other income	(54,110)	(360,724)
Stock based compensation	(1,203,824)	667,818
Change in working capital requirement		
Change in prepaid and others	(190,059)	(706)
Change in trade and other receivables	666,535	49,760
Change in trade and other payables	(1,675,261)	1,893,027
Net cash provided by (used in) operating activities	(1,415,923)	774,306
Investing		
Acquisition of intangible assets	(492,735)	(71,875)
Acquisition of property and equipment	(65,345)	(94,331)
Net cash used in investing activities	(558,080)	(166,206)
Financing		
Proceeds from new borrowings	2,102,839	1,952,278
Repayment of borrowings	(432,747)	(167,585)
Repayment of lease obligation	(262,013)	(247,434)
Net cash provided by financing activities	1,408,079	1,537,259
Effect of exchange on cash and cash equivalents	(293,173)	48,570
Net (decrease) increase in cash and cash equivalents	(859,097)	2,193,929
Cash and cash equivalents, beginning of year	2,929,679	735,750
Cash and cash equivalents, end of year	\$ 2,070,582	\$ 2,929,679

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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 Coude, 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, Canada.

Going concern

These consolidated 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 where there have been various lockdowns since 2020. During the lockdowns, the Company’s production and sales activities were adversely impacted because of work stoppage of the Company itself, its customers and its suppliers. As a result the Company has incurred a significant decrease in revenues. As of the date of these consolidated 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 \$36,326 (2020 – \$3,380,575) and negative cash flows from operations of \$1,415,923 (2020 – positive cash flows of \$774,306) for the year ended December 31, 2021, and as of that date, an accumulated deficit of \$8,462,349 (2020 - \$8,414,317). 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 consolidated 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. BASIS OF PRESENTATION

(a) Statement of Compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 2, 2022.

(b) Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis.

(c) Functional Currency

The functional currency of the Company is the Canadian dollar. The functional currency of the subsidiaries TME and CAC is the Euro and the U.S. dollar, respectively. The consolidated financial statements are presented in Canadian dollars which is the Company’s presentation currency.

(d) Use of Estimates and Judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these consolidated financial statements, the significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation are as follows:

Functional Currency

Management has made judgements to determine the functional currency for the Company and its subsidiaries. In making their judgement, management considered the primary economic environment in which each entity operates and determined the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Accounts Receivable

The valuation of accounts receivable is based on management’s evaluation of collectability based on payment history and financial condition of customers and a loss allowance for simplified expected credit losses is recorded as necessary.

Property and Equipment

The valuation of property and equipment is based on management’s best estimate of the future recoverability of these assets. This is based on projected cash flows expected to be generated from the use of these assets over its estimated life. There is also judgement used in determining the cash generating unit for the purpose of the impairment test. The amounts recorded for depreciation is based on management’s best estimate of the useful lives of the assets.

2. BASIS OF PRESENTATION (continued)

(d) Use of Estimates and Judgements (*continued*)

Intangible Assets

The valuation of intangible assets is based on management's best estimate of the future recoverability of these assets. This is based on projected cash flows expected to be generated from the use of these assets over its estimated life. There is also judgement used in determining the cash generating unit for the purpose of the impairment test. The amounts recorded for amortization is based on management's best estimate of the useful lives of the assets.

Income Taxes

The amount recorded for deferred income taxes is based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on the probability that taxable profits will be available to offset against deductible temporary differences.

Share Based Compensation

Management has used judgement in determining the likelihood of the non-market vesting conditions being met for the preferred shares. In making their judgement, management has reviewed the results of operations from fiscal 2020 and 2021 to determine the likelihood of meeting the earnings target which is one of the non-market vesting conditions. Based on this assessment, the preferred shares are not expected to vest and an adjustment to previously recognized fair value of the preferred shares has been recognized in the current year.

Post-employment Benefit

Post-employment benefit is based on assumptions and estimates determined by management in calculating the present value of the obligation net of plan assets.

Provisions

Considerable judgement is used in measuring and recognizing provisions and the exposure to contingent liabilities. Judgement is necessary to determine the likelihood that a pending litigation or other claim will succeed, or a liability will arise and to quantify the possible range of the final settlement. In case of legal claims, the Company relies on its legal advisors to determine the likelihood of the outcome.

Right of Use Assets and Lease Obligation

The incremental borrowing rates are based on judgements including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term. Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

Convertible debentures and long-term borrowings

The Company determines the fair value of the liability based on the estimated interest rate for debt, with similar characteristics, that can be obtained by the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements. These policies have been consistently applied unless otherwise stated.

(a) Basis of Consolidation

The consolidated financial statements include the financial statements of all entities controlled by the Company. The entities controlled by the Company include wholly owned subsidiaries, TME, CAA and CAC. Between January 1, 2020 and December 16, 2021, the entities controlled by the Company included wholly owned subsidiaries, TME and CAA, and a 90% interest in CAC. Effective December 16, 2021, the Company acquired the remaining 10% shares from a non-controlling shareholder of CAC, giving a 100% interest in CAC.

All inter-company transactions, balances, income and expense are eliminated on consolidation.

(b) Foreign Currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of loss and comprehensive loss.

The financial statements of the subsidiaries are translated from their functional currencies into Canadian dollars on consolidation as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- (ii) Income and expenses for each statement of loss and comprehensive loss are translated at the average exchange rate (unless this rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) Share capital for each statement of financial position presented is translated at historical rate; and
- (iv) All resulting exchange differences are recognized in accumulated other comprehensive income.

Exchange differences that arise relating to long-term intercompany balances that form part of the net investment in a foreign operation are also recognized in a separate component of equity through other comprehensive income.

On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange differences recorded in a separate component of equity is recognized in the statement of loss and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenue Recognition

The Company has long-term contracts with most of its customers. As the performance obligations for these contracts are satisfied over time, revenue from these contracts is recognized by measuring the progress towards complete satisfaction of the performance obligation using the input method, which is cost incurred to date relative to total estimated costs. Losses for a given contract are provided for in full as soon as they become probable. Any excess costs and estimated earnings over progress billings is carried as a contract asset. Any excess of progress billings over earned revenue is carried as a contract liability.

The Company also has transactional sales and recognizes revenue when a performance obligation to a customer has been fulfilled by transferring control over the promised goods to the customer, generally at the time of delivery of inventory. The amount of revenue to be recognized is based on the consideration the Company expects to receive in exchange for its goods. If a contract contains more than one performance obligation, the consideration is allocated based on the standalone selling price of each performance obligation.

The consideration the Company receives in exchange for its goods is only recognized to the extent it is highly probable that a significant reversal will not occur when the uncertainty surrounding any components of variable consideration is subsequently resolved. The most common and significant elements of variable consideration include returns, rebates and other price adjustments.

(d) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash on deposit with banks, cash on hand, demand deposits with banks and other financial institutions.

(e) Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses if any. Property and equipment is not depreciated until the asset is put into use. Property and equipment is depreciated over their estimated useful lives at the following rates and methods:

Right of use assets	straight-line method over 3-9 years
Technical facilities, equipment and industrial tools	straight-line method over 3-10 years
Leaseholds and furniture	straight-line method over 2-7 years

All costs directly attributable to the acquisition and construction of the asset are capitalized to the carrying amount of the asset.

(f) Intangible Assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets with a definite life are amortized over their economic lives using the straight-line method and are assessed for possible impairment whenever events or changes in circumstances indicate that impairment is possible. Intangible assets with a definite life are not amortized until the effective date of the contractual right or the asset is put into use. Intangible assets are amortized over their estimated useful lives at the following rates and methods:

Development costs	straight-line method over 5 years from the date of the commercial launch
Concessions, patents and distribution rights	straight-line method over 1-5 years

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of Non-financial Assets

The carrying amounts of the Company's non-financial assets, comprised of property and equipment and intangible assets with definite lives, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds its estimated recoverable amount. The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. Impairment losses are recognized in net income.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(h) Research and Development Costs

Research and development expenditures are charged as an operating expense of the Company as incurred. Expenditures for development are capitalized and amortized only when the criteria for capitalization are met.

Development costs having a future benefit are recognized only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. An intangible asset arriving from development should be recognized only if the Company can demonstrate all of the following:

- (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (ii) its intention to complete the intangible asset and use or sell it;
- (iii) its ability to use or sell the intangible asset;
- (iv) how the intangible asset will generate probable future economic benefits;
- (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs representing intangible assets are initially measured at cost and then amortized over their expected useful life. The Company reviews the amortization method and estimate of the useful life of an intangible asset at least annually.

(i) Defined Contribution Plans

Payments made under defined contribution plans are recorded in the consolidated statements of loss, in the year incurred, and are in full settlement of the Company's liability. As the Company is not committed beyond these contributions, no additional provision related to these plans has been booked. The Company participates in mandatory general plans, which are accounted for as defined contribution plans.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Defined Benefit Plans

Defined benefit plans are measured using the projected unit credit method prorated on years of service. Expenses recognized in the statement of loss are split between operating income (for service costs rendered during the period) and net financial income (loss) (for financial costs and expected return on plan assets). The amount recognized in the statement of financial position corresponds to the present value of the obligation, and net of plan assets. Changes resulting from periodic adjustments to actuarial assumptions regarding general financial and business conditions or demographics (i.e., changes in the discount rate, annual salary increases, return on plan assets, years of service, etc.) as well as experience adjustments are immediately recognized in the statement of financial position as a separate component of equity in comprehensive income as "Other Comprehensive (Loss) Income". The amount of commitment to retirement is calculated using individual projections based on retirement age of 62 (in France), considering the average rate of rotation of personnel and expectancy compared to the tables of mortality.

(k) Convertible Debentures

Compound financial instruments issued by the Company comprise of convertible debentures that are convertible to share capital at the option of the holder, and the number of shares to be issued are at a fixed number at a fixed amount, and do not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. Upon conversion to equity, the liability and equity components of a compound financial instruments are included in the fair value of the common shares issued and charged to share capital.

(l) Share-based Payments

Share-based payments are comprised of stock option awards granted to employees, directors and others which are equity-settled share-based payments.

These equity-settled share-based payments are measured at the fair value of the equity instruments and are recognized as an employee expense with the offsetting credit as an increase to contributed surplus.

Upon exercise of the stock option, the Company issues new shares. The associated fair value amount is reclassified from the contributed surplus to share capital. The proceeds received, net of any directly attributable transaction costs, are credited to share capital when the options are exercised. Where equity instruments are granted to non-employees they are recorded at the fair value of the goods or services received. Where the fair value of goods or services received cannot be reliably measured, it is measured based on the fair value of the equity instrument granted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Provision and Contingent Liabilities

Provisions are recognized when there is a present legal or constructive obligation arising as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Loss Per Share

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares to the extent that they are not antidilutive.

(o) Income Taxes

Income taxes for the year is comprised of any current tax and changes in deferred tax assets and liabilities. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, plus any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the assets can be utilized, are recognized.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax assets and liabilities are not discounted. The carrying amount of a deferred tax asset is reviewed at each statement of financial position date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and changes therein, are presented separately from each other and are not offset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Financial Instruments

The Company recognizes financial assets and financial liabilities when the Company becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets and financial liabilities classified as fair value through profit or loss, are measured at fair value plus or minus transaction costs on initial recognition. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument:

Financial assets at amortized cost

Cash and cash equivalents, accounts receivable, other receivables and amount receivable from shareholder are held with the objective of collecting contractual cash flows and classified as amortized cost.

Subsequent to initial recognition, these assets are carried at amortized cost, using the effective interest method, less any impairment loss. The carrying amount of the financial asset is reduced through an allowance account, and the amount of the loss is recognized in the statement of (loss) income. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Financial liabilities at amortized cost

Accounts payable and accrued liabilities, convertible debentures and long-term borrowings are classified as amortized cost.

Subsequent to initial recognition, these liabilities are carried at amortized cost, using the effective interest method. The effective interest method is a method of calculating the amortized cost of an instrument and for allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

Financial liabilities at FVTPL

Financial liabilities are classified as FVTPL if it is classified as held for trading, or they are derivative liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes recognized in the consolidated statement of (loss) income. There are no financial instruments in this category.

Impairment of financial assets

The Company uses the expected credit loss model for calculating impairment. For financial assets classified at amortized cost, the Company, at each reporting date, measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses given the credit risk on the financial instrument has not increased significantly since initial recognition. The Company recognizes in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date.

The Company has applied the simplified approach to measuring expected credit losses of trade receivable which uses a lifetime expected credit loss taking into consideration historical credit loss experience, financial condition of the customer and economic conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Research Tax Credits

Research tax credits are not recognized until there is reasonable assurance that the credits will be received. The research tax credits received are recorded as deferred income and recognized in profit or loss at the same rate as the development costs are amortized.

(r) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease obligation is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date discounted using the rate implicit in each lease or, if that cannot be readily determined, the incremental borrowing rate. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the earlier of the asset's useful life and the term of the lease. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease liability.

(s) Government assistance

The Company receives grants from different government incentive programs. These grants are recognized initially when there is a reasonable assurance that they will be received and when the Company has complied with the conditions associated with the grants. The grant received for expenditures incurred are recognized on a systematic basis and in the same accounting period in which the expenditures are incurred.

(t) Standards Issued But Not Yet Effective

IAS 1 Presentation of financial statements

The amendment to IAS 3 clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023. The Company is currently evaluating the potential impact of this amendment on the Company's consolidated financial statements.

IAS 12 Income taxes

The amendment narrowed the scope of certain recognition exemptions so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognizes deferred tax for all temporary differences related to leases and decommissioning obligations and recognizes the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted. The Company is currently evaluating the potential impact of this amendment on the Company's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Standards Issued But Not Yet Effective (continued)

IAS 37 Provisions, contingent liabilities and contingent assets

The amendment specifies that 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022 with early application permitted. The Company is currently evaluating the potential impact of this amendment on the Company's consolidated financial statements.

4. OTHER ASSETS AND RECEIVABLES

Other assets and receivables consist of:

	2021	2020
Long term investments	\$ 13,500	\$ 14,642
Deposit and guarantees	56,939	61,755
Amount receivable from shareholder (Note 19)	286,162	308,956
	\$ 356,601	\$ 385,353

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

Composite Alliance Group Inc.
Notes to the Consolidated Financial Statements
December 31, 2021 and 2020
(In Canadian dollars)

5. PROPERTY AND EQUIPMENT

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
----------------------------	----------------	------------------	----------	-----------------	----------------

Cost	December 31, 2019	Additions	Disposals	Foreign Exchange	December 31, 2020
Right of use assets	1,011,613	111,519	-	73,362	1,196,494
Technical facilities, equipment and industrial tools	770,459	79,019	(157,348)	54,023	746,153
Leaseholds and furniture	270,443	15,312	-	21,030	306,785
Cost	2,052,515	205,850	(157,348)	148,415	2,249,432

Depreciation	December 31, 2019	Additions	Disposals	Foreign Exchange	December 31, 2020
Right of use assets	215,704	261,966	-	19,199	496,869
Technical facilities, equipment and industrial tools	637,304	80,448	(157,348)	33,811	612,811
Leasehold and furniture	189,392	24,015	-	15,510	228,917
Depreciation	1,042,400	366,429	(157,348)	68,520	1,338,597

Net tangible assets	1,010,115	(160,579)	-	79,895	910,835
----------------------------	------------------	------------------	----------	---------------	----------------

The Company performed an impairment test as at December 31, 2021 and concluded the recoverable amount exceeds its carrying value and no impairment was noted.

Composite Alliance Group Inc.
Notes to the Consolidated Financial Statements
December 31, 2021 and 2020
(In Canadian dollars)

6. INTANGIBLE ASSETS

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

Cost	December 31, 2019	Additions	Foreign Exchange	December 31, 2020
Development costs	4,800,271	-	337,402	5,137,673
Software	-	71,875	-	71,875
Concessions, patents and distribution rights	832,956	-	25,644	858,600
Cost	5,633,227	71,875	363,046	6,068,148
Amortization	December 31, 2019	Additions	Foreign Exchange	December 31, 2020
Development costs	3,479,025	658,618	257,868	4,395,511
Software	-	-	-	-
Concessions, patents and distribution rights	347,551	120,210	24,607	492,368
Amortization	3,826,576	778,828	282,475	4,887,879
Net intangible assets	1,806,651	(706,953)	80,571	1,180,269

The Company performed an impairment test as at December 31, 2021 and concluded the recoverable amount exceeds its carrying value and no impairment was noted.

7. SHORT-TERM DEBT

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

- i) An aggregate credit line up to a maximum of €200,000 (CAD \$287,820) for advanced payment refunds for its French customers that are due on demand, bear interest at 1.5% per annum (December 31, 2020 – limit of €500,000 at weighted average interest of 1.2% per annum). These facilities will be used when the Company must produce letters of guarantees of restitution of deposit, good execution of contract or retention of guarantee for its French customers. When these facilities are used, an amount of cash equal to 50% of the guaranteed amount has to be deposited and held in escrow by the bank until the guarantee expires. As at December 31, 2021, CAD \$nil (€nil) was outstanding on the facility (December 31, 2020 – CAD \$nil (€nil)).
- ii) Credit facility up to a maximum of €200,000 (CAD \$287,820), 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, 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 December 31, 2021, CAD \$nil (€nil) was outstanding on this facility (December 31, 2020- CAD \$nil (€nil)).
- iii) Credit facility for an aggregated amount of €1,350,000 (CAD \$1,942,785), 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 December 31, 2021, CAD \$nil (€nil) was outstanding on this facility (December 31, 2020 – CAD \$nil (€nil)).
- iv) An aggregate bank guarantee facility up to a maximum of €1,300,000 (CAD \$1,870,830) for advanced payment refunds for its foreign customers that are due on demand, bear weighted average interest at 1.73% 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 December 31, 2021, there were \$828,994 (€576,050) guarantees outstanding (December 31, 2020 - \$174,497 (€111,800)).
- v) An aggregate foreign exchange cover line up to a maximum of €3,500,000 (CAD \$5,036,850) (December 31, 2020 – €4,500,000). As at December 31, 2021, CAD \$nil (€nil) was outstanding on this facility (December 31, 2020– CAD \$nil (€nil)).
- vi) Import credit line up to a maximum of €100,000 (CAD \$143,910) 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 December 30, 2021, CAD \$nil (€nil) was outstanding on this facility (December 31, 2020– CAD \$nil (€nil)).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2021		2020	
Trade payable	\$	2,181,781	\$	3,214,712
Social security payable		510,401		566,231
Value added tax payable		126,383		370,929
Other liabilities		91,469		121,806
	\$	2,910,034	\$	4,273,678

Composite Alliance Group Inc.
Notes to the Consolidated Financial Statements
December 31, 2021 and 2020
(In Canadian dollars)

9. LONG-TERM BORROWINGS

	2021	2020
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	\$ 1,439,100	\$ -
Loan denominated in Euro is unsecured, bears interest at 1.70%, Interest only payments and matures on January 31, 2026	1,042,314	-
Loan denominated in Euro is guaranteed by the French government "PGE", bears interest at 0.73%, monthly blended payment of €9,425 and matures on May 20, 2026	702,901	858,440
Loan denominated in Euro is guaranteed by the French national fund guarantee "Garantie Atout PME", bears interest at 2.50%, quarterly payment of €30,555 plus interest and matures on May 31, 2025	615,618	858,440
Loan denominated in CAD is unsecured, bears interest at 2.00% per annum, and with interest only payments and matures on November 15, 2025	495,695	-
Loan denominated in USD is unsecured, bears interest at 2.00%, Interest only payments and matures on October 7, 2026	345,091	-
Loan denominated in CAD is unsecured, bears interest at 2.00%, Interest only payments and matures on January 31, 2026	320,800	-
Loan denominated in CAD is unsecured, bears interest at 2.00% per annum, and with interest only payments and matures on November 15, 2025	240,492	264,829
Loan denominated in USD is unsecured, non-interest bearing and with no repayment term	92,549	92,944
Loan denominated in Euro is unsecured, bears interest at 0.95%, monthly blended payment of €4,228 and matures on March 4, 2023	90,692	176,214
Loan denominated in CAD is unsecured, non-interest bearing and matures on December 31, 2023	40,000	30,000
Loan denominated in Euro is unsecured, bears interest at 1.50%, quarterly payments of principal and interest of €4,159 and matures on March 31, 2022	5,963	32,098
Loan denominated in USD is unsecured, non-interest bearing and with no repayment term. The loan was repaid during the year	-	46,472
Loan denominated in USD is unsecured, bears interest at 5.00%, Interest only payments and matures on October 7, 2024. This loan was extinguished during the year	-	447,539

Composite Alliance Group Inc.
Notes to the Consolidated Financial Statements
December 31, 2021 and 2020
(In Canadian dollars)

9. LONG-TERM BORROWINGS (continued)

Loan denominated in CAD is unsecured, bears interest at 5.00%, Interest only payments and matures on January 31, 2026. This loan was extinguished during the year	-	400,000
Loan denominated in Euro is unsecured, bears interest at 5.72%, Interest only payments and matures on December 31, 2022. This loan was extinguished during the year	-	1,482,760
	5,431,215	4,689,736
Add: accrued interest	522,668	478,244
	5,953,883	5,167,980
Less: current portion	(410,770)	(1,152,684)
	\$ 5,543,113	\$ 4,015,296

Principal repayments are as follows:

2022	\$	410,770
2023		706,485
2024		693,756
2025		1,346,197
2026		2,139,240
Thereafter		134,767
	\$	5,431,215

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 year ended December 31, 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. Effective September 27, 2021, the maturity of this borrowing was extended to January 31, 2026. As a result of these amendments, the initial long-term borrowing was treated as extinguished and new borrowing was recognized at its fair value of €941,736 (CAD \$1,393,863) and gain on extinguishment of €225,718 (CAD \$334,086) was recorded in contributed surplus.

Composite Alliance Group Inc.
Notes to the Consolidated Financial Statements
December 31, 2021 and 2020
(In Canadian dollars)

9. LONG-TERM BORROWINGS (continued)

- ii) The Company reached an agreement with a related party to reduce the interest rate on a long-term borrowing denominated in CAD from 5% to 2% per annum, effective October 1, 2021. The initial long-term borrowing was treated as extinguished and new borrowing was recognized at its fair value of \$358,695 and gain on extinguishment of \$85,195 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 CAD from 5% to 2% per annum, effective October 1, 2021. The long-term borrowing was treated as modified and has been adjusted to its fair value of \$316,784. A gain on modification of \$72,003 was recorded in contributed surplus.
- iv) 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 and the maturity date of this long-term borrowing has been extended to October 7, 2026, effective October 1, 2021. The initial long-term borrowing was treated as extinguished and new borrowing was recognized at its fair value of USD \$302,011 (CAD \$384,792) and gain on extinguishment of USD \$84,358 (CAD \$107,481) was recorded in contributed surplus.

During the year ended December 31, 2021, the Company obtained a loan advance of \$600,000 from a related party. The loan bears interest at 2% per annum. The fair value of the loan of \$495,695 was calculated using a discount rate of 6.9%. The difference between the face value and the fair value of the loan of \$104,305 has been recorded in contributed surplus. Accrued interest of \$1,995 has been recorded as finance costs for the year ended December 31, 2021. Accretion expense of \$4,001 was recorded as finance costs to accrete the liability to its principal amount.

10. LEASE OBLIGATION

The Company has a number of property and equipment rental leases whose maturity goes from September 2021 to April 2027. The leases have an incremental borrowing rate ranging from 2 to 5% and interest expense for the year ended December 31, 2021 was \$26,064 (December 31, 2020 - \$39,341).

	December 31, 2021	December 31, 2020
Balance, beginning of period	\$ 727,534	\$ 813,450
Additions	23,286	107,182
Lease payments	(262,013)	(247,434)
Foreign exchange	(49,688)	54,336
	439,119	727,534
Less: current portion	(104,307)	(256,310)
	\$ 334,812	\$ 471,224
Less than one year	\$	122,370
1-3 years		188,342
3-5 years		158,302
More than 5 years		19,788
		488,802
Less: finance costs		(49,683)
	\$	439,119

11. CONVERTIBLE DEBENTURES

- i) 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 and 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 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 extinguished 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. The amount outstanding as at December, 2021 is \$2,047,736 (December 31, 2020 - \$2,391,863). Accrued interest of \$11,091 has been recorded as finance costs between the modification of the debenture to the year ended December 31, 2021. Accretion expense of \$21,778 was recorded as finance costs between the modification of the debenture to the year ended December 31, 2021 to accrete the liability to its principal amount.

- ii) On November 15, 2018, the Company completed a private placement of convertible unsecured debentures in the principal amount of \$660,000. The convertible debentures were issued to two directors of the Company. The convertible debentures accrue interest at 5% per annum, mature two years from the date of issuance, are payable at any time by the Company without penalty and are convertible by the holder at any time into common shares of the Company at a conversion price of \$0.125 per share. The debentures issued and the underlying common shares issuable upon conversion are subject to a four month hold period from the date of the offering.

On November 12, 2020, the Company reached agreements with the holders of these convertible debentures. As a result, these debentures have been replaced with new debentures that are not convertible and have an extended maturity date of November 15, 2025. The equity component of the cancelled conversion option of \$198,233 has been classified to contributed surplus. The initial convertible debenture was treated as extinguished and new debenture was recognized at its fair value of \$264,829 (see Note 9) and a gain on extinguishment of \$395,171 was recorded in other income.

12. LONG-TERM PROVISION

LONG TERM PROVISION	December 31, 2020	Increase	Decrease	Foreign Exchange	December 31, 2021
Provisions for contingent liabilities	\$ 161,029	-	(152,986)	(8,043)	-

A provision is recorded when the Company has an obligation to a third party prior to the statement of financial position date, and where the loss or liability is likely and can be reliably measured. If the loss or liability is not likely and cannot be reliably estimated, but remains possible, the Company discloses it as a contingent liability. Provisions are calculated on a case-by-case or statistical basis and discounted when due in over a year.

13. POST-EMPLOYMENT BENEFIT PLANS

The Company uses the following key assumptions to measure the post-employment benefit obligations and the net benefit plans for the defined benefit pension plans. These assumptions are long-term, which is consistent with the nature of post-employment benefit plans.

	2021	2020
Discount rate	0.98%	0.34%
Rate of executive salary increase	1.00%	1.00%
Rate of employee salary increase	1.50%	1.50%
Turnover	Average	Average
Rate of social security expenses	45.00%	45.00%
Mortality table	TG05	TG05
	2021	2020
Balance, beginning of year	\$ 286,961	\$ 276,893
Provision	(15,472)	(9,208)
Foreign exchange	(21,919)	19,276
Balance, end of year	\$ 249,570	\$ 286,961

14. 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 December 31, 2021 and 2020	110,233,610	4,890,766

- i) An aggregate of 81,685,129 Common Shares and 17,901,398 Preferred Shares held by the Principals of the Company are subject to Tier 2 Value Escrow and 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.
- ii) In addition, an aggregate of 5,924,871 Common Shares and 1,298,601 Preferred Shares held by certain non-principal shareholders of CAG are subject to TSX Venture Exchange ("TSXV") seed share resale restrictions ("SSRR") and will be released as follows: thirty-three percent (33%) will be released every anniversary of the Final Exchange Bulletin.

14. SHARE CAPITAL (continued)

Preferred Shares

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

During the year ended December 31, 2021, management has determined that the likelihood on meeting the earnings target is remote and recognized \$1,206,356 (December 31, 2020 – \$641,753 of expense) of share-based compensation recovery on the consolidated statement of loss and a corresponding debit to contributed surplus on the consolidated statement of financial position to reflect management's assumption that no preferred shares will ultimately vest because the vesting conditions are not expected to be met.

15. 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 year ended December 31, 2021, the Company recognized \$2,532 (December 31, 2020 – \$26,065) of share-based compensation on the consolidated statement of loss with a corresponding credit to contributed surplus on the consolidated statement of financial position. The following tables summarize information about stock options outstanding as at:

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

The following table summarizes information on stock options outstanding and exercisable at December 31, 2021:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Weighted Average Contractual Life (years)</u>
\$0.125	2,400,000	2,400,000	0.13

Composite Alliance Group Inc.
Notes to the Consolidated Financial Statements
December 31, 2021 and 2020
(In Canadian dollars)

16. NET LOSS PER COMMON SHARE

	December 31, 2021	December 31, 2020
Net loss	\$ (36,326)	\$ (3,380,575)
Net loss attributable to common shareholders for the year	\$ (17,670)	\$ (3,381,358)
Weighted average number of common shares – basic and diluted	110,233,610	110,233,610

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair Value of Financial Instruments

The following provides an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

As at December 31, 2021, no financial instruments are measured at fair value. All financial instruments are measured at amortized cost using the effective interest rate method. The carrying amounts and fair values of the Company's financial instruments are presented in the table below:

	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Amortized cost:				
Cash and cash equivalents	\$ 2,070,582 (A)	\$ 2,070,582	\$ 2,929,679 (A)	\$ 2,929,679
Accounts receivable	5,405,097 (A)	5,405,097	5,240,788 (A)	5,240,788
Other receivables	569,411 (A)	569,411	1,014,757 (A)	1,014,757
Amount receivable from shareholder	286,162 (B)	286,162	308,956 (B)	308,956
Accounts payable	2,910,034 (A)	2,910,034	4,273,678 (A)	4,273,678
Convertible debentures	2,047,736 (B)	2,047,736	2,391,863 (B)	2,391,863
Long-term borrowings	5,953,883 (B)	5,958,919	5,167,980 (B)	4,669,023

(A) The fair values of cash and cash equivalents, accounts receivable, other receivables and accounts payable approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments.

(B) The fair value of amount receivable from shareholder, convertible debentures and long-term borrowings are determined by discounting the future contractual cash flows under the current financing arrangements at a discount rate that represents an approximation to the borrowing rates presently available to the Company for debts with similar terms to maturity. The fair values are measured at fair value-Level 2.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(b) Financial Risk Management

The Company's activities are exposed to a variety of financial risks: liquidity risk, credit risk, concentration of risk, foreign currency risk, and interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance.

(c) Liquidity Risk

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable, purchasing commitments and obligations or raising of funds to meet commitments and sustain operations. The Company controls liquidity risk by management of working capital and cash flows. As at December 31, 2021, the Company was holding cash of \$2,070,582 (2020 - \$2,929,679), accounts receivable of \$5,405,097 (2020 - \$5,240,788) and had a working capital of \$4,500,507 (2020 - \$3,552,278). The contractual maturities of liabilities is as follows:

Maturity of liabilities	December 31, 2021	Less than 1 year	Between 1 and 5 years	More than 5 years
Accounts payable	2,910,034	2,910,034	-	-
Convertible debentures	2,047,736	-	2,047,736	-
Long-term borrowings	5,431,215	410,770	4,885,678	134,767
Total	10,388,985	3,320,804	6,933,414	134,767

(d) Credit Risk

The Company's exposure to credit risk that relates to cash, accounts receivable and other receivables arises from the possibility that the third party does not satisfy its contractual obligations. The Company minimizes its exposure to credit risk by keeping the majority of its cash with major chartered banks, reviewing new customers' credit history before extending credit, and conducting regular reviews of its existing customers' credit performance. The Company's maximum exposure to credit risk is equal to the carrying value of the financial assets. There is no significant amount considered past due or impaired as at December 31, 2021. It is management's opinion that the level of credit risk is low due to the credit-worthiness of the counterparties involved.

(e) Concentration of Risk

The Company minimizes its exposure to the concentration of risk by developing a larger client base.

(f) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of a change in foreign exchange rates. The Company is exposed to foreign currency risk on cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities denominated in Euro and U.S. dollar.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(g) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate price risk on its convertible debentures and long-term borrowings which bear fixed interest rates, and interest rate cash flow risk on its floating rate short term debt. A one-percent (1%) increase or decrease in interest rates would not have a material effect on the Company's operating results.

(h) Sensitivity Analysis

As a result of the Company's assets and liabilities being denominated in the U.S. dollar and Euro, which are different to the presentation currency of the Company, the profit or loss and equity of the Company could be affected by the movements fluctuations in foreign exchange. The table below indicates the foreign currency to which the Company has exposure as at December 31, 2021 and 2020 in Canadian dollar terms. The table also illustrates the potential impact to the Company's net equity as at December 31, 2021 and 2020 if the Company's presentation currency had strengthened or weakened by 5% in relation to the U.S. dollar and Euro, with all other variables held constant. In practice, the actual result may differ materially from this sensitivity analysis.

	Total exposure		Impact on net equity	
	2021	2020	2021	2020
Euro	(\$2,730,125)	\$166,692	(\$136,506)	\$8,335
As a % of net equity	149.7%	(10.4%)	7.5%	(0.5%)
U.S. dollar	(\$599,619)	(\$539,637)	(\$29,981)	(\$26,982)
As a % of net equity	32.9%	33.6%	1.6%	1.7%

18. REVENUE

The Company's revenue is comprised of sales from long-term contracts as there have been no transactional sales that have occurred for the years ended December 31, 2021 and 2020. Contract assets represent any excess costs and estimated earnings over progress billings. Contract assets as at December 31, 2021 are \$3,256 (2020 - \$68,858). Contract liabilities are recorded when progress billings are in excess of revenue earned. Contract liabilities as at December 31, 2021 are \$389,381 (2020 - \$256,327).

Composite Alliance Group Inc.
Notes to the Consolidated Financial Statements
December 31, 2021 and 2020
(In Canadian dollars)

19. 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:

	December 31, 2021	December 31, 2020
Stock based compensation to directors and officers of the Company	\$ 2,532	\$ 26,065
Director fees to non-executive directors	10,500	10,500
Salaries	891,052	981,603

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

	December 31, 2021	December 31, 2020
Real property leases paid to a company controlled by a director of the Company	\$ 137,014	\$ 141,356
Finance cost paid or accrued to a company controlled by a director of the Company	207,456	228,174
Finance cost paid or accrued to two of the directors of the Company	72,910	178,845
Professional fees paid to a partnership controlled by a director of the Company	21,875	30,640
Stock based compensation to companies controlled by directors of the Company	(1,203,824)	641,753
Commission expense paid or accrued to two companies controlled by two directors of the Company	169,853	86,083

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

	December 31, 2021	December 31, 2020
Receivable from a company controlled by a director of the Company	\$ 286,162	\$ 308,956
Convertible debentures issued to a company controlled by a director of the Company	2,047,736	2,391,863
Long term borrowing advanced from a company controlled by a director of the Company	1,469,247	1,896,321
Long term borrowing advanced from a company controlled by an officer of the Company	1,255,121	900,120
Long term borrowing advanced from companies controlled by two of the directors of the Company	341,807	334,897

Composite Alliance Group Inc.
Notes to the Consolidated Financial Statements
December 31, 2021 and 2020
(In Canadian dollars)

20. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as following:

	2021	2020
Deferred tax assets:		
Non-capital tax loss carryforward	\$ 2,471,413	\$ 2,470,893
Net capital loss carryforward	23,942	23,941
Tax basis in excess of accounting basis	91,003	(8,610)
	2,586,358	2,486,224
Less: deferred tax asset not recognized	(2,586,358)	(2,486,224)
	\$ -	\$ -

The income tax provision reported differs from the amount computed by applying the combined federal and provincial rate to income before income taxes. The reasons for the differences and the related tax effects are follows:

	2021	2020
Net loss before income taxes	\$ (36,326)	\$ (3,380,575)
Taxation at income tax rate	23%	24%
Expected tax expense (recovery)	(8,355)	(811,338)
Research tax credit	(376,694)	(423,923)
Tax effect of non-deductible expenses	(276,880)	160,276
Tax effect of unused tax losses not recognized	601,350	1,180,841
Tax effect of loan modification adjustment	83,948	
Change in statutory rate	-	638
Tax effect of rate variance in foreign jurisdiction	(23,369)	(106,494)
	\$ -	\$ -

No deferred tax assets have been recognized in respect of the unused tax losses due to the unpredictability of future profit stream. The Company had the following estimated tax losses available to offset against future taxation, which expire as follows:

2029	\$ 152,942
2030	388,532
2031	367,556
2032	370,017
2033	398,022
2034	212,876
2035	806,863
2036	187,719
2037	190,586
2038	574,761
2039	394,222
2040	240,566
2041	384,561
Losses not subject to expiry	5,325,637
	9,994,860

21. CAPITAL MANAGEMENT

The Company's primary objective when managing capital is to safeguard the Company's ability to continue as a going concern.

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.

The Company's capital structure includes the following:

	December 31, 2021	December 31, 2020
Shareholders' equity	\$ (1,823,878)	\$ (1,605,628)
Convertible debentures	2,047,736	2,391,863
Long-term borrowings	5,953,883	5,167,980
	\$ 6,177,741	\$ 5,954,215

The Company is not subject to externally imposed capital requirements.

22. SEGMENT INFORMATION

The Company operates a single reportable operating segment, with business in three geographic areas of operations, Europe, North America and Asia. The Company's non-current assets are located in Europe. The percentage revenue by geographic location is as follows:

	2021	2020
Europe	45%	32%
Asia	50%	28%
North America	5%	40%
	100%	100%

23. SUBSEQUENT EVENT

Subsequent to December 31, 2021, the Company reached an agreement with its former customer in Belgium to discontinue a legal action against the Company. Both parties agreed to be responsible for legal costs incurred by each party.