Composite Alliance Group Inc.

MANAGEMENT DISCUSSION & ANALYSIS
FORM 51-102F1
For the Year Ended December 31, 2022

This Management Discussion and Analysis ("**MD&A**") is dated May 4, 2023.

This MD&A of the financial condition of Composite Alliance Group Inc. ("**CAG**" or the "**Company**") and results of operations supplements but does not form part of the financial statements and accompanying notes of the Company for the year ended December 31, 2022. Consequently, the following discussion and analysis of the results of operations and the financial condition of the Company should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 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**") with the intention of positioning it as its sales and after-sales hub for Asian customers in the future. However, as of the date of this MD&A, CAA has not engaged in any business activities. In light of this, the

Company has scheduled a market study for 2023 to assess the feasibility of either expanding operations beyond China using CAA or discontinuing it altogether.

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 who 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.

OVERALL PERFORMANCE IN 2022

In 2022, the aeronautic sector continued to face significant challenges due to the ongoing impact of the COVID-19 pandemic. However, there were some signs of a recovery in demand for air travel, particularly in Europe and North America, where the gradual lifting of the global travel ban allowed for some resumption of international travel.

This gradual lifting of the travel ban resulted in a slight momentum regained by the aeronautic sector, with airlines and aircraft manufacturers increasing their spending on products from suppliers such as the Company. However, the lifting of the travel ban was much slower in China, which remained a significant challenge for the MVP products as well as for TME's operations. Furthermore, TME faced significant supply challenges, including a surge in the demand for steel, energy and specific components related to the conflict in Ukraine. Additionally, there were delays in receiving electrical components from China.

Despite the slight momentum regained by the aeronautic sector, the financial performance of the Company remained under pressure. While the Company was able to increase its revenue compared to 2021, the revenue in 2022 was still at the level of 2020 when the pandemic started. As a result, the Company posted an operating loss for the third consecutive year.

To mitigate this business risk, the Company through TME continued to develop R&D projects and other products in the non-aeronautic sector. The Company leveraged its expertise in materials, science, engineering, and manufacturing to develop new products and solutions in sectors such as defense and automotive.

In summary, the Company's revenue totaled $6,868,030 in 2022, compared to revenue of $5,886,876 in 2021, and an operating loss of $959,596, compared to an operating loss of $1,318,550 in 2021. The Company incurred other income of $536,875 in 2022 compared to other income of $1,282,224 in 2021. The Company's net loss was $422,721 in 2022, compared to a net loss of $36,326 in 2021. The Company reported a total comprehensive loss of $512,734 in 2022, compared to a total comprehensive loss of $27,752 in 2021.

SUMMARY OF ANNUAL 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 annual financial information presented ended December 31, 2022 are comprised of the consolidated financial information of the Company 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, 2022 Audited	December 31, 2021 Audited	December 31, 2020 Audited
Total revenue	$ 6,868,030	$ 5,886,876	$ 6,779,139
Total expenses	7,827,626	7,205,426	9,179,980
Other expenses (income)	(536,875)	(1,282,224)	979,734
Net income (loss)	(422,721)	(36,326)	(3,380,575)
Basic earnings (loss) per share	0.00	0.00	(0.03)
Diluted earnings (loss) per share	0.00	0.00	(0.03)
Comprehensive income (loss)	(512,734)	(27,752)	(3,470,876)
Current Assets	8,966,497	8,314,999	9,491,277
Non-current Assets	3,077,349	1,900,911	2,476,457
Total Assets	12,043,846	10,215,910	11,967,734
Current Liabilities	6,505,765	3,814,492	5,938,999
Non-current Liabilities	8,171,635	8,225,296	7,690,475
Total Liabilities	14,677,400	12,039,788	13,629,474

ANNUAL RESULTS OF OPERATIONS

Revenue

Total revenue increased by 16.7% in 2022 to $6,868,030 from $5,886,876 in 2021.

Revenue Breakdown ($000) by Product

Product	2022	2021	Growth
Machine sales – TME and CAC (gross)	$6,796.3	$5,809.6	16.9%
MVP Products (net)	71.7	77.3	-7.2%
Total	6,868.0	5,886.9	16.7%

(1) Machine sales – TME and CAC

In 2022, revenue from machine sales increased by 16.9% compared to 2021, which can be attributed to various internal and external factors:

- The aeronautic sector's demand regained momentum in 2022 after a quiet year in 2021.

- With the gradual lifting of the global travel ban in Europe and North America, TME was able to travel to customers' premises to install machines as planned, and both TME and CAC could efficiently solicit new projects by conducting customer visits.

- A significant portion (1/4) of the sales in 2022 were from projects signed in 2021 but delivered in 2022.

- The Company saw an increase in the number of new projects signed and delivered during 2022, primarily from Europe and North America.

In 2021, TME focused on diversifying its product mix by increasing its R&D efforts. This included improving the product characteristics of SMART solutions and developing standardized multi-axle machines for carbon fiber production. As a result of these efforts, TME secured a SMART Control project for the USA in 2023 and is still actively pursuing marketing efforts in that direction for 2023 and beyond.

Additionally, TME also won a project for multi-axle machines for carbon fiber production, with plans to deliver the project in 2023.

Machine Sales Breakdown (%) by Geography

Region	2022	2021
Asia	40.5%	50%
Europe	50%	45%
North America	9.5%	5%
Total	100%	100%

(2) MVP Products

MVP products are distributed by the Company through sub-distributors, with revenue being booked on a "net basis". However, in 2022, there was a decline in net sales, which decreased by 7.2% to $71,700 from $77,309 in 2021. This decline was mainly due to weak customer demand and longer delivery lead times.

The Company had anticipated a slow pickup in business in 2022 from the previous year's low, but the delayed lifting of travel bans in China resulted in ongoing COVID-19 uncertainties for this business.

Expenses

In 2022, there was a 116.4% surge in the procurement of raw materials and goods, while purchases from sub-contractors slightly decreased by 1.6% as compared to 2021. Collectively known as "Total Purchases", these two costs constituted 59.4% of the revenue ("**Total Purchase %**") in 2022, as opposed to 45.0% in 2021. Although the increase in sales automatically led to a rise in Total Purchases, two factors contributed to the significant increase in Total Purchase % in 2022:

- There was a significant increase in the prices of INVAR (a nickel-iron alloy) which was used in a major contract for a project in China. The market price of nickel increased by 70% over the course of 2022, excluding the period at the beginning of the Russian invasion of Ukraine (March-May 2022) where the price of nickel reached a peak of 250%.

- Additionally, there was a general increase in the cost of supplies by 10 to 25% depending on their nature. For instance, components equipped with microprocessors experienced a surge in price due to a shortage in availability.

Regarding the slight decrease in sub-contractors, despite the overall price increase, the Company managed, with the help of its suppliers, to stay within the sold budgets.

Payroll expenses and social security contributions decreased by 16.0% in 2022 compared to 2021. This was primarily due to the fact that in 2021, the Company had to finance the termination of the contract of TME's CFO for $145,000CAD, which was an exceptional cost. Additionally, although the Company ended the 2022 fiscal year with a similar number of employees as in 2021, there was a turnover of four or five people, and the salaries of the new hires were lower than those of the departing employees.

Selling, general, and administration expenses went down by 11.8% in 2022 compared to 2021. This is in line with the Company's efforts to reduce overhead costs that began in 2020 due to the COVID pandemic. The Company has met its expectations for the year 2022 as projected earlier.

Depreciation and amortization decreased by 36.5% in 2022 compared to 2021. This decrease of $350,000CAD is because certain R&D projects that were capitalized in previous years have now reached the end of their useful lives for amortization purposes.

Number of Paid Employees

Company	As of December 31, 2022,	As of December 31, 2021,	Growth
CAG	2	2	+0
TME	35	33	+2
CAC	2	2	+0
Total	39	37	+2

Breakdown of Operating Expense ($000)

Expense Items	2022	% to revenue	2021	% to revenue	Growth
PURCHASED RAW MATERIALS AND GOODS	$2,693.1	39.2%	$1,244.7	21.1%	116.4%
SUBCONTRACTOR	1,385.7	20.2%	1,407.5	23.9%	-1.6%
PAYROLL EXPENSES AND SOCIAL SECURITY	1,927.1	28.1%	2,293.1	39.0%	-16.0%
SELLING, GENERAL AND ADMINISTRATIVE	1,171.6	17.1%	1,327.9	22.6%	-11.8%
PROPERTY AND APPRENTICESHIP TAXES	64.8	0.9%	76.4	1.3%	-15.2%

Expense Items	2022	% to revenue	2021	% to revenue	Growth
DEPRECIATION AND AMORTIZATION	609.6	8.9%	960.2	16.3%	-36.5%
PROVISION VARIATIONS	(24.2)	-0.4%	(104.3)	-1.8%	-76.8%
TOTAL	7,827.6	114.0%	7,205.4	122.4%	8.6%

Other Expenses (Income)

The reason for the decrease in 2022 can be attributed to the fact that the Company had recognized a nominal sum of share-based compensation linked to the options granted to management in 2021, and the amortization process for such share-based compensation was finalized during that year.

The decrease of 212.9% in finance cost in 2022 compared to the previous year is primarily attributed to the major shareholder's decision to waive the accrued interest on the debt owed to him.

Other income in 2022 was mainly the compensation received by TME for joint control over the development of an equipment capable of manufacturing carbon fiber fabrics using carbon tape.

Breakdown of Other Expense (Income) ($000)

EXPENSE (INCOME) ITEM	2022	% TO REVENUE	2021	% TO REVENUE	GROWTH
STOCK BASED COMPENSATION	$0	0.0%	$(1,203.8)	-20.4%	N.A.
FOREIGN EXCHANGE (GAIN) LOSS	(46.8)	-0.7%	(21.4)	-0.4%	118.7%
FINANCE (GAIN) COSTS	(256.1)	-3.7%	228.3	3.9%	-212.9%
OTHER EXPENSE (INCOME)	(233.9)	-3.4%	(285.2)	-4.8%	-18.0%
TOTAL	$(536.9)	-7.8%	$(1,282.1)	-21.8%	-58.1%

Profits

The Company posted an operating loss of $959,596 in 2022, compared to an operating loss of $1,318,550 in 2021. After considering the other expense/income items, the Company posted a net loss of $422,721 in 2022, compared to a net loss of $36,326 in 2021.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

Subsequent to the reverse takeover by the acquirer TME effected on February 12, 2019, the quarterly financial information presented for the interim period ended December 31, 2022 is comprised of the consolidated financial information of the Company 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**").

QUARTERLY	3 Months Ended December 31, 2022 Unaudited	3 Months Ended December 31, 2021 Unaudited	3 Months Ended September 30, 2022 Unaudited	3 Months Ended September 30, 2021 Unaudited	3 Months Ended June 30, 2022 Unaudited	3 Months Ended June 30, 2021 Unaudited	3 Months Ended March 31, 2022 Unaudited	3 Months Ended March 31, 2021 Unaudited
Total Revenue	$4,186,978	$1,860,457	$1,108,066	$1,415,843	$594,695	$541,103	$978,291	$2,069,473
Total operating expenses	3,396,681	1,643,777	1,106,582	1,829,333	1,668,239	1,424,695	1,656,124	2,307,621
Other expenses (income)	-352,191	(60,131)	(103,477)	166,166	(64,535)	(1,516,748)	(16,672)	128,489
Net income (loss)	1,382,786	276,812	(101,993)	(579,656)	(1,009,009)	633,155	(694,505)	(366,637)
Comprehensive income (loss)	1,355,186	227,985	(50,428)	(543,409)	(1,110,675)	654,815	(706,817)	(367,143)
Earnings per share:								
Basic	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Diluted	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

FOURTH QUARTER RESULTS OF OPERATIONS

During the three-month period ended December 31, 2022, the Company’s revenue totaled $4,186,978, compared to revenue of $1,860,457, during the same period in 2021, and an operating profit of $790,297 compared to an operating profit of $ 216,680, during the same period in 2021. The Company also generated other income of $352,191, compared to other income of $60,131 during the same period in 2021. The Company’s net income for the three-month period ended December 31, 2022, was $1,382,786, compared to a net profit of $276,812 during the same period in 2021. The Company reported a total comprehensive income of $1,355,186, compared to a total comprehensive income of $227,985, during the same period in 2021.

CAPITAL RESOURCES MANAGEMENT

During 2022, the Company generated negative cash flows of $1,706,515 from operating activities, compared to negative cash flows of $1,415,923 in 2021. The primary reason for the negative cash flow in 2022 was the significant increase in contract assets for projects during the fourth quarter of the year. Contract assets represent any excess costs and estimated earnings over progress billings. As a result, in 2022, the Company had earned revenue, but had not yet received cash for it, leading to a reduction in operating cash inflows.

The Company had negative cash flows of $685,410 from investing activities in 2022, compared to negative cash flows of $558,080 in 2021. The cash outflows in 2022 were mainly due to the capitalization of certain R&D expenses for new products.

The Company posted negative financing cash flows of $560,120 in 2022, compared to positive financing cash flows of $1,408,079 in 2021. This cash outflow resulted from repayment of borrowings and lease obligations 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 December 31, 2022, the Company had a bank overdraft of $730,232 and working capital of $2,460,732, compared to cash of $2,070,582 and working capital of $4,500,507 as of December 31, 2021. The decrease in cash balance resulted mainly from the negative operating cash flows, while the decrease in working capital mainly resulted from the increase of trade payables in 2022.

GOING CONCERN

The Company incurred a net loss of $422,721 and negative cash flows from operations of $1,706,515 during the year ended December 31, 2022. Despite these challenges, the Company is confident in its ability to continue as a going concern. 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. The Company is taking proactive steps to improve its profitability, including exploring new revenue streams and developing new products. Additionally, the Company has confirmed orders of $17 million for next year, which gives it confidence in its ability to generate sufficient revenues to meet its obligations on a timely basis.

Furthermore, the Company does not foresee any significant risk in collecting its accounts receivable, which provides it with further comfort in its ability to generate cash inflows. The Company is also negotiating a financing of $6 million, which would provide a significant infusion of capital and further support its growth initiatives. While there is no guarantee that the Company will continue to receive significant orders or be successful in all of its growth initiatives, it believes that its current actions and financial position will help to improve its long-term viability. As such, the Company will continue to prepare its financial statements on a going concern basis.

The Company remains committed to monitoring its financial position and taking necessary actions to address any future financial challenges. In the event that it is unable to generate sufficient revenues or obtain additional financing, the Company may be forced to curtail or cease its operations, which could have a material adverse effect on its financial condition and results of operations. However, the Company believes that the recent confirmation of significant orders, its ongoing efforts to improve its financial position, and its ability to collect its accounts receivable provide it with a reasonable expectation of continuing as a going concern.

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.

Business Risks

Business risks increasing the susceptibility to risks of material misstatement may arise from Concentration Risk, Intellectual Property Risk in China, Risk of delays in project completion and Risk of non-payment due to customer insolvency.

- **Concentration Risk for projects in France, Europe and US**
  The Company faces a risk due to the large size of its projects compared to its annual turnover. This is because the production line has numerous integrated means, which lead to detrimental consequences for the Company. As a result, customers are hesitant or refuse to place orders exceeding 25% of the annual turnover. To reduce this risk, the Company limits responses to proposals over €4 million as much as possible. Doing so enables the Company to maintain its financial health and continue to satisfy its customers.

- **Intellectual Property Risk in China**
  TME has been conducting business in China for 17 years and, so far, hasn't faced significant intellectual property infringement by Chinese companies. Nevertheless, TME is exposed to a potential risk of unfair competition in Asia, which could result in its proprietary knowledge being replicated, resulting in lower selling prices and extended decision-making processes. In response, TME has adopted a strategy of considering their projects in China as an added advantage rather than just a source of revenue. This approach enables TME to reduce the adverse effects of competition on their financial performance while ensuring the delivery of exceptional products to their customers.

- **Risk of delays in project completion**
  TME is confronted with the possibility of project delays stemming from the protracted Studies/Implementation cycle that typically takes eight to ten months to finalize. This situation may impede TME from achieving its goal of generating revenue from orders exceeding 70% of the previous year's target. Moreover, TME is now facing a new challenge of potential delivery delays due to difficulties in sourcing specific machine components since 2022. To tackle these obstacles, TME has been striving to sell equipment with shorter implementation cycles of four to six months since 2020. Additionally, TME is taking measures to enhance the volume of offers and promote the commercialization of products with shorter implementation cycles. These actions are supported by TME's Lean initiative, aimed at optimizing the TME's processes and enhancing efficiency. The objective is to minimize the impact of project and delivery delays on TME's business performance and maintain TME's competitiveness in the market.

- **Risk of non-payment due to customer insolvency.**
  TME is exposed to the potential risk of customers becoming insolvent, which could result in financial difficulties and even the cessation of its operations. To reduce this risk, TME takes several precautions. For instance, when dealing with Chinese clients with whom TME signs sizable contracts, TME requires the establishment of a documentary credit. Additionally, for new clients, TME conducts a solvency analysis before agreeing to the contract. Furthermore, TME performs regular financial analysis of clients, which enables it to identify potential issues early on and take appropriate measures to mitigate the impact of non-payment. Through the implementation of these safeguards and the monitoring of its clients' financial stability, TME can reduce the risk of non-payment and maintain its financial well-being.

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

As of December 31, 2022, the Company is facing a significant liquidity risk, which is one of its main challenges. The Company's debt has increased significantly in recent years, mainly to finance its business expansion. The Company provides the following analysis of its liquidity:

1. Cash Flow: The Company expects to increase its revenue in 2023 due to new contracts totaling $17 million. These contracts will provide additional stability to the Company's cash flow position, but the Company needs to ensure that it has sufficient cash reserves to manage unexpected events or delays in receiving payments from customers. The Company is taking measures to conserve cash, including managing its expenses and implementing payment terms that reduce its exposure to

payment delays. Additionally, the Company is currently in discussion with its bankers to secure credit facilities of up to $6 million to further bolster its liquidity position.

2. Financial Obligations: The Company has significant financial obligations related to its long-term contracts for equipment, including maintenance costs and lease payments. The Company has financing facilities for working capital up to $1.9 million prior to the delivery of goods to its foreign customers. The Company is also exploring financing options to manage its long-term obligations, including debt financing. The Company is in discussions with its lenders, who are mainly shareholders, to obtain waivers or amendments of its loan covenants. The Company is confident that it can meet its upcoming debt maturities of $0.7 million in the next 12 months.

3. Contingencies: Although the Company does not have reserves to manage potential contingencies related to disputes with customers, it has never faced product recalls. While disputes with customers related to the performance of the equipment may arise, the Company has a team of experts who specialize in managing complex contracts and is working to resolve any potential disputes in a timely and efficient manner. This may involve providing credit notes or reducing the final invoice to reach a mutually beneficial resolution. The Company recognizes the importance of maintaining positive relationships with its customers and is committed to providing high-quality products and services.

4. Other Factors: The Company operates in a competitive industry and needs to stay up-to-date with technological advancements and changing customer needs. The Company invests in research and development to maintain its competitive edge and is constantly evaluating new products and services to offer its customers.

In summary, the Company is facing significant liquidity risk. The Company expects to increase its revenue in 2023 due to new contracts totaling $17 million, which will provide additional stability to its cash flow position. The Company is taking measures to manage its cash carefully and explore financing options to manage its financial obligations related to its long-term contracts for equipment. Although the Company does not have reserves to manage potential contingencies related to disputes with customers, it has never faced product recalls and is working to resolve any potential disputes in a timely and efficient manner. Finally, the Company operates in a competitive industry and is investing in research and development to stay ahead of its competition.

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 December 31, 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, and 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 December 31, 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 the Company's working capital prior to the payment receipt from its French customers. As at December 31, 2022, CAD $nil (€nil) was outstanding on this facility (December 31, 2021- CAD $nil (€nil)).

Credit facility for an aggregated amount of €1,345,596 (CAD $1,945,463), 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 the Company's working capital prior to the delivery of goods to its foreign customers. As at December 31, 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 $1,734,960) for advanced payment refunds for its foreign customers that are due on demand, and 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 December 31, 2022, there were $443,442 (€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 $5,060,300) (December 31, 2021 – €3,500,000). As at December 31, 2022, CAD $2,588,461 (€1,500,000 and USD $309,924) 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 December 31, 2022, CAD $nil (€nil) was outstanding on this facility (December 31, 2021– CAD $nil (€nil)).

Transactions Between Related Parties

In 2022, the Company has the following related party transactions:

		December 31, 2022		December 31, 2021
Stock based compensation to directors and officers of the Company	**$**	**-**	$	2,532
Director fees to non-executive directors		**5,250**		10,500
Salaries		**789,514**		891,052

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

		December 31, 2022		December 31, 2021
Real property leases paid to a company controlled by an officer of the Company	**$**	**105,461**	$	137,014
Finance cost paid or accrued (net recovery) to a company controlled by a director of the Company		**(601,989)**		207,456
Finance cost paid or accrued to two companies controlled by two of the directors of the Company		**13,200**		68,895
Professional fees paid to a partnership controlled by a director of the Company		**19,968**		21,875
General administrative fee paid to a company controlled by an officer of the Company		**29,385**		-
Stock based compensation to companies controlled by directors of the Company		**-**		(1,203,824)
Commission expense paid (recovery) or accrued to two companies controlled by two directors of the Company		**(410,127)**		169,853
Research and development related revenue earned from a company owned by a direct family member of a former key management personnel of the Company		**184,900**		-

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

		December 31, 2022		December 31, 2021
Receivable from a company controlled by and officer of the Company, relates to advances for share purchase	**$**	**288,234**	$	286,162
Convertible debentures issued to a company controlled by a director of the Company		**1,895,966**		2,047,736
Long term borrowing advanced from a company controlled by a director of the Company		**1,351,599**		1,469,247

	December 31, 2022	December 31, 2021
Long term borrowing advanced from a company controlled by an officer of the Company	**1,369,831**	1,255,121
Long term borrowing advanced from companies controlled by two of the directors of the Company	**515,490**	429,994
Trade receivable from a company in which the key management personnel is a shareholder of the Company with significant influence, relates to research and development activities performed.	**289,160**	-
Other receivable from a company owned by a direct family member of a former key management personnel of the Company	**144,580**	-

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.