

## **Composite Alliance Group Inc.**

### **MANAGEMENT DISCUSSION & ANALYSIS**

#### **FORM 51-102F1**

#### **For the Quarter Ended September 30, 2024**

This Management Discussion and Analysis ("**MD&A**") is dated November 25, 2024.

This MD&A of the financial condition of Composite Alliance Group Inc. ("CAG" or the "Company") and results of operations supplements but does not form part of the financial statements and accompanying notes of the Company for the quarter ended September 30, 2024. 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 annual audited consolidated financial statements of the Company for the year ended December 31, 2023, and the unaudited condensed consolidated interim financial statements for the quarter ended September 30, 2024. Additional information can be found on CAG on the SEDAR+ website ([www.sedarplus.ca](http://www.sedarplus.ca)).

#### **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 confirm 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, T2P 2Z1, Canada.

The Company owns 100% of Techni-Modul Engineering S.A. ("**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, and as a result, 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. No decision has been made on this front.

## 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 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 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.

## SENIOR MANAGEMENT STRUCTURE

CAG CFO, Vishwa Mootooveeren tendered his resignation effective May 31, 2024. The Company was able to recruit Stephane Conort to fill the role in November 2024.

## OVERALL PERFORMANCE FOR THE QUARTER ENDED SEPTEMBER 30, 2024

Beginning in 2023, the aeronautic sector has showed sustained improvement, driven by increasing orders as the industry rebounds from the years lost during Covid-19 and the surge in global travel. As a result, the Company, through TME, is experiencing recovery in activity. As of September 30, 2024, the Company's total order book reached \$21.5 million with deliveries scheduled for the remaining of 2024 and 2025.

## QUARTERLY HIGHLIGHTS (in \$000 except for earnings per shares)

Quarterly	3 months ended September 30, 2024 Unaudited	3 months ended June 30, 2024 Unaudited	3 months ended March 31, 2024 Unaudited	3 months ended December 31, 2023 Unaudited	3 months ended September 30, 2023 Unaudited	3 months ended June 30, 2023 Unaudited	3 months ended March 31, 2023 Unaudited	3 months ended December 31, 2022 Unaudited
Total revenue	\$ 3,275.6	\$ 1,657.4	\$ 939.3	\$ 4,827.4	\$ 3,267.9	\$ 2,785.7	\$ 3,473.6	\$ 4,187.0
Total operating expenses	\$ 3,362.0	\$ 2,478.2	\$ 1,875.8	\$ 5,671.6	\$ 2,660.0	\$ 3,561.3	\$ 3,508.0	\$ 3,396.7
Other expense (income)	\$ 232.8	\$ 205.9	\$ 152.6	\$ (501.2)	\$ (17.6)	\$ 105.5	\$ 179.6	\$ (352.2)
Net income (loss)	\$ (319.2)	\$ (1,026.7)	\$ (1,089.1)	\$ (343.0)	\$ 625.5	\$ (881.1)	\$ (214.0)	\$ 1,142.5
Comprehensive income (loss)	\$ (445.3)	\$ (1,077.3)	\$ (1,147.9)	\$ (347.3)	\$ 528.2	\$ (910.5)	\$ (160.1)	\$ 1,355.2
Earnings per shares:								
Basic	\$ -	\$ (0.01)	\$ (0.01)	\$ -	\$ 0.01	\$ (0.01)	\$ -	\$ 0.01
Diluted	\$ -	\$ (0.01)	\$ (0.01)	\$ -	\$ 0.01	\$ (0.01)	\$ -	\$ 0.01

The Company recorded revenue for the third quarter of 2024 of \$3,275,618 compared to revenue of \$3,267,881 for the same period in 2023, and an operating loss of \$86,427 compared to an operating income of \$607,836 for the same period in 2023. The Company incurred other expenses of \$232,806 in the third quarter of 2024 compared to other income of \$17,575 for the same period in 2023. The Company's net loss was \$319,223 for the quarter, compared to a net income of \$625,411 for the same period in 2023. The

Company reported a total comprehensive loss of \$445,267 for the quarter, compared to a total comprehensive income of \$528,236 for the same period in 2023.

## YEAR TO DATE HIGHLIGHTS

As of September 30, 2024, the Company has recorded revenue of \$5,872,266 compared to \$9,527,154 for the same period. The year-to-date operating loss and net loss for the current year are \$1,843,797 and \$2,435,129, respectively, compared to \$202,149 and \$469,669 for the same period in 2023.

## REVENUE

The total revenue recorded for the third quarter of 2024 was comparable to the same period in 2023.

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

Product	3Q2024	3Q2023	Growth
Machine sales - TME and CAC (gross)	\$ 3,237.3	\$ 3,262.0	-0.8%
MVP Products (net)	\$ 38.3	\$ 5.9	549.2%
Total	\$ 3,275.6	\$ 3,267.9	0.2%

#### 1) Machine Sales – TME and CAC

Revenue from machine sales for the quarter was comparable to the same period in 2023. It is considered a significant recovery in revenue, particularly there was a drastic decrease in revenue in the second quarter of 2024 primarily due to a significant delay in one major project for a client in Asia, where delivery was postponed from May to December because of a customer-requested change order and strategic considerations.

#### 2) MVP Products

MVP products are distributed by the Company through a sub-distributor right, with revenue being booked on a "net basis". During the third quarter of 2024, net sales increased to \$38,270 from \$5,891 in the same period of 2023, driven by initial signs of recovery in the supplier's production capacity. The revenue from this source fluctuates depending on the customer demand and delivery lead time from the supplier to the end customer. The distribution right will expire on December 31, 2024, and the supplier and management are both actively working to secure an extension.

## EXPENSES

The total operating expense increased by 26.4% in the third quarter of 2024. The increase in operating expense mainly due to increase in purchases, payroll and SG&A expenses.

### Breakdown of Operating Expenses (in \$000)

Expense items	3Q2024	% of Revenue	3Q2023	% of Revenue	Growth
Purchased raw material and goods	\$ 1,379.7	42.1%	\$ 996.0	30.5%	38.5%
Payroll expenses and social security contributions	\$ 456.9	13.9%	\$ 308.9	9.5%	47.9%
Subcontractor	\$ 696.8	21.3%	\$ 679.7	20.8%	2.5%
Selling, general and administrative	\$ 578.9	17.7%	\$ 476.8	14.6%	21.4%
Property and apprenticeship taxes	\$ 18.6	0.6%	\$ 24.4	0.7%	-23.8%
Depreciation and amortization	\$ 212.7	6.5%	\$ 199.0	6.1%	6.9%
Provision variations	\$ 18.4	0.6%	\$ (24.8)	-0.8%	-174.2%
Total	\$ 3,362.0		\$ 2,660.0		26.4%

For the 3-month period ended September 30, 2024, the total costs of purchased raw materials & goods, and subcontractor services accounted for 63.4% of revenue, compared to 51.3% for the same period in 2023. The increase in the percentage of revenue in 2024 was the result of varying phases of the projects. For instance, purchase costs tend to be higher in the earlier stages than in the later stages. The Company believes that a more accurate analysis of purchase costs can be achieved by combining the costs of purchased raw materials & goods and subcontractor services, as TME engages subcontractors for components on different projects from time to time to achieve cost effectiveness.

There was significant increase in payroll expenses for the period, as there was additional staff hired by TME as shown below, as well as increase in social security charges in 2024 compared to 2023.

Selling, general and administrative expense also appear disproportionately high compared to revenue for the 3-month period ended September 30, 2024. This includes significant invoices and accruals related to audit and accounting services recorded during the period.

Property and apprenticeship taxes as well as depreciation and amortization are relatively stable in monetary terms as they are considered fixed operating costs. Increase in depreciation and amortization was due to more tangible and intangible assets that were added during 2023 and 2024 and they became available for use immediately.

### **Number of Paid Employees**

<b>Company</b>	<b>As of September 30, 2024</b>	<b>As of September 30, 2023</b>	<b>Growth</b>
CAG	0	1	-1
TME	45	40	+5
CAC	0	1	-1
Total	45	42	+3

### **Other Expenses (Income)**

For the 3-month period ended September 30, 2024, the Company recorded total other expenses of \$232,806, compared to income of \$17,575 for the same period in 2023.

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

<b>Other expenses (income)</b>	<b>3Q2024</b>	<b>3Q2023</b>	<b>Growth</b>
Foreign exchange loss (gain)	\$ 24.2	\$ (29.8)	-181.2%
Finance costs	\$ 193.7	\$ 18.5	947.0%
Other expenses (income)	\$ 14.9	\$ (6.3)	-336.5%
Total	\$ 232.8	\$ (17.6)	-1422.7%

For the 3-month period ended September 30, 2024, the Company recorded a foreign exchange loss of \$24,172 as opposed to foreign exchange gain of \$29,808 due to the stronger U.S. dollar and Euro while in a net liability position for the monetary items.

The increase in finance cost is due to the compounding effect of accretion on long-term borrowing that bears interest at rates which are significantly lower than the market. Therefore, the majority of the finance costs are non-cash in nature. Finance costs are expected to grow until the maturity or renewal of this long-term borrowing.

The remaining other expense are miscellaneous expenses incurred during the 3-month period ended September 30, 2024. Other income recorded in the same period in 2023 was mainly subsidies received by TME.

## **CAPITAL RESOURCES MANAGEMENT**

During the 9-month period ended September 30, 2024, the Company generated cash flows of \$2,232,707 from operating activities, compared to cash flows of \$3,698,658 during the same period in 2023. This decrease in cash flows is mainly due to significantly more operating expense incurred and paid during the period.

During the 9-month period ended September 30, 2024, the Company had cash outflows of \$1,314,373 from its investing activities mainly from the acquisition of intangible assets, compared to cash outflows of \$1,252,419 during the same period in 2023.

During same period in 2024, the Company posted cash outflows of \$807,839 from its financing activities, compared to outflows of \$688,323 in 2023. This increase of cash outflow is a result of higher debt repayment as well as the repayment of lease obligations.

The Company's capital structure is regularly reviewed and managed. Adjustments are made to the capital structure based on financing requirements as well as in response to economic conditions affecting the Company. As of September 30, 2024, the Company had a cash and cash equivalents balance of \$277,158 and a working capital deficit of \$3,670,886. The decrease in net working capital is a result of a decrease in operating cash flows.

## **GOING CONCERN**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) that are applicable to a going concern which contemplates the realization of assets and settlement of liabilities in the normal course of operations. There are material uncertainties that may cast significant doubt on the validity of this assumption. For the three and nine-months ended September 30, 2024, the Company incurred a net loss of \$0.3 million and \$2.4 million respectively. The Company experienced a drop in working capital of \$3,713,583 for the nine-month period ended September 30, 2024, and as of that date, has an accumulated deficit of \$12,132,806.

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. There remains a material uncertainty that may cast significant doubt on the Corporation's ability to continue as a going concern. These financial statements do not include adjustments to the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Corporation be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

## 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 Large-Sized Projects**

The Company faces a risk due to the large size of its projects relative to its annual revenue. The complexity of the production chain, with many integrated components, exacerbates this risk. Nevertheless, as revenue is increasing, the risk associated with project size versus revenue is expected to diminish.

- **Intellectual Property Risk in China**

TME has been doing business in China for 18 years and so far has not faced any significant intellectual property infringement by Chinese companies. Nevertheless, TME is exposed to potential risks of unfair competition in Asia, which could lead to the replication of its proprietary knowledge, resulting in lower selling prices and longer decision-making processes. In response, TME has decided not to market Smart Control and Smart Pilot software in China for the foreseeable future.

- **Risk of Delays in Project Completion**

TME faces potential project delays due to the lengthy Studies/Implementation cycle, which typically takes eight to ten months to complete. This could hinder TME's ability to generate revenue from orders in accordance with its annual budget. Moreover, TME is now facing new challenges with potential delivery delays due to difficulties in sourcing specific machine components since 2022. To address these issues, TME has been focusing on selling equipment with shorter implementation cycles of four to six months. TME is also working to increase the volume of offers and promote products with shorter commercialization and implementation cycles.

- **Risk of Non-Payment Due to Customer Insolvency**

TME is exposed to the potential risk of customer insolvency, which could lead to financial difficulties and even the cessation of its operations. To mitigate this risk, TME implements several precautions. For instance, when signing sizable contracts with Chinese clients, TME requires the establishment of a documentary credit. Additionally, TME conducts solvency analysis for new clients before finalizing contracts. TME also performs regular financial assessments of its clients to identify potential issues early and take appropriate measures to address non-payment risks. Through the implementation of these safeguards and closely monitoring clients' financial stability, TME aims to minimize the risk of non-payment and ensure its financial stability.

- **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 September 30, 2024, the Company is still facing 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 is actively working on new contracts. These contracts are expected to provide additional stability to the Company's cash flow position. Meanwhile, the Company needs to ensure that it has sufficient cash reserves to manage unexpected events or delay in receiving payment from customers. The Company is taking measures to conserve cash, including managing its expense 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 to further bolster its liquidity position. Subsequent to September 30, 2024, the Company obtained a loan facility up to €1.5 million from one of the related parties to finance its working capital.
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 €1.05 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.
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 work 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 liquidity risk. The Company is working on its goal to increase its revenue to 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. 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 condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IASB**").

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

## **Functional and Presentation Currency**

The condensed consolidated financial statements are presented in 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 the Euro and U.S. dollar, respectively.

## **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 condensed consolidated statement of financial position. The discount rate used to determine the liability component of the convertible debentures, the incremental borrowing rates used to determine the carrying value of the right-of-use assets and lease obligations and the market borrowing rate to determine the fair value of the long-term borrowing advanced from the related parties are also subject to management estimate.

## **Off-Balance Sheet Arrangements and Financing Facilities**

The balance of \$97,077 (December 31, 2023 – \$33,779) was a bank overdraft outstanding as at September 30, 2024. The following facilities are available to the Company as at September 30, 2024 and December 31, 2023:

- i) Credit facility for an aggregate amount of €941,000 (CAD \$1,418,652) unsecured, due on the maturity of invoices issued to its customers and bears weighted average interest at 1-month Euribor rate plus 1.50% per annum. (December 31, 2023 – €1,345,596 at 1-month Euribor rate plus 1.80% per annum). This facility will be used to finance its working capital prior to the delivery of goods to its foreign customers. As at September 30, 2024, CAD \$1,418,652 (€941,000) was outstanding on this facility (December 31, 2023 – CAD \$nil (€nil)).
- ii) Aggregate bank guarantees of up to a maximum of €1,050,000 (CAD \$1,582,980) 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, 2023 – €1,200,000 at 1.76% per annum). These facilities will be used when the Company must produce letters of guarantee of restitution of deposit, good execution of contract or retention of guarantee for its foreign customers. As at September 30, 2024, there were CAD \$869,917 (USD \$104,000 and €483,900) of guarantees outstanding (December 31, 2023 - \$nil).

- iii) An aggregate foreign exchange cover line up to a maximum of €nil (CAD \$nil) (December 31, 2023 – €3,500,000). As at September 30, 2024, CAD \$nil was outstanding on this facility (December 31, 2023– CAD \$nil).

### Transactions Between Related Parties

For the 9-month period ending September 30, 2024, the Company has the following related party transactions:

	<b>Nine months ended September 30, 2024</b>	Nine months ended September 30, 2023
Director fees to non-executive directors	\$ 8,000	\$ 7,000
Salaries	<b>588,388</b>	557,439

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

	<b>Nine months ended September 30, 2024</b>	Nine months ended September 30, 2023
Real property leases paid to a company controlled by a director of the Company	\$ 85,371	\$ 84,170
Finance cost paid or accrued to a company controlled by a director of the Company	<b>51,220</b>	39,108
Finance cost paid or accrued to two of the directors of the Company	<b>9,909</b>	9,873
Professional fees paid to a partnership controlled by a director of the Company	<b>20,499</b>	44,295
General administrative fee paid to a company controlled by a former officer of the Company	<b>65,625</b>	40,602
Commission expense paid or accrued to two companies controlled by two directors of the Company	<b>256,883</b>	36,225

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

	<b>September 30, 2024</b>	December 31, 2023
Receivable from a company controlled by a director of the Company	\$ 320,775	\$ 302,383
Convertible debentures issued to a company controlled by a director of the Company	<b>2,256,496</b>	2,114,193
Long term borrowing advanced from a company controlled by a director of the Company	<b>1,515,194</b>	1,423,862
Long term borrowing advanced from a company controlled by an officer of the Company	<b>1,537,275</b>	1,452,854
Long term borrowing advanced from companies controlled by two of the directors of the Company	<b>626,218</b>	528,041

**Changes in Accounting Policies**

The unaudited condensed consolidated interim financial statements follow the same accounting policies as outlined in the audited financial statements for the year ended December 31, 2023, except for the adoption of the following accounting standards effective January 1, 2024:

The amendments to IAS 1, Presentation of Financial Statements, require an entity to disclose, in specified circumstances, information in the notes that enables financial statement users to understand the risk that non-current liabilities with covenants could become repayable within 12 months after the reporting period. The adoption of this amendment did not have a material measurement or disclosure impact on the Company's condensed consolidated interim financial statements.

The amendments to IAS 7, Statement of Cash Flow, require an entity to provide additional disclosures about its supplier finance arrangements. The amendments also add supplier finance arrangements as an example within the liquidity risk disclosure requirements of IFRS 7 Financial Instruments: Disclosures. The adoption of this amendment did not have a material measurement or disclosure impact on the Company's condensed consolidated interim financial statements.

The amendments to IFRS 16, Leases, add subsequent measurement requirements to IFRS 16 that explain how an entity accounts for a sale and leaseback after the date of the transaction. The adoption of this amendment did not have a material measurement or disclosure impact on the Company's condensed consolidated interim financial statements.

**Disclosure of Share Information**

Shares outstanding:

110,233,610 commons share outstanding as at the date hereof.

Stock options outstanding:

None.

**APPROVAL**

The Board of Directors has reviewed and approved this document.