

Composite Alliance Group Inc.

Consolidated Financial Statements
December 31, 2023 and 2022
(In Canadian dollars)

To the Shareholders of Composite Alliance Group Inc.:

Opinion

We have audited the consolidated financial statements of Composite Alliance Group Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, and the consolidated statements of income (loss) and comprehensive income (loss), changes in deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

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, 2023 and December 31, 2022, 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 audits 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 audits 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 experience a decrease in working capital during the year ended December 31, 2023 and, as of that date, the Company had an accumulated deficit. 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognized from Contracts

Key Audit Matter Description

We identified revenue recognized from project contracts as one of the most significant assessed risks of material misstatement. The Company enters into project contracts which completion occurs over varying lengths of time. The Company recognizes revenue during the year based on the percentage-of-completion method. This method is measured by reference to cost incurred to date as a percentage of the total estimated cost. The Company's policy for revenue recognition together with the related significant accounting estimates and assumptions is described in notes 2, 3 and 18 of the consolidated financial statements.

The Company recognized \$14.3 million of revenues for the year ended December 31, 2023 related to these contracts. The determination of the estimated costs to complete projects that are open at year end is a significant judgement that can have a material impact on the amount of revenue recognized in the year.

Due to the level of judgements and estimates involved in determining the percentage-of-completion of a project, we have determined the accuracy of revenue recognition to be a key audit matter.

Audit Response

We responded to this matter by performing procedures in relation to project revenue. Our audit work in relation to this included, but was not restricted to, the following:

- Obtained an understanding of the budgeting process for projects and the key controls and evaluated the design related to the budgeting process, including new project acceptance, budget creation, and approval, and management's process on monitoring estimated costs to complete the projects.
- Selected and reviewed contracts including the total contracted revenue, billings, and the estimated costs to complete in order to assess the reasonability of the Company's percentage of completion calculations. We also verified the contracts had been approved and the parties were committed to their obligations by checking the contracts were signed by both parties, payment terms, and ensured the contract has commercial substance.
- Obtained details of budgeted costs and obtained corroborative evidence to support those budgeted costs.
- Tested a sample of actual material and labour costs incurred by agreeing to supporting documentation to ensure cost had been incurred on each project that is recognizing revenue.
- Compared prior period cost estimates to actual contract costs incurred in the current year to assess management's ability to estimate the costs to complete a contract.

Other Information

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

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits 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 a 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 audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Calgary, Alberta

April 29, 2024

MNP LLP

Chartered Professional Accountants

Composite Alliance Group Inc.
Consolidated Statements of Financial Position
As at December 31, 2023 and 2022
(In Canadian dollars)

Assets	December 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 99,768	\$ 98,986
Accounts receivable	5,545,553	3,925,534
Contract asset (Note 18)	2,183,088	4,026,125
Prepaid expense and others	149,671	140,241
Sales tax and other receivables (Note 19)	1,266,176	920,191
Total current assets	9,244,256	9,111,077
Other assets and receivables (Note 4)	360,809	345,990
Property and equipment (Note 5)	1,289,732	1,246,673
Intangible assets (Note 6)	2,728,406	1,340,106
Total assets	\$ 13,623,203	\$ 12,043,846
Liabilities		
Short-term borrowing (Note 7)	\$ 33,779	\$ 730,232
Accounts payable and accrued liabilities (Note 8)	6,160,101	4,270,512
Current portion of long-term borrowings (Note 9 & 19)	745,084	709,588
Current portion of lease obligation (Note 10)	249,594	202,075
Short-term provisions (Note 12)	835,074	-
Contract liabilities (Note 18)	1,177,927	593,358
Total current liabilities	9,201,559	6,505,765
Convertible debentures (Note 11 & 19)	2,114,193	1,995,393
Long-term borrowings (Note 9 & 19)	4,511,778	4,927,463
Lease obligation (Note 10)	959,512	999,581
Provisions (Note 12)	-	13,680
Post-employment benefits plans (Note 13)	241,418	204,715
Research tax credit	117,979	30,803
Total liabilities	17,146,439	14,677,400
Shareholders' deficiency		
Share capital (Note 14)	4,890,766	4,890,766
Contributed surplus	1,430,496	1,430,496
Equity component of convertible debentures (Note 11)	173,314	173,314
Accumulated other comprehensive loss	(320,135)	(243,060)
Deficit	(9,697,677)	(8,885,070)
Total shareholders' deficiency attributable to common shareholders	(3,523,236)	(2,633,554)
Total liabilities and shareholders' deficiency	\$ 13,623,203	\$ 12,043,846

Nature of operations and going concern (Note 1)

Approved on behalf of the Board of Directors on April 29, 2024

signed "Bill Cui"

 Director

signed "Ron Love"

 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, 2023	December 31, 2022
Revenue (Note 18)	\$ 14,354,589	\$ 6,868,030
Expenses		
Purchased raw material and goods	5,564,397	2,693,072
Subcontractor	4,146,007	1,385,663
Selling, general and administrative	2,517,795	1,171,597
Payroll expenses and social security contributions	1,456,183	1,927,088
Depreciation and amortization (Note 5 & 6)	773,628	609,652
Provision variations	716,684	(24,225)
Property and apprenticeship taxes	226,187	64,779
	(1,046,292)	(959,596)
Other expenses (income)		
Foreign exchange gain	-	(46,795)
Finance costs (recovery) (Note 9)	441,885	(256,145)
Other income	(675,570)	(233,935)
Net loss	(812,607)	(422,721)
Loss per common share (Note 16)		
Basic and diluted	(0.01)	(0.00)
Other comprehensive loss		
Items that will be reclassified subsequently to profit or loss		
Exchange difference on translating foreign operations	(77,075)	(90,013)
Total comprehensive loss	\$ (889,682)	\$ (512,734)

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, 2021	4,890,766	1,442,199	458,553	(153,047)	(8,462,349)	-	(1,823,878)
Loss on loan extinguishment (Note 9 & 11)	-	(11,703)	(285,239)	-	-	-	(296,942)
Comprehensive loss	-	-	-	(90,013)	(422,721)	-	(512,734)
Balance December 31, 2022	4,890,766	1,430,496	173,314	(243,060)	(8,885,070)	-	(2,633,554)
Comprehensive loss	-	-	-	(77,075)	(812,607)	-	(889,682)
Balance December 31, 2023	4,890,766	1,430,496	173,314	(320,135)	(9,697,677)	-	(3,523,236)

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)

	2023	2022
Operating		
Net loss	\$ (812,607)	\$ (422,721)
Items not affecting cash:		
Depreciation and amortization (Note 5 & 6)	773,628	609,652
Provisions variations	851,651	(24,225)
Finance costs (recovery) (Note 9)	356,706	(331,553)
Other income	(17,379)	(540,455)
Change in working capital requirement		
Change in prepaid expense and others	(11,375)	286,545
Change in trade and other receivables	(106,388)	(1,761,816)
Change in trade and other payables	2,604,483	478,058
Net cash provided by (used in) operating activities	3,638,719	(1,706,515)
Investing		
Acquisition of intangible assets (Note 6)	(1,842,391)	(672,881)
Acquisition of property and equipment (Note 5)	(119,099)	(12,529)
Net cash used in investing activities	(1,961,490)	(685,410)
Financing		
Repayment of borrowings (Note 9)	(720,317)	(349,295)
Repayment of lease obligation (Note 10)	(238,972)	(210,825)
Net cash used in financing activities	(959,289)	(560,120)
Effect of exchange on cash	(20,705)	250,217
Net decrease in cash	697,235	(2,701,828)
Cash and cash equivalents, beginning of year	(631,246)	2,070,582
Cash and cash equivalents, end of year	\$ 65,989	\$ (631,246)
Cash and cash equivalents consist of:		
Cash	\$ 99,768	\$ 98,986
Short term borrowing	(33,779)	(730,232)
Total	\$ 65,989	\$ (631,246)

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 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.

The Company’s shares are listed for trading on the TSX Venture Exchange (“TSXV”) under the symbol “CAG”. The Company’s registered office is located at Suite 800, 333-7 Avenue S.W., Calgary, Alberta, T2P 2Z1, Canada.

Going concern

These 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 Company experienced a drop in working capital of \$2,562,615 and a net loss of \$812,607 for the year ended December 31, 2023, and as of that date, has an accumulated deficit of \$9,697,677. 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 has already taken proactive steps to improve its profitability, including exploring new revenue streams and developing new products. The Company has confirmed orders from some of its new customers for next fiscal year, which gives confidence in its ability to generate sufficient revenues to meet its obligations on a timely fashion. Furthermore, the Company does not foresee any significant risk in collecting its accounts receivable, which provides further comfort in its ability to materialize cash inflows.

Moreover, an implementation of monthly management accounting process is currently underway to provide senior management with the right and up to date information to track and take corrective action. Also, the deployment of Lean strategy through external consultants is to improve efficiency and eliminate waste which will contribute to improve net income for TME. The objectives are to produce:

- within the planned hours
- decrease in purchase costs and
- on time delivery to clients which have been TME main weaknesses.

Another revenue segment is the development and marketing of Smart Products using AI, which started at TME a few years ago with a team of developers focusing on AI. Another leadership team from TME & CAG has been setup to work with University of Alberta and MacEwan University from Edmonton, Alberta to benefit from student developers and marketing strategies inputs as well as get Canadian funding through eligible programs (federal & provincial) for penetrating the north American market for these Smart products.

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 April 29, 2024.

(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)

Warranty provision

Management estimates and recognizes a warranty expense at the time of sale and a provision is recognized. Management reviews historical information of warranty related issues, warranty period provided at time of sale, and warranty received from its vendors in determining the amount of provision that is required to be recognized. These assumptions by their nature are subject to uncertainty and the impact of warranty expense and warranty provision could be material in these consolidated financial statements

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.

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. This includes consideration of all facts and evidence that are applicable to the event. 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.

Revenue recognition

Revenue from long-term contracts is determined on the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs. The Company has a process whereby progress on jobs is reviewed by management on a regular basis and estimated costs to complete are updated. However, due to unforeseen changes in the nature or cost of the work to be completed or performance factors, contract profit can differ significantly from earlier estimates.

3. MATERIAL ACCOUNTING POLICIES

The following is a summary of material 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.

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.

(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. This input method is used since cost incurred to date contribute proportionally to the Company's progress in satisfying the performance obligation. Meanwhile, the cost incurred to date is directly observable and the information required to apply this method is available to the Company without undue cost. Losses for a given contract are provided for in full as soon as they become probable. Payment for this type of revenue is typically due within a specified time period as permitted by the underlying agreement. 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.

3. MATERIAL ACCOUNTING POLICIES (continued)

(c) Revenue Recognition (continued)

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 products. 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.

For certain sale of goods in which the Company earns a commission fee, the Company records net revenue as an agent on the basis that the Company does not control pricing or bear inventory or credit risk associated with these transactions. This performance obligation is satisfied when the purchase order from the end buyer is placed with the supplier. Payment for this type of revenue is typically due prior to shipment.

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.

The Company applies the practical expedient in paragraph 121 of IFRS 15 when a performance obligation is part of a contract that has an original expected duration of one year or less. For the same reason, the incremental costs of obtaining a contract with a customer has not been recognized as an asset.

(d) New Standards, Interpretations and Amendments Adopted

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023 (unless otherwise stated)..

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable cost of meeting the obligations under the contract (i.e., the costs that the company cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The Company has assessed the contracts for which it has not yet fulfilled all of its obligations, and a few contracts were identified as onerous with carrying losses over contract value over 2024.

These amendments had no impact on the consolidated financial statements of the Group for the years ended 31 Dec 2022.

(e) 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, as well as short-term borrowing which forms an integral part of the Company's cash management.

3. MATERIAL ACCOUNTING POLICIES (continued)

(f) 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.

(g) 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

(h) 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 or loss.

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.

(i) Defined Contribution Plans

Payments made under defined contribution plans are recorded in the consolidated statements of loss, in the year of payment, 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 recorded. The Company participates in mandatory general plans, which are accounted for as defined contribution plans.

3. MATERIAL 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 loss as "Other Comprehensive Income (Loss)". 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) Research and Development Costs

Research 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 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.

(l) Convertible Debentures

Compound financial instruments issued by the Company comprise 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.

3. MATERIAL ACCOUNTING POLICIES (continued)

(m) Income (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 anti-dilutive.

(n) 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.

(o) Provision and Contingent Liabilities

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic resources will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information relating to the nature, frequency and average cost of warranty claims. Claims are assessed at each reporting date and adjustments to estimates are made based on updated historical information.

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.

(p) 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.

3. MATERIAL ACCOUNTING POLICIES (continued)

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.

(q) 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 ("FVTPL"), 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 income (loss). There are no financial instruments in this category.

3. MATERIAL ACCOUNTING POLICIES (continued)

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 the 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.

(r) 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.

(s) 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.

(t) 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.

(u) Standards Issued But Not Yet Effective

IAS 1 Presentation of financial statements

The amendments 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 amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted. The Company is currently evaluating the potential impact of this amendment on the Company's consolidated financial statements.

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3. MATERIAL ACCOUNTING POLICIES (continued)

IAS 7 Statement of cash flows

The amendments 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 amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted. The Company is currently evaluating the potential impact of this amendment on the Company's consolidated financial statements.

IFRS 16 Leases

The amendments 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 amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is 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:

	2023	2022
Long term investments	\$ 557	\$ 551
Deposit and guarantees	57,869	57,205
Amount receivable from shareholder (Note 19)	302,383	288,234
	\$ 360,809	\$ 345,990

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

5. PROPERTY AND EQUIPMENT

As at December 31, 2023:

Cost	December 31, 2022	Additions	Disposals	Foreign Exchange	December 31, 2023
Right of use assets	2,041,055	236,687	(112,808)	23,967	2,188,901
Technical facilities, equipment and industrial tools	713,174	47,176	(24,646)	8,332	744,036
Leaseholds and furniture	297,671	71,923	-	3,539	373,133
Cost	3,051,900	355,786	(137,454)	35,838	3,306,070

Depreciation	December 31, 2022	Additions	Disposals	Foreign Exchange	December 31, 2023
Right of use assets	883,058	257,997	(113,114)	10,553	1,038,494
Technical facilities, equipment and industrial tools	657,780	21,836	(155)	7,687	687,148
Leasehold and furniture	264,389	23,251	-	3,056	290,696
Depreciation	1,805,227	303,084	(113,269)	21,296	2,016,338
Net property and equipment	1,246,673	52,702	(24,185)	14,542	1,289,732

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5. PROPERTY AND EQUIPMENT (continued)

As at December 31, 2022:

Cost	December 31, 2021	Additions	Disposals	Foreign Exchange	December 31, 2022
Right of use assets	1,125,799	941,130	(79,060)	53,186	2,041,055
Technical facilities, equipment and industrial tools	697,555	11,720	-	3,899	713,174
Leaseholds and furniture	295,332	809	-	1,530	297,671
Cost	2,118,686	953,659	(79,060)	58,615	3,051,900
Depreciation	December 31, 2021	Additions	Disposals	Foreign Exchange	December 31, 2022
Right of use assets	698,845	210,825	(39,400)	12,788	883,058
Technical facilities, equipment and industrial tools	624,754	28,531	-	4,495	657,780
Leasehold and furniture	234,484	27,193	-	2,712	264,389
Depreciation	1,558,083	266,549	(39,400)	19,995	1,805,227
Net property and equipment	560,603	687,110	(39,660)	38,620	1,246,673

6. INTANGIBLE ASSETS

As at December 31, 2023:

Cost	December 31, 2022	Additions	Foreign Exchange	December 31, 2023
Development costs	5,922,490	1,839,837	72,532	7,834,859
Software	93,948	2,554	1,097	97,599
Concessions, patents and distribution rights	829,830	-	4,203	834,033
Cost	6,846,268	1,842,391	77,832	8,766,491
Amortization	December 31, 2022	Additions	Foreign Exchange	December 31, 2023
Development costs	4,838,237	370,193	56,967	5,265,397
Software	7,540	-	88	7,628
Concessions, patents and distribution rights	660,385	100,351	4,324	765,060
Amortization	5,506,162	470,544	61,379	6,038,085
Net intangible assets	1,340,106	1,371,847	16,453	2,728,406

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6. INTANGIBLE ASSETS (continued)

As at December 31, 2022:

Cost	December 31, 2021	Additions	Foreign Exchange	December 31, 2022
Development costs	5,196,379	664,937	61,174	5,922,490
Software	85,166	7,944	838	93,948
Concessions, patents and distribution rights	828,152	-	1,678	829,830
Cost	6,109,697	672,881	63,690	6,846,268
Amortization	December 31, 2021	Additions	Foreign Exchange	December 31, 2022
Development costs	4,560,331	243,151	34,755	4,838,237
Software	6,433	1,020	87	7,540
Concessions, patents and distribution rights	559,226	98,932	2,227	660,385
Amortization	5,125,990	343,103	37,069	5,506,162
Net intangible assets	983,707	329,778	26,621	1,340,106

7. SHORT-TERM BORROWING

The balance of \$33,779 (2022 – \$730,232) was a bank overdraft outstanding as at December 31, 2023. The following facilities are also available to the Company as at December 31, 2023 and December 31, 2022:

- i) Credit facility for an aggregated amount of €1,345,596 (CAD \$1,968,069), 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, 2022 – €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 December 31, 2023, CAD \$nil (€nil) was outstanding on this facility (December 31, 2022 – CAD \$nil (€nil)).
- ii) Aggregate bank guarantees up to a maximum of €1,200,000 (CAD \$1,755,120) for advanced payment refunds for its foreign customers that are due on demand, bear weighted average interest at 1.76% per annum (December 31, 2022 – €1,200,000 at 1.76% 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, 2023, there were \$nil guarantees outstanding (December 31, 2022 - \$443,442 (€111,860 and USD \$208,000)).
- iii) An aggregate foreign exchange cover line up to a maximum of €3,500,000 (CAD \$5,119,100) (December 31, 2022 – €3,500,000). As at December 31, 2023, CAD \$nil was outstanding on this facility (December 31, 2022– CAD \$2,588,461 (€1,500,000 and USD \$309,924)).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2023		2022	
Trade payable	\$	5,265,552	\$	3,081,113
Social security payable		794,266		484,123
Value added tax payable		58,064		61,916
Other liabilities		42,219		643,360
	\$	6,160,101	\$	4,270,512

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9. LONG-TERM BORROWINGS

	2023	2022
Loan denominated in Euro is unsecured, bears interest at 1.70%, and with interest only payments and matures on January 31, 2026 *	\$ 1,303,756	\$ 1,252,728
Loan denominated in Euro is guaranteed by the French government "PGE", bears interest at 0.25%. The loan has been extended during the year ended December 31, 2021, bears interest at 0.70%-0.74% with interest only payments up to February 2023, after which monthly blended payment of €21,144 and matures on February 2, 2027	1,143,117	1,445,800
Loan denominated in CAD is unsecured, bears interest at 2.00% per annum, and with interest only payments and matures on November 15, 2025*	546,445	521,623
Loan denominated in CAD is unsecured, bears interest at 2.00% per annum, and with interest only payments and matures on November 15, 2025 *	403,599	309,498
Loan denominated in USD is unsecured, bears interest at 2.00%, and with interest only payments and matures on October 7, 2026*	396,854	385,360
Loan denominated in Euro is guaranteed by the French government "PGE", bears interest at 1.00%, monthly blended payment of €9,425 and matures on May 20, 2026	394,769	548,993
Loan denominated in CAD is unsecured, bears interest at 2.00%, and with interest only payments and matures on January 31, 2026*	354,674	335,878
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	268,153	441,779
Loan denominated in USD is unsecured, non-interest bearing and with no repayment term*	96,550	98,871
CEBA loan denominated in CAD is unsecured, non-interest bearing and matures on December 31, 2023 (see below)	40,000	40,000
Loan denominated in Euro is unsecured, bears interest at 0.95%, with monthly blended payment of €4,228 and matures on March 4, 2023	-	18,309
	4,947,917	5,398,839
Add: accrued interest	308,945	238,212
	5,256,862	5,637,051
Less: current portion	(745,084)	(709,588)
	\$ 4,511,778	\$ 4,927,463

* These are loans with related parties.

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9. LONG-TERM BORROWINGS (continued)

Principal repayments are as follows:

2024	\$	745,084
2025		1,720,430
2026		2,645,822
2027		42,907
2028		-
Thereafter		102,619
	\$	5,256,862

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 deadline for the partial loan forgiveness was further extended to January 18, 2024. Subsequent to the year end, the Company repaid this loan.

During the year end December 31, 2022, the Company reached an agreement with a related party to forgive interest accrued up to December 31, 2022. The interest forgiven of €237,630 (CAD \$325,458) has been recorded as finance cost recovery. 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 €866,460 (CAD \$1,252,728) and loss on extinguishment of €85,271 (CAD \$123,285) was recorded in contributed surplus.

The components of finance costs are as follows:

	December 31, 2023	December 31, 2022
Interest on long-term borrowings	\$ 90,041	\$ 102,104
Accretion on long-term borrowings	195,079	184,139
Interest on leases	59,735	56,237
Interest on convertible debentures	43,670	41,088
Accretion on convertible debentures	51,751	85,586
Interest forgiveness	-	(734,248)
Interest on short term borrowing	1,609	8,949
	\$ 441,885	\$ (256,145)

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10. LEASE OBLIGATION

The Company has a number of property and equipment rental leases whose maturity goes from September 2021 to January 2031. The leases have an incremental borrowing rate ranging from 2 to 5% and interest expense for the year ended December 31, 2023 was \$59,734 (December 31, 2022 - \$56,237).

	December 31, 2023	December 31, 2022
Balance, beginning of year	\$ 1,201,656	\$ 439,119
Additions	232,472	931,249
Lease payments	(238,972)	(210,825)
Foreign exchange	13,950	42,113
	1,209,106	1,201,656
Less: current portion	(249,594)	(202,075)
Balance, end of year	\$ 959,512	\$ 999,581
Less than one year	\$ 304,505	
1-3 years	563,379	
3-5 years	277,414	
More than 5 years	234,624	
	1,379,922	
Less: finance costs	(170,816)	
	\$ 1,209,106	

11. CONVERTIBLE DEBENTURES

The Company completed a series of private placement of convertible unsecured debentures between December 2016 and March 2017. A total of 31,915 bonds were issued at €47 each, for a total principal amount of €1,500,005 (CAD \$2,187,457), to a shareholder of the Company. The convertible debentures accrue interest at 3% per annum, and matured 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 December 31, 2022, the Company reached an agreement with the holder of the convertible debentures, who is a related party, to forgive interest accrued up to December 31, 2022. The interest forgiven of €248,048 (CAD \$339,727) has been recorded as finance cost recovery. As a result of this agreement, the carrying amount of the liability component of the debentures was calculated using a discount rate of 4.75%. An amount of CAD \$1,995,393 (€1,380,131) and CAD \$173,314 (€119,874) was allocated to the liability and equity component of the convertible debenture respectively. As such, the initial debentures were treated as extinguishment and new debentures were recognized at its fair value of €1,500,005 (CAD \$2,168,707) and gain on extinguishment of €77,177 (CAD \$111,582) was recorded in contributed surplus.

	December 31, 2023	December 31, 2022
Balance, beginning of year	\$ 1,995,393	\$ 2,047,736
Accrued interest and accretion	95,421	126,574
Extinguishment	-	(195,598)
Foreign exchange	23,379	16,681
Balance, end of year	\$ 2,114,193	\$ 1,995,393

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12. PROVISIONS

	Onerous Contracts (i)	Warranty (ii)	Others (iii)	Total
At December 31, 2022	-	-	13,680	13,680
Liabilities incurred	536,725	164,674	134,967	836,366
Changes in estimates	-	-	(13,811)	(13,811)
Foreign exchange	1,083	332	(2,576)	(1,161)
At December 31, 2023	537,808	165,006	132,260	835,074
Less: current portion	(537,808)	(165,006)	(132,260)	(835,074)
	-	-	-	-

- i) The balance represents the non-recurring unavoidable costs of meeting the performance obligations under the contracts exceed the economic benefits received under them. A provision is recorded to provide for the incremental costs of fulfilling the contracts.
- ii) The balance represents the warranties on the sale of products. A provision is recorded to provide for future warranty costs based on management's best estimate of probably warranty claims.
- iii) The balance represents the non-recurring legal and regulatory provisions for both TME and CAC's operations. A provision is recorded based on management's best estimate of the most likely outcome of the claims.

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.

	2023	2022
Discount rate	3.2%	3.75%
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
	2023	2022
Balance, beginning of year	\$ 204,715	\$ 249,570
Provision	(12,203)	(43,594)
Foreign exchange	48,906	(1,261)
Balance, end of year	\$ 241,418	\$ 204,715

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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, 2023, 2022 and 2021	110,233,610	4,890,766

15. OPTIONS

The Company has an equity settled stock option plan under which the Board of Directors may grant options to directors, officers, employees and consultants of the Company and to individuals employed by a company providing management services to the Company. The purpose of the plan is to provide an incentive to the directors, officers, employees, consultants and other personnel of the Company or any of its subsidiaries to achieve the longer-term objectives of the Company; to give suitable recognition to the ability and industry of such persons who contribute materially to the success of the Company; and to attract to and retain in the employ of the Corporation or any of its subsidiaries, persons of experience and ability, by providing them with the opportunity to acquire an increased proprietary interest in 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 ten 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. The number of Common Shares issuable pursuant to Options granted in any 12-month period to any one person may not exceed 5% of the issued and outstanding Common Shares. In addition, the number of Common Shares issuable pursuant to Options granted in any 12-month period to any one consultant must not exceed 2% of the issued and outstanding Common Shares, calculated as at the date any Option is granted to the consultant, and the number of Common Shares issuable pursuant to Options granted in any 12-month period to all Investor Relations Services Providers (as defined in the policies of the Exchange) in the aggregate must not exceed 2% of the issued and outstanding Common Shares, calculated as at the date the Option is granted to any such Investor Relations Service Provider.

During year ended December 31, 2023, the Company recognized \$nil (December 31, 2022 – \$nil) 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, 2023		December 31, 2022	
	Options	Weighted- average exercise price	Options	Weighted- average exercise price
Opening	-	\$-	2,400,000	\$0.125
Expired	-	\$-	(2,400,000)	(\$0.125)
Closing	-	\$-	-	\$-

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16. NET LOSS PER COMMON SHARE

	December 31, 2023	December 31, 2022
Net loss	\$ (812,607)	\$ (422,721)
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, 2023, 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:

	2023		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Amortized cost:				
Cash and cash equivalents	\$ 99,768 (A) \$	99,768	\$ 98,986 (A) \$	98,986
Accounts receivable	5,545,553 (A)	5,545,553	3,925,534 (A)	3,925,534
Sales tax and other receivables	1,266,176 (A)	1,266,176	920,191 (A)	920,191
Amount receivable from shareholder	302,383 (B)	302,383	288,234 (B)	288,234
Short term borrowing	33,779 (A)	33,779	730,232 (A)	730,232
Accounts payable	6,160,101 (A)	6,160,101	4,270,512 (A)	4,270,512
Convertible debentures	2,114,193 (B)	2,114,193	1,995,393 (B)	1,995,393
Long-term borrowings	5,256,862 (B)	5,174,757	5,637,051 (B)	5,660,453

(A) The fair values of cash and cash equivalents, accounts receivable, sales tax and other receivables, short term borrowing 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, 2023, the Company was holding cash of \$99,768 (2022 - \$98,986), accounts receivable of \$5,545,553 (2022 - \$3,925,534) and had a working capital of \$42,697 (2022 - \$2,605,312). The contractual maturities of liabilities is as follows:

Maturity of liabilities	December 31, 2023	Less than 1 year	Between 1 and 5 years	More than 5 years
Short-term borrowing	33,779	33,779	-	-
Accounts payable	6,160,101	6,160,101	-	-
Short-term provisions	835,074	835,074	-	-
Convertible debentures	2,114,193	-	2,114,193	-
Long-term borrowings	5,256,862	745,084	4,409,159	102,619
Total	14,400,009	7,774,038	6,523,352	102,619

(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, 2023. 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. As at December 31, 2023, approximately 59% (2022 – 33% from two customers) of the trade receivables balance is owed from three customers.

(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, 2023 and 2022 in Canadian dollar terms. The table also illustrates the potential impact to the Company's net equity as at December 31, 2023 and 2022 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	
	2023	2022	2023	2022
Euro	(\$3,278,653)	(\$3,109,670)	(\$163,933)	(\$155,484)
As a % of net equity	93.1%	118.1%	4.7%	5.9%
U.S. dollar	(\$748,727)	(\$575,527)	(\$37,436)	(\$28,776)
As a % of net equity	21.3%	21.9%	1.1%	1.1%

18. REVENUE

Revenue is reflected net of actual returns, estimated future return, rebates and other price adjustments of \$nil for the year ended December 31, 2023 (2022 - \$nil). No non-cash consideration was recognized during the year (2022 - \$nil). During the year ended December 31, 2023, \$569,082 (2022 - \$345,454) of revenue recognized was included in the contract liability balance at the beginning of the year. Also during the year ended December 31, 2023, a negative \$372,439 (2022 – negative \$24,493) of revenue recognized from performance obligations satisfied in previous years as a result of changes in contract price and budgeted cost during the year.

Contract assets represent any excess costs and estimated earnings over progress billings. Contract assets as at December 31, 2023 are \$2,183,088 (2022 - \$4,026,125). Contract liabilities are recorded when progress billings are in excess of revenue earned. Contract liabilities as at December 31, 2023 are \$1,177,927 (2022 - \$593,358).

Sales to the top four major customer represents 63% of the Company's total sales for the year ended 2023 (2022 – 63% from three customers).

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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, 2023	December 31, 2022
Director fees to non-executive directors	\$ 15,000	\$ 5,250
Salaries	793,379	789,514

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

	December 31, 2023	December 31, 2022
Real property leases paid to a company controlled by an officer of the Company	\$ 112,382	\$ 105,461
Finance cost paid or accrued (net recovery) to a company controlled by a director of the Company	67,179	(601,989)
Finance cost paid or accrued to two companies controlled by two of the directors of the Company	13,200	13,200
Professional fees paid to a partnership controlled by a director of the Company	56,528	19,968
General administrative fee paid to a company controlled by a former officer of the Company	40,602	29,385
General administrative fee paid to a company controlled by an officer of the Company	75,600	-
Commission expense paid (recovery) or accrued to two companies controlled by two directors of the Company	319,531	(410,127)

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

	December 31, 2023	December 31, 2022
Receivable from a company controlled by an officer of the Company, relates to advances for share purchase	\$ 302,383	\$ 288,234
Convertible debentures issued to a company controlled by a director of the Company	2,114,193	1,895,966
Long term borrowing advanced from a company controlled by a director of the Company	1,423,862	1,351,599
Long term borrowing advanced from a company controlled by an officer of the Company	1,452,854	1,369,831
Long term borrowing advanced from companies controlled by two of the directors of the Company	528,041	515,490
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

19. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

In addition to the above, on October 8, 2021, the Company entered into a machine development agreement (the "Agreement") with a company owned by a direct family member of a key management personnel of the Company. The related company agreed to contribute €600,000 (the "Contribution") toward the development and construction of machinery. The Contribution is non-refundable and has been applied against costs incurred. As part of the revised Agreement, the Company will pay commission of €200,000 per machine for the second to the fourth machine and €165,000 for the fifth machine sold to the end customer. Any machine sales subsequent to the sixth sales require no payment of commission. The commission is due in the same term as the payment term between the Company and the end customer. During the year ended December 31, 2023, €465,000 (CAD \$678,739) (2022 - €135,000 (CAD \$184,900)) of the development cost was expensed and therefore the same amount been recorded in net income. As at December 31, 2023, €100,000 (CAD \$146,260) (2022 - €100,000 (CAD \$144,580)) of the consideration is receivable from the related party and has been reflected with sales tax and other receivables.

20. INCOME TAXES

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:

	2023	2022
Net loss before income taxes	\$ (812,607)	\$ (422,721)
Taxation at income tax rate	23%	23%
Expected tax recovery	(186,900)	(97,226)
Tax effect of non-deductible expenses/non-taxable income	(34,250)	(118,145)
Tax benefits not recognized	228,187	213,202
Tax effect of rate variance in foreign jurisdiction	(7,037)	2,169
Deferred tax expense (recovery)	\$ -	\$ -

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2023	2022
Debenture	\$ (34,926)	\$ (17,994)
Non-capital losses available for future periods	34,926	17,994
Deferred tax asset (liabilities)	\$ -	\$ -

A deferred tax asset has not been recognized with respect to the following deductible temporary differences:

	2023	2022
Deferred tax assets:		
Non-capital tax loss carryforward	\$ 10,828,694	\$ 9,736,226
Net capital loss carryforward	208,188	208,188
Deferred tax asset not recognized	\$ 11,036,882	\$ 9,944,634

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20. INCOME TAXES (continued)

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	228,100
2035	810,949
2036	195,833
2037	193,783
2038	574,761
2039	394,222
2040	240,566
2041	384,341
2042	255,864
2043	296,536
Losses not subject to expiry	5,728,520
	10,980,544

Of these losses, approximately \$4,680,000 of them relate to TME losses in France, which have no expiry date, \$4,865,000 relate to CAG losses in Canada, which will begin to expire in 2029, and \$1,434,000 relate to CAC losses in the US, which have no expiry date.

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, 2023	December 31, 2022
Shareholders' deficiency	\$ (3,523,236)	\$ (2,633,554)
Convertible debentures	2,114,193	1,995,393
Long-term borrowings	5,256,862	5,637,051
	\$ 3,847,819	\$ 4,998,890

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:

	2023	2022
Europe	41%	36%
Asia	53%	39%
North America	6%	25%
	100%	100%
