



*Cymat Technologies Ltd.*  
*Management's Discussion and Analysis (“MD&A”)*  
*As at April 30, 2019*

August 22, 2019

The following discussion and analysis of Cymat Technologies Ltd. [“Cymat” or the “Company”] financial condition and results of operations should be read in conjunction with the audited comparative consolidated financial statements of the Company for the year ended April 30, 2019, and the associated notes to the consolidated financial statements.

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as set out in the Handbook of The Chartered Professional Accountants of Canada (“CPA Handbook”). All financial information contained in this MD&A and in the audited consolidated financial statements has been prepared in accordance with IFRS.

This MD&A is dated August 22, 2019 and all amounts herein are denominated in Canadian dollars, unless otherwise stated. This MD&A reflects the accounts of Cymat and its wholly-owned subsidiary, ALU-MMC Hungary, Zrt.

The information below contains certain forward-looking statements that reflect the current view of Cymat with respect to future events and financial performance. Wherever used, the words “may”, “will”, “anticipate”, “intend”, “expect”, “plan”, “believe”, and similar expressions identify forward-looking statements. Any such forward-looking statements are subject to risks and uncertainties, and the Company's actual results of operations could differ materially from historical results or current expectations. The Company will review the forward-looking information in the preparation of the MD&A on a quarterly basis and, where appropriate, provide updated forward-looking statements based on the most current view of Cymat.

## **1. Company Overview and Business of Company**

Cymat was incorporated on June 13, 2006 under the Business Corporations Act (Ontario) and is the successor to Duntroon Energy (formerly Cymat Corp.) which was incorporated on June 30, 1998 under the Business Corporations Act (Ontario).

Cymat develops innovative materials for industry. The Company has worldwide rights, through patents and licenses, to produce Stabilized Aluminum Foam (“SAF”). This ultra-light metallic foam is produced using a proprietary, versatile process in which gas is bubbled into molten-alloyed aluminum containing a dispersion of fine ceramic particles to create foam that is then cast into either flat panels or near-net shapes. The result is a material, which is recyclable, with a wide array of features including very low density, mechanical energy absorption, thermal and acoustic insulation, time and temperature insensitivity and has a relatively low cost of production. The technology is focused on producing products for 3 major markets: automotive, architecture and blast mitigation industries. Cymat markets architectural material

under the trademark, “Alusion™” and automotive and blast mitigation products under the “SmartMetal™” trademark.

## **2. Summary of Market and Industry Environment**

Cymat’s business environment is divided into two lines of business – Architecture, and Energy Absorption (which includes Blast Mitigation and Automotive applications).

The materials industry for architectural and construction is characterized by a highly competitive environment with numerous solutions competing for high profile projects. The upward trend recently experienced by global economies is showing signs of stalling and escalating international trade tensions, such as those between the United States and China, have created an environment of global trade uncertainty. Such volatility can have unfavourable effects upon the timing and budgets for large architectural projects. While Cymat’s architectural line of products is not among the lowest cost cladding options, its light weight can lead to significant construction savings as it may require less robust, hence less expensive, hanging systems. Europe remains a key market for Alusion™, and despite increasing trade tensions, the Far East continues to demonstrate increased demand for Cymat’s architectural line of products.

Highrise building fires in the Middle East, and the widely publicized tragic Grenfell Tower fire in the UK, have focused public and industry awareness upon the suitability of construction material to resist flame. As a result, strengthened anti-flammability requirements are trending for international building codes. The goal of Cymat’s joint venture with Alucoil SA. is the commercial production of composite aluminum panels – with a core of SAF – that have superior flame resistance properties.

Military forces and homeland law enforcement agencies continue to face threats from Improvised Explosive Devices (“IED’s”). Lightweight, high-energy absorption materials such as SmartMetal™ are elements being used by military and police forces and OEM manufacturers to counter these IED threats. SmartMetal™ blast mitigation capabilities, its high strength to weight ratio and its ability to maintain its physical properties over time and over a wide temperature range, make it an attractive solution for blast mitigation applications. Test results have confirmed that the use of SmartMetal™, in conjunction with other materials, offers a lower weight solution that significantly reduces mortality and serious injury for the vehicle occupants. While threats from these types of attacks continue, the sales cycle associated with these types of customers is a lengthy one. Often the process that commences with vehicle system design, progresses through system validation and testing, the competitive bidding and contract awarding process and finally arrives at budget allocation and purchase approval can span several years. Military and police budgets continue to be challenged by cost-cutting initiatives as the result of government deficit and debt levels.

The automotive industry continues to face increased societal demands for environmental sustainability. According to the energy.gov website, a ten percent reduction in vehicle weight can result in a sixty-eight percent increase in fuel economy. Accordingly, most automotive manufacturers are undertaking comprehensive light-weighting initiatives. These light-weighting projects have the potential to result in the addition of new materials, such as SAF, into the automotive design. Additionally the IIHS (Insurance Institute for Highway Safety) is rating vehicles for their performance in a new small offset frontal crash test. This environment is compelling automotive OEM’s to employ innovative energy absorption design solutions to meet these enhanced requirements. In addition to its flat-panel SAF production line, Cymat has developed proprietary Low Pressure Foam Casting (“LPFC™”) aluminum foam technology which can produce near net shaped components that, among other uses, may have utility in automotive industry applications.

### 3. Operating Highlights and Year in Review

#### *Architecture*

Sales of Alusion™ for fiscal 2019 were approximately \$2.5 million compared to Alusion™ sales of \$2.7 million for fiscal 2018. Fiscal 2019 included revenue from nine large architecture projects in the approximate aggregate amount of \$1.2 million compared to fiscal 2018 which included revenue from three large architectural projects totalling \$1.9 million.

#### *Blast Mitigation and Energy Absorption*

SmartMetal™ sales for fiscal 2019 were approximately \$177,000 compared to sales of \$332,000 for fiscal 2018. Fiscal 2018 sales included revenue of \$233,000 from SmartMetal™ cylinders to be used as the core of non-lethal projectiles compared to \$54,000 from the same source for fiscal 2019.

#### *Automotive*

Although not significantly represented in annual sales, Cymat continued its efforts to develop a market for SmartMetal™ within the automotive industry including applications for SmartMetal™ relating to crash management systems and NVH (noise, vibration and harshness) reduction.

#### *Other Highlights*

During fiscal 2019 Cymat received proceeds of \$169,000 from the exercise of warrants.

### 4. Selected Financial Information

The following table presents selected annual financial information for the three most recent fiscal years, prepared in accordance with IFRS.

Selected Financial Information by Fiscal Year  
All Items in \$ 000's, except Net Loss per Share

	2019	2018	2017
Revenue	2,644	3,046	2,752
Cash flow used in operations	(471)	(763)	(362)
Net Loss	(1,359)	(1,116)	(1,044)
Net Loss per Share, basic and diluted	(0.04)	(0.03)	(0.06)
Total Assets	735	1,691	996
Non-current Financial Liabilities	489	505	350

The following tables present selected quarterly financial information for the eight most recent quarters for the period ended April 30, 2019.

Selected Financial Information by Fiscal Quarter  
All Items in \$ 000's, except Net Loss per Share

Three months ended,	Apr 30, 2019	Jan 31, 2019	Oct 31, 2018	Jul 31, 2018	Apr 30, 2018	Jan 31, 2018	Oct 31, 2017	Jul 31, 2017
Revenue	619	604	1,030	391	1,322	777	381	567
Plant operating expenses	411	533	693	385	819	376	354	320
Research and material testing expenses	36	42	53	65	52	17	11	1
SG&A expenses	464	382	368	400	457	442	412	537
Net Loss	(351)	(383)	(136)	(489)	(165)	(115)	(389)	(447)
Net Loss per Share	(0.00)	(0.01)	(0.00)	(0.01)	(0.00)	(0.00)	(0.01)	(0.02)
Operating cash flow	61	(158)	(152)	(222)	231	(278)	(336)	(380)

As at:	Apr 30, 2019	Jan 31, 2019	Oct 31, 2018	Jul 31, 2018	Apr 30, 2018	Jan 31, 2018	Oct 31, 2017	Jul 31, 2017
Cash & cash equivalents	182	125	287	275	524	297	579	929
Restricted cash	15	23	-	-	-	-	-	14
Working capital	(705)	(398)	(52)	(120)	327	233	257	566

## 5. Financial Condition

The following table presents significant changes in the Company's financial position from April 30, 2018 to April 30, 2019.

As at April 30 (Thousands of Dollars)	2019 \$	2018 \$	Increase (Decrease) \$ %	
Cash and cash equivalents	182	524	(342)	(65)
Restricted cash	15	-	15	100
Trade and other receivables	107	465	(358)	(77)
Inventory	166	393	(227)	(58)
Prepaid expenses	13	36	(23)	(64)
Other assets	28	28	-	-
Property, plant and equipment, net	223	245	(22)	(9)
Trade and other payables	887	697	190	27
Deferred revenue	135	260	(125)	(48)
Deferred rent liability	-	2	(2)	(100)
Accrued royalties	657	636	21	3
Share capital	71,314	71,065	249	0
Contributed surplus	7,624	7,411	213	3
Warrants	-	142	(142)	(100)

Cash and cash equivalents decrease of \$342,000: See Liquidity and Capital Resources section for an explanation of the change in cash and cash equivalents for fiscal 2019.

Restricted cash increase of \$15,000: Restricted cash is comprised of cash held in a Hungarian financial institution as the result of the incorporation of ALU-MMC Hungary Zrt.

Trade and other receivables decrease of \$358,000: The decrease in receivables was primarily the result of a spike in 2018 receivables relating to sales recognized shortly before the end of fiscal 2018.

Inventory decrease of \$227,000: The decrease in inventory is the result of a decrease in raw materials on hand (\$60,000) and a decrease in finished goods inventory (\$183,000) as a result of increased order shipments closely following the 2018 year end. This decrease was partially offset by an increase in research and development related inventory (\$16,000).

Prepaid expenses decrease of \$23,000: The decrease in prepaid expenses is primarily the result of a fiscal 2018 prepayment for manufacturing consumables.

Property, plant and equipment decrease of \$22,000: The decrease in the carrying value of property, plant and equipment is the result of the purchase of production equipment and computer equipment (\$40,000), offset by depreciation expense (\$62,000).

Deferred revenue decrease of \$125,000: Deferred revenue decreased as a result of the relatively higher volume of to orders shipping immediately after the fiscal 2018 year end.

Accrued royalties increase of \$21,000: The increase was the result of a fair value adjustment recorded to reflect the present value of the estimated future royalty stream.

Share capital increase of \$249,000: Share capital increased as the result of the exercise of warrants.

Contributed surplus increase of \$213,000: Contributed surplus increased as the result of stock-based compensation (\$152,000) and the expiration of warrants (\$61,000).

Warrants decrease of \$142,000: Warrants decreased as the result of the exercise of warrants (\$81,000) and the expiration of warrants (\$61,000).

## **6. Results of Operations**

### **Fourth Quarter and Year Ended April 30, 2019 Compared to the Fourth Quarter and Year Ended April 30, 2018**

#### **Revenue**

Revenue for the quarter ended April 30, 2019 was approximately \$619,000, a decrease of \$703,000, or 53%, from revenue for the quarter ended April 30, 2018, of \$1,322,000. The last quarter of fiscal 2019 included sales of Alusion™ in the amount of \$599,000 compared to sales of Alusion™ in the amount of \$1,069,000 in the last quarter of fiscal 2018. Sales for the current quarter of fiscal 2019 did not include orders pertaining to large architectural projects; while sales for the fourth quarter of 2018 included Alusion™ panel sales regarding large architectural projects of \$758,000. The fourth quarter of 2019 included SmartMetal™ sales of \$20,000 compared to SmartMetal™ sales of \$252,000 for fiscal 2018.

Revenue for fiscal 2019 was approximately \$2,644,000, a decrease of \$402,000, or 13%, from revenue for fiscal 2018, of \$3,046,000. Revenue from Alusion™ sales was \$2,467,000 for fiscal 2019 as compared to \$2,715,000 for fiscal 2018. Fiscal 2019 included revenue from large Alusion™ architectural projects of \$1,250,000, compared to fiscal 2018 which included revenue of \$1,917,000 from similarly sized architectural projects.

Annual SmartMetal™ sales decreased by \$155,000, or 47%, to \$177,000 for fiscal 2019 from \$332,000 for fiscal 2018. Fiscal 2019 SmartMetal™ sales included revenue of \$54,000 from the sale of cylinders for use in non-lethal projectiles as compared to revenue of \$233,000 from the same source for fiscal 2018.

Revenue from the sale of manufactured products is recognized at the point in time when control of the product is transferred to the customer. Based on the terms of the specific transaction, control typically transfers at a point along a continuum that is as early as the products' departure from the Company's warehouse to as late as the passing of inspection following the products' arrival at a designated shipment location. Amounts received in advance of recognized revenues are recorded as deferred revenue.

### **Plant Operating Expenses**

Plant operating expenses for the quarter ended April 30, 2019 were approximately \$411,000, a decrease of \$408,000, or 50%, as compared to the same expenses of \$819,000 for the quarter ended April 30, 2018. Plant operating expenses for the year ended April 30, 2019 were approximately \$2,022,000, an increase of \$153,000, or 8%, from the same expenses of \$1,869,000 for the year ended April 30, 2018.

Plant operating expenses include the direct operating expenses of labour, material, consumables, maintenance, freight and changes in inventory as well as manufacturing overhead costs. These direct operating expenses were approximately \$411,000 for the fourth quarter of fiscal 2019, as compared to \$819,000 for the fourth quarter of fiscal 2018, representing a \$408,000, or 50%, quarter-over-quarter reduction. Higher variable operating expenses for the last quarter of fiscal 2018 were in keeping with higher sales levels. Additionally, the fourth quarter of fiscal 2018 included higher sub-contracting expenses pertaining to specialized cutting services.

Direct operating expenses were approximately \$1,601,000 for fiscal 2019, an increase of \$112,000, or 8%, from the same expenses of \$1,489,000 for fiscal 2018. Despite the lower sales figure, direct operating expenses were higher for fiscal 2019 due to several factors including the furnace relining process which involved a four-week period during which no labour costs nor manufacturing overhead expenses were allocated to production and which necessitated additional employee overtime. Labour expenses also increased due to rate increases and the use of more temporary production personnel. The higher level of production experienced at the end of fiscal 2018 also resulted in the allocation of a higher proportion of fixed costs being allocated to inventory, reducing the period production expenses for fiscal 2018.

Plant operating expenses also includes factory overhead costs such as rent and utilities. These expenses totalled approximately \$99,000 for the fourth quarter of fiscal 2019 as compared to \$83,000 for the same quarter of fiscal 2018. Higher facility rent rates and higher utility expenses accounted for the increased period-over-period costs. Factory overhead expenses totalled approximately \$366,000 for fiscal 2019 and \$327,000 for fiscal 2018. Increased expenses were primarily the result of higher rent rates (\$16,000) and higher electricity costs (\$21,000) due to increased usage for curing of the new furnace linings and higher hydro rates.

Plant operating expenses also include depreciation and amortization expense of approximately \$14,000 for the three months ended April 30, 2019 and \$15,000 for the same period ended April 30, 2018. For the entire fiscal 2019 year, depreciation and amortization expense included in plant operating expenses was approximately \$55,000 compared to \$53,000 for fiscal 2018.

## **Research and Material Testing Expenses**

Research and material testing expenses for the fourth quarter of fiscal 2019 included costs in the amount of \$36,000 (2018 - \$52,000) related to experimentation with the foaming of different aluminum alloys and aluminum metal matrix composites in support of the Company's sandwich panel development, and development of a new architectural aluminum foam. Research and material testing expenses also included depreciation expenses regarding lab and testing equipment of approximately \$1,000 in each of the fourth quarters of fiscal 2019 and fiscal 2018.

Likewise, research and material testing expenses for fiscal 2019 also included costs related to new aluminum foam experimentation in the amount of \$193,000 (2018 - \$77,000). Research and material testing expenses included depreciation expenses regarding lab and testing equipment of approximately \$3,000 for each of fiscal 2019 and fiscal 2018.

## **Selling, General and Administrative Expenses ("SG&A")**

SG&A expenses for the quarter ended April 30, 2019 were approximately \$464,000, as compared to an expense of \$457,000 for the same quarter ended April 30, 2018. The most significant expense increases included higher shareholder and investor relations expenses (\$24,000), higher employee compensation expenses (\$14,000) due to increased headcount and higher marketing and commissions (\$9,000). The most significant expense decreases included a reduction to employee stock-based compensation expenses (\$44,000).

SG&A expenses for fiscal 2019 totalled approximately \$1,614,000, a decrease of \$234,000, or 13%, from SG&A of \$1,848,000 for fiscal 2018. The primary contributors to the decreased expenses were share-based employee compensation (\$310,000) and marketing expenses and commissions (\$68,000). Partially offsetting expenses included salary expenses resulting from increased head-count and raises (\$104,000) and increased shareholder services costs (\$35,000).

SG&A expenses also include depreciation and amortization in the approximate amounts of \$1,000 for each of the fourth quarters of fiscal 2019 and 2018. For the fiscal years of 2019 and 2018 depreciation and amortization was \$4,000 in each year.

## **Foreign Exchange Gain**

For the quarter ended April 30, 2019, there was a foreign exchange loss of \$4,000 as compared to a foreign exchange loss of \$14,000 for the quarter ended April 30, 2018. For fiscal 2019 there was a foreign exchange loss of \$16,000, as compared to a foreign exchange loss of \$20,000 for fiscal 2018.

## **Interest and Financing Expense**

Interest and financing expense for the three months ended April 30, 2019, of \$54,000 (2018 -\$144,000), includes cash-based amounts of \$33,000 in royalty-based financing fees (2018 - \$44,000) - including \$13,000 payable to a related party (2018 - \$17,000). The expense for the quarter also includes a non-cash-based amount of \$21,000 - including \$3,000 pertaining to a related party (2018 - \$38,000) - which arose from a change in the present value of the estimated future royalty payments.

Interest and financing expense for fiscal 2019 of \$154,000 consists of royalty-based financing fees payable in the amount of \$133,000 - including \$51,000 payable to a related party and the \$21,000 expense that arose from a change in the present value of the estimated future royalty payments.

Interest and financing expense for fiscal 2018 includes cash-based amounts of approximately \$186,000 which consisted of

- \$130,000 in royalty-based financing fees (including \$50,000 payable to a related party), and
- \$56,000 in convertible debenture interest.

The expense for 2018 also includes a non-cash-based amount of \$158,000 which consisted of:

- a change in the present value of the estimated future royalty outflow on the promissory notes resulting in an interest expense \$100,000 (including \$38,000 pertaining to a related party), and
- accreted interest on the convertible debentures in the amount of \$58,000 arising from the difference between the face value and the recorded value of the debentures.

## **Net Income (Loss)**

A net loss of \$343,000 was recorded for the fourth quarter of fiscal 2019, compared to a net loss of \$165,000 for the same quarter of last year.

The net loss for the fourth quarter of fiscal 2019 includes the non-cash items of depreciation and amortization of approximately \$16,000 (2018 – \$16,000), a share-based compensation expense of approximately \$33,000 (2018 – \$82,000) and an expense arising from the change in the accrual for future royalty payments of \$21,000 (2018 – \$100,000 expense recovery).

A net loss of \$1,359,000 was recorded for fiscal 2019 and a net loss of \$1,116,000 was recorded for fiscal 2018.

The net loss for fiscal 2019 includes the non-cash items of depreciation and amortization of approximately \$62,000 (2018 – \$60,000), share-based compensation expense of \$152,000 (2018 - \$462,000), share-based consulting fees of \$Nil (2018 – \$32,000), an expense arising from the change in the accrual for future royalty payments of \$21,000 (2018 – \$100,000) and non-cash interest of \$Nil (2018 - \$58,000) regarding convertible debt.

## **7. Liquidity and Capital Resources**

### **Sources and Uses of Cash**

As at April 30, 2019, the Company had approximately \$182,000 of cash and cash equivalents on hand. For fiscal 2019, the cash flow used in operating activities was approximately \$471,000 (2018 – used \$763,000). For fiscal 2019, cash utilized by operating activities was the result of a net loss adjusted for items not involving cash of approximately \$1,125,000 (2018 – \$349,000) and cash provided by changes in non-cash working capital balances of \$654,000 (2018 –\$414,000 used by changes in non-cash working capital).

For the year ended April 30, 2019, cash used by investing activities of \$40,000 was the result of expenditures on production equipment of \$39,000 (2018 – \$70,000) and computer equipment of \$1,000 (2018 – \$3,000).

For fiscal 2019, cash provided by financing activities of \$169,000 resulted from the exercise of warrants. For fiscal 2018, cash provided by financing activities of \$903,000 was the result of warrant exercises in the aggregate amount of \$1,360,000 less payment of convertible debt interest of \$457,000.

## **Investments in Property, Plant and Equipment**

In fiscal 2019, the Company incurred \$40,000 (2018 – \$73,000) of capital expenditure for production equipment and computer equipment. Management maintains its capital expenditure with the goal of meeting expected production demands.

## **Licenses and technology rights**

Cymat controls the following patent elements related to its SAF which cover:

- the fundamental process to make foam, irrespective of final shape;
- the fundamental process to make foam as a shaped part or a flat panel; and
- the fundamental process to make shaped parts using displacement casting.

Some of these patents are controlled under a license from Alcan International Inc. [“Alcan”]; some have been acquired from Hydro Aluminum a.s. [“Hydro”]; and Cymat has developed others independently. The scope of patent protection provides Cymat with important cost advantages in the production of aluminum foams.

Cymat continues to develop and protect its intellectual property and its proprietary manufacturing processes. It is Cymat’s intention to continue to vigorously employ all legal remedies available to enforce its intellectual property rights.

## **Going Concern Uncertainty**

To date, the Company has financed its operations primarily through share and convertible debt issuances, investment tax credits, interest income, and collaborative co-development agreements. The Company has incurred significant operating losses and cash outflows from operations. As at April 30, 2019, the anticipated level of cash flows from operating activities for the next twelve months is not assured to be sufficient to sustain operations. The ability of the Company to continue as a going concern is dependent upon achieving future profitable operations and may also be dependent upon raising additional financing through borrowings or equity issuance. The outcome of these matters is dependent on a number of items outside the Company’s control. As a result, there are material uncertainties that may cast significant doubt as to whether the Company will have the ability to continue as a going concern. These financial statements do not include any adjustments or disclosures that may result from the Company’s inability to continue as a going concern. If the going concern assumption were not found to be appropriate for these financial statements, adjustments might be necessary in the carrying values of assets and liabilities, the statement of financial position classifications and the reported expenses. Such adjustments could be material.

## **8. Investments and Capitalization**

Cymat is listed on the TSX – Venture Exchange, trading under the symbol CYM.

The table below sets out the number of issued and outstanding common shares as well as the number of common shares associated with issued and outstanding convertible securities as at August 22, 2019. The numbers reported in the table have been affected by following items that occurred subsequent to the April 30, 2019 year end:

1. In May 2019, the Company granted 1,085,000 stock options to certain directors, officers and employees, with an exercise price of \$0.31 per share. The options vest in three tranches over a two-year period and expire on May 23, 2024.

2. In May 2019, the Company granted 200,000 stock options to a consultant, with an exercise price of \$0.325 per share. The options vested on the grant date and expire on May 30, 2024.
3. In July 2019, the Company closed a private placement equity financing of 2,092,952 units at a price of \$0.315 per unit for gross proceeds of \$659,280. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.525 up to July 9, 2022. The warrant has an accelerated expiry clause that may be exercised by the Company should the 10-day weighted price of the common shares be equal to or greater than \$1.05.

	Number of Securities
Common Shares	39,892,283
Stock Options	6,498,908
Warrants	<u>2,092,952</u>
Total Diluted Shares Outstanding	<u>48,484,143</u>

### Share Capital

The Company is authorized to issue an unlimited number of common shares. At April 30, 2019, issued and outstanding common shares totalled approximately 37,799,331 shares.

The Company has not paid dividends on its common shares and has no expectations of paying dividends in the near future.

### Stock Options

Under the terms of the stock option plan approved at the Annual General Meeting on July 13, 2017, the aggregate number of common shares reserved for the issuance of stock options is 7,424,866.

On July 13, 2017, the Company granted 100,000 options to a consultant at an exercise price of \$0.21, vesting immediately.

On July 13, 2017, the Company granted 2,785,000 options to certain directors, officers and employees at an exercise price of \$0.205, with one third vesting on July 13, 2017, one third vesting on July 13, 2018 and one third vesting on July 13, 2019. Vesting for 878,331 of these options is further dependent upon the attainment of certain performance criteria.

On January 22, 2018, the Company granted 100,000 options to a consultant at an exercise price of \$0.22, with vesting in two tranches of 50,000 options each, contingent on the achievement of research and development related objectives.

On June 11, 2018, the Company granted 25,000 options with an exercise price of \$0.28 to an employee with one third vesting upon grant, one third vesting on June 11, 2019 and one third vesting on June 11, 2020. These options expired on January 18, 2019.

On February 13, 2019, the Company granted 100,000 options with an exercise price of \$0.235 to certain directors with one third vesting upon grant, one third vesting on February 13, 2020 and one third vesting on February 13, 2021.

No stock options were exercised in fiscal 2019 nor fiscal 2018.

## **Critical Accounting Policies and Estimates**

### **Revenue recognition**

Revenue from the sale of manufactured products is recognized when the rights and obligations associated with the products are transferred to the purchaser. Normally this transfer occurs upon the products' departure from the Company's warehouse; however based on the terms of the specific transaction, transfer can also occur upon the product arrival at a designated shipment location. Amounts received in advance of earned revenues are recorded as deferred revenue.

### **Accrued royalties**

The Company issued promissory notes that included an embedded perpetual royalty that survived the maturity of the promissory notes. The royalties have been designated as a financial liability at fair value through profit or loss. Accordingly, the perpetual royalty is valued at the reporting date based on the most recent revenue projections. The change in estimated fair value of the royalty is recorded in income in the period in which the liability is recalculated.

### **Use of estimates**

The preparation of these financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual amounts could differ from those estimates. Significant estimates include those used in:

- the measurement of the cost of finished goods inventory, including the allocation of costs of conversion and manufacturing overhead,
- allowance for doubtful accounts,
- the determination of the useful lives of long lived assets,
- the determination of the appropriate amount, if any, of the writedown in the carrying value of long term assets, including the estimation of the associated future cash flows and the appropriate discount rate used to estimate the recoverable amount,
- the valuation of the accrued royalties on the promissory notes, including the forecasted revenues and the appropriate discount rate to apply in the determination of present value,
- the valuation of the debt and equity components of the convertible debt, including the appropriate discount rate to apply in the determination of the fair value of the debt and the volatility and risk free rates used in the valuation of the warrants and conversion feature, and
- the measurement of the fair value of share-based compensation, including the volatility and risk free rates used in the option valuation models and the estimation of number of options expected to vest.

The Company's assessment of the recoverable amount of property, plant and equipment, and intangible assets is based on management's assessment of potential indicators of impairment and best estimates of likely courses of action by the Company. This assessment is subject to significant measurement

uncertainty. Material write-downs of these assets could occur if actual results differed from the estimates and assumptions used.

## **Judgments**

In the process of applying the Company's accounting policies, management has made judgments regarding the determination of whether there has been impairment in the carrying value of long term assets which has the most significant effect on the amounts recognized in the financial statements. The Company has also applied significant judgment in classifying the perpetual royalty related to promissory notes as a derivative liability.

## **9. Accounting Standards Issued But Not Yet Applied**

The IASB has issued a number of amendments to standards that are not yet effective for the fiscal year ending April 30, 2019. Accordingly these standards have not been applied by the Company in the preparation of these financial statements.

The following is a description of the new standards:

### **IFRS 16 Leases**

IFRS 16 will replace IAS 17 Leases and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the consolidated statements of financial position in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

IFRS 16 is effective for fiscal periods beginning on or after 1 January 2019. Early adoption is permitted; however, the Company has decided not to early adopt. For the Company, the first fiscal period effected by IFRS 16 commences on May 1, 2019.

Management is in the process of assessing the full impact of the Standard. So far, Management has determined that only the office and manufacturing facility lease is affected by the new Standard, with the most significant impact being that the Company will need to recognise a right of use asset and a lease liability in place of the current operating lease treatment.

At April 30, 2019 the future minimum lease payments under this facility lease amounted to \$755,176. The new Standard will mean that the nature of the associated expense will change from being an operating lease expense to depreciation and interest expense.

The Company is planning to adopt IFRS 16 on May 1, 2019 using the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. Comparative information is not restated. Choosing this transition approach will result in further policy decisions as there are several other transitional reliefs that can be applied with respect to leases previously held. Management is currently assessing the impact of applying these other transitional reliefs.

## **10. Related Party Transactions**

Interest and financing expense for fiscal 2019 includes cash-based royalties in the amount of \$51,000 (2018 – \$50,000) and an increase to accrued royalties of based on future sales of \$8,000 (2018 – increase of \$38,000) regarding a related party. Fiscal 2018, also included interest in the amount of \$11,000 regarding convertible debentures that were payable to a related party.

### **Risks and Uncertainties**

#### **Financial and Liquidity Risk**

The Company has not yet attained sufficient sales levels to completely support its operations. As at April 30, 2019, the anticipated level of cash flow from operations for the next twelve months is not assured to be sufficient to sustain the business. In addition to being able to successfully execute its business plan, which includes increased sales, it may be necessary for the Company to raise additional financing through either borrowings or equity financing. While there can be no assurance that the Company will succeed in growing sales sufficiently or in completing additional financing, increased sales are forecasted for fiscal 2020 and subsequent to year end the Company raised gross proceeds of \$659,000 from an equity private placement.

#### **International Trade Barriers and Tariffs**

Currently neither Cymat's primary raw material supplies nor Cymat's export of SAF have been affected by the recent import tariffs enacted by the United States and the subsequent retaliatory measures adopted by various world economies. However, these actions have increased the amount of volatility experienced by international trade. Further escalation of trade tensions has the potential to increase the landed cost of Cymat's SAF for international customers, which could have a negative effect on Company sales.

#### **Dependence on Key Personnel**

Cymat is dependent on key employees and believes that its future success will depend on its ability to attract and retain highly skilled engineering and production, managerial and marketing personnel. Competition for such personnel is intense and there is no assurance that the Company will be able to retain, attract or hire qualified personnel in the future. The loss of certain key employees, or the inability to hire and retain additional key employees could adversely impact the Company.

#### **Proprietary Technology Protection**

Cymat's technology leadership is subject to the risks of patent infringement by competitors, and of competitors making technological breakthroughs, which may make the Company's products less attractive. An intellectual property management program is in place to protect Cymat's intellectual property and trade secrets. Cymat funds ongoing improvements to its proprietary manufacturing processes, which create new patent opportunities that enhance and may extend the period of the technological exclusivity. There is the risk that the Company's patents and trade secrets may not be held valid and enforceable, or be held to have a scope sufficiently broad to cover competitors' products or processes. There is also the risk that Cymat's products or process may infringe on other patents, which may limit the Company's ability to fully commercialize certain SAF applications. The cost of enforcing Cymat's patent rights in lawsuits or defending against infringement claims may be significant and could interfere with the Company's operations. For a more complete discussion please refer to the "License and Technology Rights" section above.

## **Government Regulation and Certification Requirements Imposed by Customers**

The use of SAF in certain applications may be subject to regulation by certain government bodies and to compliance with applicable laws, both inside and outside of Canada. In addition, industry users may impose significant certification, safety, quality control and other requirements. Compliance with these laws and regulations may be costly and time consuming, and failure to comply may have a material, adverse effect on the Company's business.

## **Other Risks**

The Company may be subject to a number of other risks that could materially and adversely affect Cymat's business, financial condition, liquidity or results of operations. Such risks include those associated with competing products, commodity price risks associated with aluminum-based raw materials, fluctuating currency exchange rates and the ability of the Company to manage growth.

## **11. Management's Assessment of Disclosure Controls and Procedures**

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS. Overall, the Company believes its internal controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company is made known to the Company's certifying officers.

There were no changes in the internal controls over financial reporting during the period ended April 30, 2019, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## **12. Subsequent Events**

In May 2019, the Company granted 1,085,000 stock options to certain of its directors, officers and employees, with an exercise price of \$0.31 per share. The options vest in three tranches over a two-year period and expire on May 23, 2024.

In May 2019, the Company granted 200,000 stock options to a consultant, with an exercise price of \$0.325 per share. The options vested on the grant date and expire on May 30, 2024.

In July 2019, the Company closed a private placement equity financing of 2,092,952 units at a price of \$0.315 per unit for gross proceeds of \$659,280. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.525 up to July 9, 2022. The warrant has an accelerated expiry clause that may be exercised by the Company should the 10-day weighted price of the common shares be equal to or greater than \$1.05.

## **13. Outlook**

Alusion<sup>TM</sup> – Cymat's architectural SAF – will continue to provide the most significant source of revenue through the end of fiscal 2020. Alusion<sup>TM</sup> continues to gain acceptance as an option for exterior building cladding and expectations are for increased Alusion<sup>TM</sup> sales for 2020. Cymat's relatively new entry into

the Chinese market is expected to continue to produce significant architectural panel sales for the upcoming fiscal year.

Cymat continues to participate in a number of SmartMetal™ development projects involving vehicle blast mitigation assemblies for several international military equipment manufacturers. Additionally the Company has ongoing projects for SmartMetal™ that involve the management of other forms of energy. Some of these projects include applications for safeguarding the transport of radioactive material and protection of assets from the harmful effects of electromagnetic wave energy.

In the automotive sector, the Company continues to participate in discussions and prototype programs involving the development of SmartMetal™ applications for vehicle crash mitigation systems and light-weighting applications. Management remains convinced that SmartMetal™ has the potential to resolve the conflicting requirements within automotive design for increased vehicle crashworthiness while at the same time reducing vehicle weight.

Cymat continues to work closely with our partner, Alucoil SA., in the development of composite sandwich panels with Cymat's SAF as the panel core. Unanticipated heating equipment deficiencies experienced on the Spanish brazing line have led to operational delays. However, commencement of commercial composite panel production is expected for the upcoming fiscal year.