

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

**CYMAT TECHNOLOGIES LTD.**

April 30, 2020 and April 30, 2019

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## **AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Years ended April 30, 2020 and April 30, 2019**

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# Independent Auditor's Report

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To the Shareholders of  
Cymat Technologies Ltd.

## Opinion

We have audited the consolidated financial statements of Cymat Technologies Ltd. (the "Company"), which comprise the consolidated statements of financial position as at April 30, 2020 and 2019, and the consolidated statements of operations, comprehensive loss and deficit, consolidated statement of changes in (deficiency) equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Cymat Technologies Ltd. as at April 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

## Basis for Opinion

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

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. These material uncertainties result from the Company's history of losses as well as the shareholders' deficiency. Our opinion is not modified in respect of this matter.

## Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

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 audit 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 audit or otherwise appears to be materially misstated.

If, based on the work we have performed, 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 (IFRSs), 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script font.

Mississauga, Canada  
August 27, 2020

Chartered Professional Accountants  
Licensed Public Accountants

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| As at:                                           | April 30,<br>2020<br>\$ | April 30,<br>2019<br>\$ |
|--------------------------------------------------|-------------------------|-------------------------|
| <b>ASSETS</b>                                    |                         |                         |
| <b>Current assets</b>                            |                         |                         |
| Cash and cash equivalents                        | 251,580                 | 181,665                 |
| Restricted cash [Note 6]                         | 14,105                  | 15,084                  |
| Trade and other receivables [Note 7]             | 203,865                 | 107,929                 |
| Inventory [Note 8]                               | 130,113                 | 166,110                 |
| Prepaid expenses                                 | 12,434                  | 13,250                  |
| <b>Total current assets</b>                      | <b>612,097</b>          | <b>484,038</b>          |
| Other assets                                     | 27,930                  | 27,930                  |
| Property, plant and equipment, net [Note 9]      | 1,221,928               | 223,373                 |
| <b>Total assets</b>                              | <b>1,861,955</b>        | <b>735,341</b>          |
| <b>LIABILITIES</b>                               |                         |                         |
| <b>Current liabilities</b>                       |                         |                         |
| Trade and other payables                         | 1,035,107               | 886,562                 |
| Deferred revenue                                 | 62,650                  | 135,414                 |
| Current portion of lease liability [Note 10]     | 83,805                  | -                       |
| Current portion of accrued royalties [Note 11]   | 177,724                 | 167,396                 |
| <b>Total current liabilities</b>                 | <b>1,359,286</b>        | <b>1,189,372</b>        |
| <b>Non-current liabilities</b>                   |                         |                         |
| Lease liability [Note 10]                        | 978,142                 | -                       |
| Accrued royalties [Note 11]                      | 414,045                 | 489,110                 |
| <b>Total liabilities</b>                         | <b>2,751,473</b>        | <b>1,678,482</b>        |
| <b>(DEFICIENCY) EQUITY</b>                       |                         |                         |
| Share capital [Note 12]                          | 72,927,598              | 71,314,148              |
| Contributed surplus                              | 7,846,266               | 7,624,005               |
| Warrants [Note 13]                               | 32,889                  | -                       |
| Deficit                                          | (81,696,271)            | (79,881,294)            |
| <b>Total (deficiency) equity</b>                 | <b>(889,518)</b>        | <b>(943,141)</b>        |
| <b>Total liabilities and (deficiency) equity</b> | <b>1,861,955</b>        | <b>735,341</b>          |

See accompanying Notes

On behalf of the Board:

*Michael Liik*  
Director

*Jon Gill*  
Director

## CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

|                                                     | Years Ended April 30 |              |
|-----------------------------------------------------|----------------------|--------------|
|                                                     | 2020                 | 2019         |
|                                                     | \$                   | \$           |
| <b>Revenues</b>                                     | <b>1,687,208</b>     | 2,643,504    |
| Plant operating expenses                            | 1,313,937            | 2,022,175    |
| Research and material testing expenses              | 143,450              | 196,261      |
| Selling, general and administrative expenses        | 1,923,510            | 1,614,205    |
|                                                     | <b>3,380,897</b>     | 3,832,641    |
| Loss from operations                                | <b>(1,693,689)</b>   | (1,189,137)  |
| Foreign exchange loss                               | (807)                | (16,434)     |
| Interest income                                     | 75                   | 75           |
| Interest and financing expense [Notes 10 and 11]    | (120,556)            | (153,907)    |
|                                                     | <b>(121,288)</b>     | (170,266)    |
| <b>Net loss and comprehensive loss for the year</b> | <b>(1,814,977)</b>   | (1,359,403)  |
| Deficit, beginning of the year                      | <b>(79,881,294)</b>  | (78,521,891) |
| Net loss                                            | <b>(1,814,977)</b>   | (1,359,403)  |
| <b>Deficit, end of the year</b>                     | <b>(81,696,271)</b>  | (79,881,294) |
| <b>Basic and diluted net loss per share</b>         | <b>(0.04)</b>        | (0.04)       |
| <b>Weighted average number of shares:</b>           |                      |              |
| <b>Basic and diluted</b>                            | <b>40,411,388</b>    | 37,502,619   |

*See accompanying Notes*

## CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIENCY) EQUITY

|                            | Common Shares     |                   | Contributed      |                |                     | Total                             |
|----------------------------|-------------------|-------------------|------------------|----------------|---------------------|-----------------------------------|
|                            | #                 | \$                | Surplus          | Warrants       | Deficit             | Shareholders' (Deficiency) Equity |
|                            |                   |                   | \$               | \$             | \$                  | \$                                |
| <b>May 1, 2018</b>         | <b>37,124,331</b> | <b>71,064,924</b> | <b>7,410,749</b> | <b>141,574</b> | <b>(78,521,891)</b> | <b>95,356</b>                     |
| Stock-based compensation   | -                 | -                 | 152,156          | -              | -                   | 152,156                           |
| Exercise of warrants       | 675,000           | 249,224           | -                | (80,474)       | -                   | 168,750                           |
| Expiration of warrants     | -                 | -                 | 61,100           | (61,100)       | -                   | -                                 |
| Net loss for the year      | -                 | -                 | -                | -              | (1,359,403)         | (1,359,403)                       |
| <b>April 30, 2019</b>      | <b>37,799,331</b> | <b>71,314,148</b> | <b>7,624,005</b> | <b>-</b>       | <b>(79,881,294)</b> | <b>(943,141)</b>                  |
| Equity private placement   | 4,384,320         | 1,360,791         | -                | 32,889         | -                   | 1,393,680                         |
| Exercise of options        | 716,883           | 252,659           | (125,536)        | -              | -                   | 127,123                           |
| Stock-based compensation   | -                 | -                 | 285,652          | -              | -                   | 285,652                           |
| Stock-based consulting fee | -                 | -                 | 62,145           | -              | -                   | 62,145                            |
| Net loss for the year      | -                 | -                 | -                | -              | (1,814,977)         | (1,814,977)                       |
| <b>April 30, 2020</b>      | <b>42,900,534</b> | <b>72,927,598</b> | <b>7,846,266</b> | <b>32,889</b>  | <b>(81,696,271)</b> | <b>(889,518)</b>                  |

*See accompanying Notes*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|                                                                             | Year Ended April 30 |             |
|-----------------------------------------------------------------------------|---------------------|-------------|
|                                                                             | 2020                | 2019        |
|                                                                             | \$                  | \$          |
| <b>Cash and cash equivalents provided by (used in):</b>                     |                     |             |
| <b>OPERATING ACTIVITIES</b>                                                 |                     |             |
| Net loss for the year                                                       | (1,814,977)         | (1,359,403) |
| Add items not involving cash                                                |                     |             |
| Depreciation and amortization                                               | 181,630             | 61,659      |
| Stock-based compensation expense [Note 14]                                  | 285,652             | 152,156     |
| Stock-based consulting fees [Note 14]                                       | 62,145              | -           |
| Non-cash interest and financing expense [Note 11]                           | (64,737)            | 20,782      |
|                                                                             | (1,350,287)         | (1,124,806) |
| Changes in non-cash working capital                                         |                     |             |
| balances related to operations:                                             |                     |             |
| Restricted cash                                                             | 979                 | (15,084)    |
| Trade and other receivables                                                 | (95,936)            | 357,271     |
| Inventory                                                                   | 35,997              | 226,427     |
| Prepaid expenses                                                            | 816                 | 22,356      |
| Trade and other payables                                                    | 148,545             | 189,301     |
| Deferred revenue                                                            | (72,764)            | (124,625)   |
| Deferred rent liability                                                     | -                   | (2,200)     |
| <b>Cash used in operating activities</b>                                    | (1,332,650)         | (471,360)   |
| <b>INVESTING ACTIVITIES</b>                                                 |                     |             |
| Purchase of property, plant and equipment                                   | (47,918)            | (40,057)    |
| <b>Cash used in investing activities</b>                                    | (47,918)            | (40,057)    |
| <b>FINANCING ACTIVITIES</b>                                                 |                     |             |
| Proceeds from issuance of common shares and warrants [Note 12]              | 1,393,680           | -           |
| Proceeds from exercise of options [Note 14]                                 | 127,123             | -           |
| Proceeds from exercise of warrants [Note 13]                                | -                   | 168,750     |
| Repayment of lease liability [Note 10]                                      | (70,320)            | -           |
| <b>Cash provided by financing activities</b>                                | 1,450,483           | 168,750     |
| <b>Net increase (decrease) in cash and cash equivalents during the year</b> | 69,915              | (342,667)   |
| Cash and cash equivalents, beginning of year                                | 181,665             | 524,332     |
| <b>Cash and cash equivalents, end of year</b>                               | 251,580             | 181,665     |
| <b>Supplemental cash flow information</b>                                   |                     |             |
| Interest and financing expenses paid                                        | 180,459             | 64,442      |

See accompanying Notes

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

## **1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY**

### **Nature of Operations**

Cymat Technologies Ltd. [“Cymat” or the “Company”] is a manufacturing company, which holds licenses and related patents to make, use and sell Stabilized Aluminum Foam [“SAF”]. SAF is produced utilizing a proprietary process in which gas is bubbled into molten alloyed aluminum containing a dispersion of fine ceramic particles to create foam, which is then cast into strong, lightweight panels and shapes. The Company is manufacturing SAF for use in architectural, blast mitigation and energy absorption applications. Cymat continues to develop applications for use in the automotive and industrial markets. The Company was incorporated under the Business Corporations Act (Ontario) on June 14, 2006. The Company’s registered office is located at 6320-2 Danville Road, Mississauga, Ontario, L5T 2L7. Prior to June 14, 2006, the operations of the company were carried out under Cymat Corp., a company that was formed by articles of amalgamation under the Business Corporations Act (Ontario) on June 30, 1998.

### **Going Concern Uncertainty**

To date, the Company has financed its operations primarily through share and convertible debt issuances. The development of applications utilizing SAF as well as its production process involve significant financial risks, including the ability of the Company to develop and penetrate new markets, obtain additional financing as required, achieve profitable production and the ability for the Company to be able to successfully assert its intellectual property rights and protect against patent infringement. The Company has incurred significant operating losses and cash outflows from operations.

As at April 30, 2020, 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 consolidated 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 consolidated financial statements, adjustments might be necessary in the carrying values of assets and liabilities, the statement of consolidated financial position classifications and the reported expenses. Such adjustments could be material.

## **2. BASIS OF PRESENTATION**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards [“IFRS”] as issued by the International Accounting Standards Board [“IASB”] and interpretations of the International Financial Reporting Interpretations Committee [“IFRIC”].

These consolidated financial statements of the Company include the accounts of Cymat and its wholly-owned subsidiary, ALU-MMC Hungary, Zrt., a company incorporated under the laws of Hungary with a registered office in the city of Miskolc. The consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company.

These financial statements were prepared under the historical cost convention, as modified by the revaluation of financial instruments measured at fair value. These consolidated financial statements have been prepared on the basis of IFRS in effect as of April 30, 2020. The Company’s Board of Directors approved these consolidated financial statements on August 27, 2020.

During the year, the Company adopted new guidance for the accounting of leases (see Note 3). This guidance was applied using a modified retrospective approach and Cymat has not restated prior periods for the impact of the new lease guidance.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

### 3. CHANGES IN ACCOUNTING POLICIES

In January 2016, the IASB released IFRS 16 “Leases” replacing IAS 17 “Leases” and related interpretations. The new standard eliminates the classification of leases as either operating or finance leases for lessees and requires the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019. The Company has adopted IFRS 16, effective May 1, 2019, using the modified retrospective approach and has not restated prior periods for the impact of IFRS 16. Comparative information is still reported under IAS 17 and IFRIC 4. On initial adoption, the Company applied the following practical expedients permitted under the standard:

- Contracts that were not previously identified as containing a lease under the previous standard have not been reassessed under IFRS 16.
- Initial direct costs were excluded from the measurement of right-of-use assets for the purpose of initial measurement on transition.
- The Company elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.
- Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 9.43%.

The Company leases its manufacturing and office premises. Upon transition to IFRS 16, the Company recognized a related right-of-use asset in the amount of \$1,132,267 and a lease liability in the amount of \$1,132,267 in its consolidated Statements of Financial Position as at May 1, 2019. This non-cash adjustment has been excluded from the Consolidated Statements of Cash Flows. There was no impact on opening retained earnings.

The following is a reconciliation of total operating lease commitments as reported at April 30, 2019 and the lease liability recognized at May 1, 2019:

|                                                       | \$               |
|-------------------------------------------------------|------------------|
| Operating lease commitment reported at April 30, 2019 | 755,176          |
| Impact of reasonably certain extension options        | 917,350          |
| Operating lease liability before discounting          | 1,672,526        |
| Discount using incremental borrowing rate             | (540,259)        |
|                                                       | <b>1,132,267</b> |

#### Accounting policy applicable from May 1, 2019

For any new contracts entered into on or after May 1, 2019, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- The Company has the right to direct the use of the identified assets throughout the period of use. The Company assesses whether it has the right to direct “how and for what purpose” the asset is used throughout the period of use.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

**As a lessee**

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed payments), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these will be recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the consolidated statements of financial position, right-of-use assets have been included in property, plant and equipment.

**Accounting policy applicable before May 1, 2019**

Leases are classified as finance or operating leases. A lease was classified as a finance lease if it effectively transferred substantially the entire risks and rewards incidental to ownership. At the commencement of the lease, the Company recognized finance leases as an asset acquisition and an assumption of an obligation in the consolidated statements of financial position at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payments was the interest rate implicit in the lease, if this is practicable to determine; if not, the incremental borrowing rate was used. The interest element of the lease payment was recognized as a finance cost over the lease term to achieve a constant periodic rate of interest on the remaining balance of the liability. Any initial direct costs of the lessee were added to the amount recognized as an asset. The useful life and depreciation method was determined on a consistent basis with the Company's policies for property and equipment. The asset was depreciated over the shorter of the lease term and its useful life. All other leases were accounted for as operating leases, wherein payments were expensed on a straight-line basis over the term of the lease. Lease incentives received were recognized in profit or loss on a straight-line basis as an integral part of the total lease expense.

**4. SIGNIFICANT ACCOUNTING POLICIES**

Outlined below are those policies considered particularly significant:

**Use of estimates**

The preparation of these consolidated financial statements in accordance with IFRS requires management to make critical judgements, estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Estimates and 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

**Management critical judgements**

Policies that are critical for the presentation of the consolidated financial position and financial performance of the Company that require judgements are as follows:

- **Functional currency:** The functional currency for the Company and its subsidiary is the currency of the primary economic environment in which the respective entity operates. The Company has determined the functional currency of each entity to be the Canadian dollar. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

**Management estimates and assumptions**

Estimates and assumptions incorporated in policies that are critical for the presentation of the consolidated financial position and financial performance of the Company include the following:

- **Inventory:** Inventory is valued at the lower of cost and net realizable value. The cost of finished goods inventory, includes cost of purchases, costs of conversion, the allocation of manufacturing overhead and other costs incurred in bringing the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completions. Provisions are made in profit or loss of the current period for any difference between book value and realizable value.
- **Impairment of non-financial assets and intangibles:** In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on the asset's fair value less costs of disposal. When measuring fair value, management uses the assumptions that market participants would use when pricing the asset under current market conditions, including assumptions about risk. Estimation uncertainty relates to the assumptions used in the fair value determination.
- **Property, plant and equipment:** The Company records depreciation expense on property, plant and equipment at rates designed to amortize the cost of individual items and material components over their estimated useful lives. Management makes estimates of future useful life based on patterns of benefit consumption and of impairments based on past experience and market conditions. Impairment losses and depreciation expenses are presented in profit or loss of the current period.
- **Accrued royalties:** When funding that involves a royalty agreement is received, the Company is required to recognize a liability for the future royalty obligation at its fair value. To estimate this fair value, the Company estimates future cash flows and applies a discount rate that is appropriate to the Company's prevailing market conditions. Management updates the associated estimated future cash flows and market conditions at each reporting date to assess whether the value of the obligation should be adjusted. The effects of any change in the fair value of the obligation are recognized in profit or loss in the current period. (See Note 10.)
- **Share-based payments:** The fair value of share-based payments is determined using the Black-Scholes option pricing model based on estimated values at the date of grant. This model utilizes subjective assumptions such as expected price volatility and expected life of the award. Changes in these assumptions can significantly affect the fair value estimate. (See Note 14.)

**Revenue recognition**

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.

**Cash and cash equivalents**

Cash and cash equivalents, including restricted cash, consist of cash on hand, deposits held with banks and short-term highly liquid investments that are readily convertible to known amounts of cash with remaining maturities of three months or less at acquisition.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

**Financial instruments****Recognition and derecognition**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

**Classification and initial measurement of financial assets**

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- *amortized cost*
- *fair value through profit or loss (FVTPL)*
- *fair value through other comprehensive income (FVOCI).*

In the periods presented the Company does not have any financial assets categorized as FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

**Subsequent measurement of financial assets****Financial assets at amortized cost**

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

**Financial assets at fair value through profit or loss (FVTPL)**

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Company does not have financial assets categorized as FVTPL.

**Trade and other receivables and contract assets**

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to Note 20 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

**Classification and measurement of financial liabilities**

The Company's financial liabilities include trade and other payables, the lease liability and accrued royalties.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

**Inventory**

The Company's inventory consists of raw materials, work-in-process and finished goods, and research and development related materials which are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis and, in the case of work-in-process and finished goods includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overhead. Net realizable value is the estimated selling price less the applicable selling expenses.

**Property, plant and equipment**

Property, plant and equipment are recorded at their historical cost, and presented on the consolidated statement of financial position net of accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The cost and accumulated depreciation of replaced assets are derecognized when replaced. Repairs and maintenance costs are charged to the statement of operations and comprehensive income (loss) during the period in which they are incurred.

Depreciation is calculated on a diminishing balance method so as to expense the cost of the assets less their residual values over their estimated useful lives. The depreciation rates applicable to each category of property, plant and equipment are as follows:

|                               |                                                      |
|-------------------------------|------------------------------------------------------|
| Office equipment              | 20% declining balance                                |
| Computer equipment            | 30% declining balance                                |
| Manufacturing equipment       | 20% declining balance and straight line over 2 years |
| Building (right-of-use asset) | straight-line over the term of the lease             |
| Leasehold improvements        | straight-line over the term of the lease             |

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying value of the asset and are included as part of other gains and losses in the statement of operations and comprehensive income (loss).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

**Impairment of non-financial assets**

The Company tests non-financial assets such as property, plant and equipment and licenses and technology rights for impairment annually. For the purpose of measuring recoverable values, assets are grouped at the lowest levels for which there are separately identifiable cash flows [cash-generating units or “CGUs”]. The Company consists of one CGU, namely the sale of SAF. The recoverable value is the higher of an asset’s fair value less costs of disposal and value in use, which is the present value of the expected future cash flows of the relevant asset or CGU. An impairment loss is recognized for the value by which the asset’s carrying value exceeds its recoverable value. The Company evaluates potential reversals of impairment losses when events or circumstances warrant such consideration.

**Foreign currency transactions**

Transactions in foreign currencies are translated at rates of exchange prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at each reporting date at current foreign exchange rates with the resulting gains or losses included in the statement of operations, comprehensive income (loss) and deficit.

**Income taxes**

Income tax expense is recognized in the statement of operations and comprehensive income (loss), except to the extent that it relates to items recognized directly in comprehensive income (loss) or equity, in which case income taxes are also recognized directly in comprehensive income (loss) or equity. If business combinations occur, income taxes may also be recognized in the business combination. Current income taxes are the expected taxes payable on the taxable income for the year, using income tax rates enacted, or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are the amount of income taxes expected to be paid or recoverable in future periods in respect of temporary differences, carry-forward of unused tax losses and carry-forwards of unused tax credits. Deferred income taxes arise between the tax base - the amount attributed to the asset or liability for income tax purposes rather than the amount used in the computation of taxable income - and their carrying values in the consolidated financial statements as well as on unused tax losses and tax credits. Deferred income taxes are determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet dates and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable these assets can be recovered.

Deferred income tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilized. The carrying value of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is not probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be recovered.

**Government assistance**

Government assistance may be available to the Company through income tax investment and innovation tax credits, other programs providing innovation funding and relief programs associated with Covid-19. Funding is recognized when there is reasonable assurance that the Company has complied with the conditions attached to the funding arrangement and is recognized as the applicable costs are incurred. Research and product development funding is presented as a reduction in research and material testing cost expenses unless it is for reimbursement of an asset, in which case it is accounted for as a reduction in the carrying amount of the applicable asset. Where the Company receives government contributions that include terms for repayment, a financial liability is recognized and measured in accordance with the terms of IFRS 9.

**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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

**Share-based compensation**

The Company has a share-based compensation plan, which is described further in Note 14.

The Company follows the guidance in IFRS 2, Share-based Payments, which includes the fair-value based method of accounting for all its share-based awards. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period, based on the number of options that are expected to vest, with an offsetting increase to contributed surplus. The number of options expected to vest is reviewed at least quarterly, with any impact recognized immediately.

**Share capital**

Common shares are classified as equity. Common shares are measured at the consideration received for the shares that have been issued, net of incremental costs directly attributable to the issuance of shares.

**Warrants**

Common share purchase warrants which entitle the holder to acquire common shares of the Company at a specified price for a specified period of time are classified as equity. Warrants included as a component of a compound financial instrument are measured at the residual value, after fair value of primary financial instrument has been allocated.

**Net income (loss) per share**

Basic net loss per share is calculated based on the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is calculated using the weighted average number of common shares outstanding for the period for basic net income (loss) per share plus the weighted average number of potential dilutive shares that would have been outstanding during the period had all potential common shares been issued at the beginning of the period or when the underlying options or warrants were granted, if later, unless they were anti-dilutive. The treasury stock method is used to determine the incremental number of shares that would have been outstanding had the Company used proceeds from the exercise of stock options and warrants to acquire common shares.

**5. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED**

At the date of approval of these financial statements, several new, but not yet effective, standards and amendments to existing standards, and interpretations have been published by the IASB. None of these standards or amendments to existing standards have been adopted early by the Company. Those standards and amendments are not expected to be relevant to the Company's financial statements.

**6. RESTRICTED CASH**

Restricted cash is held in a financial institution in Hungary as the result of the incorporation of ALU-MMC Hungary Zrt.

**7. TRADE AND OTHER RECEIVABLES**

|                           | 2020<br>\$     | 2019<br>\$     |
|---------------------------|----------------|----------------|
| Trade accounts receivable | 22,811         | 41,678         |
| Other receivables         | 181,054        | 66,251         |
|                           | <b>203,865</b> | <b>107,929</b> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

**8. INVENTORY**

|                                    | 2020           | 2019           |
|------------------------------------|----------------|----------------|
|                                    | \$             | \$             |
| Raw materials and consumables      | 46,586         | 73,432         |
| Work-in-process and finished goods | 83,527         | 68,152         |
| Research and development materials | -              | 24,526         |
|                                    | <b>130,113</b> | <b>166,110</b> |

During the year, the Company recorded a charge of \$nil (2019 - \$nil) to reduce the carrying values of inventory to net realizable values. Included in plant operating expenses is \$629,510 (2019 - \$973,354) of inventories recognized as cost of sales during the year.

**9. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following:

| <b>Cost</b>                         | Office<br>Equipment<br>\$ | Computer<br>Equipment<br>\$ | Manufacturing<br>Equipment<br>\$ | Building<br>\$   | Leasehold<br>Improvements<br>\$ | Total<br>\$      |
|-------------------------------------|---------------------------|-----------------------------|----------------------------------|------------------|---------------------------------|------------------|
| May 1, 2018                         | 260,462                   | 275,128                     | 2,980,281                        | -                | 1,036,442                       | 4,552,313        |
| Additions                           | -                         | 1,303                       | 38,754                           | -                | -                               | 40,057           |
| April 30, 2019                      | 260,462                   | 276,431                     | 3,019,035                        | -                | 1,036,442                       | 4,592,370        |
| Adjustment on transition to IFRS 16 | -                         | -                           | -                                | 1,132,267        | -                               | 1,132,267        |
| Additions                           | -                         | -                           | 47,918                           | -                | -                               | 47,918           |
| <b>April 30, 2020</b>               | <b>260,462</b>            | <b>276,431</b>              | <b>3,066,953</b>                 | <b>1,132,267</b> | <b>1,036,442</b>                | <b>5,772,555</b> |
| <b>Accumulated<br/>Depreciation</b> |                           |                             |                                  |                  |                                 |                  |
| May 1, 2018                         | 253,807                   | 266,840                     | 2,750,249                        | -                | 1,036,442                       | 4,307,338        |
| Additions                           | 1,331                     | 2,845                       | 57,483                           | -                | -                               | 61,659           |
| April 30, 2019                      | 255,138                   | 269,685                     | 2,807,732                        | -                | 1,036,442                       | 4,368,997        |
| Additions                           | 1,065                     | 2,024                       | 56,134                           | 122,407          | -                               | 181,630          |
| <b>April 30, 2020</b>               | <b>256,203</b>            | <b>271,709</b>              | <b>2,863,866</b>                 | <b>122,407</b>   | <b>1,036,442</b>                | <b>4,550,627</b> |
| <b>Carrying Amount</b>              |                           |                             |                                  |                  |                                 |                  |
| April 30, 2019                      | 5,324                     | 6,746                       | 211,303                          | -                | -                               | 223,373          |
| <b>April 30, 2020</b>               | <b>4,259</b>              | <b>4,722</b>                | <b>203,087</b>                   | <b>1,009,860</b> | <b>-</b>                        | <b>1,221,928</b> |

Included in the net carrying amount of property plant and equipment at April 30, 2020, is a right-of-use asset relating to building in the amount of \$1,009,860.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended April 30, 2020 and April 30, 2019

**10. LEASE LIABILITY**

The Company has a lease for the building that houses its manufacturing facility, office space and warehouse. The lease has an expiry date of July 31, 2023, with an option to renew for an additional five-year term. The lease has been discounted using an interest rate of 9.43%. A summary of the items impacting the value of the lease liability is as follows:

|                           | \$        |
|---------------------------|-----------|
| Balance at May 1, 2019    | 1,132,267 |
| Additions                 | -         |
| Lease payments            | (168,727) |
| Interest expense          | 98,407    |
| Balance at April 30, 2020 | 1,061,947 |
| Less: Current portion     | (83,805)  |
|                           | 978,142   |

Future minimum lease payments at April 30, 2020 are as follows:

|                    | Within One<br>Year<br>\$ | One to Five<br>Years<br>\$ | More than Five<br>Years<br>\$ | Total<br>\$ |
|--------------------|--------------------------|----------------------------|-------------------------------|-------------|
| Lease payments     | 175,279                  | 732,242                    | 596,278                       | 1,503,799   |
| Finance charges    | (91,474)                 | (272,772)                  | (77,606)                      | (441,852)   |
| Net present values | 83,805                   | 459,470                    | 518,672                       | 1,061,947   |

Interest expense regarding the lease liability in the amount of \$98,407 has been recognized in the year ended April 30, 2020.

**11. ACCRUED ROYALTIES**

|                                                 | 2020<br>\$ | 2019<br>\$ |
|-------------------------------------------------|------------|------------|
| Accrued royalties                               | 591,769    | 656,506    |
| Less: accrued royalties relating to fiscal 2021 | 177,724    | 167,396    |
|                                                 | 414,045    | 489,110    |

In January of 2014, the Company issued promissory notes (the “Notes”) for gross proceeds in the aggregate amount of \$568,367. The Notes carried an interest rate of 12% per annum and additional consideration of a perpetual royalty equal to one percent of sales for each pro-rata portion of \$100,000 in principal. The principal amount of the notes (\$568,367), as well as a portion of the accrued interest (\$29,633), was settled in July 2014 by the issuance of convertible debt with a face value of \$598,000. The royalty survived the settlement of the Notes.

Royalties payable based on sales pertaining to the year ended April 30, 2020, in the amount of \$86,886 (April 30, 2019 - \$82,052) are included in trade and other payables.

Interest and financing expense for the year ended April 30, 2020 includes cash-based royalties in the amount of \$86,886 (April 30, 2019 - \$133,125), including royalties of \$33,382 (April 30, 2019 - \$51,147) paid or payable to a related party.

A liability for the estimated future royalty-based financing fees payable has been recorded with an offset to (non-cash) interest and financing expense. In calculating the fair value of these accrued royalties, the Company estimated future revenues and applied a risk adjusted discount factor of 35% (2019 - 30%).

Interest and financing expenses for the year include a non-cash royalties recovery of \$64,737 relating to the change in the estimated fair value of the future royalty payable (2019 – expense of \$20,782). A portion in the amount of \$24,825 of the current year recovery (2019 – expense of \$7,984) pertains to a related party.

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**For the Years Ended April 30, 2020 and April 30, 2019**

The fair value of the accrued royalty is inherently subject to estimation uncertainty given the unpredictability of the timing and amount of revenues. Changes to these estimates could have a significant impact on the fair value estimate of the accrued royalty as follows:

- [a] An increase or decrease in the revenue estimate of 10%, with all other factors remaining constant, would increase or decrease the liability by \$59,177 or (\$59,177), respectively.
- [b] An increase in the discount factor by 5% would decrease the liability by (\$68,076) while a decrease in the discount factor by 5% would increase the liability by \$90,848, with all other factors remaining constant.

## 12. SHARE CAPITAL

- [a] The Company is authorised to issue an unlimited number of common shares.
- [b] In October 2018, the Company issued 675,000 common shares as the result of the exercise of warrants.
- [c] In July 2019, the Company issued 2,092,952 equity units via a private placement. Each equity unit had a price of \$0.315 and consisted of one common share and one common share purchase warrant. Proceeds of \$654,208, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of \$643,824 being allocated to the common shares carrying value.
- [d] In October 2019, the Company issued 616,883 common shares as the result of the exercise of employee stock options.
- [e] In December 2019, the Company issued 1,209,830 equity units via a private placement. Each equity unit had a price of \$0.325 and consisted of one common share and one common share purchase warrant. Proceeds of \$389,634, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of \$383,640 being allocated to the common shares carrying value.
- [f] In February 2020, the Company issued 520,000 equity units via a private placement. Each equity unit had a price of \$0.325 and consisted of one common share and one common share purchase warrant. Proceeds of \$169,000, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of \$166,400 being allocated to the common shares carrying value.
- [g] In March 2020, the Company issued 561,538 equity units via a private placement. Each equity unit had a price of \$0.325 and consisted of one common share and one common share purchase warrant. Proceeds of \$180,837, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of \$166,926 being allocated to the common shares carrying value.
- [h] In April 2020, the Company issued 100,000 common shares as a result of the exercise of stock options by a consultant.
- [i] To date, the Company has not paid dividends on its common shares.

## 13. WARRANTS

|                             | Number    | 2020<br>\$ | Number    | 2019<br>\$ |
|-----------------------------|-----------|------------|-----------|------------|
| Warrants, beginning balance | -         | -          | 1,187,500 | 141,574    |
| Issued during the period    | 4,384,320 | 32,889     | -         | -          |
| Exercised during the period | -         | -          | (675,000) | (80,474)   |
| Expired during the period   | -         | -          | (512,500) | (61,100)   |
| Warrants, ending balance    | 4,384,320 | 32,889     | -         | -          |

- [a] In October 2018, 675,000 warrants with an exercise price of \$0.25 each, were exercised resulting in aggregate gross proceeds of \$168,750. Also in October, the remaining 512,500 warrants expired unexercised.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

- [b] In July 2019, the Company issued 2,092,952 equity units via a private placement. Each equity unit had a price of \$0.315 and consisted of one common share and one common share purchase warrant. The warrants have an exercise price of \$0.525 and expire on July 9, 2022. The warrants have 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. Proceeds of \$654,208, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of \$10,384 being allocated to the warrant carrying value.
- [c] In December 2019, the Company issued 1,209,830 equity units via a private placement. Each equity unit had a price of \$0.325 and consisted of one common share and one common share purchase warrant. The warrants have an exercise price of \$0.425 and expire on December 30, 2021. Proceeds of \$389,634, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of \$5.994 being allocated to the warrant carrying value.
- [d] In February 2020, the Company issued 520,000 equity units via a private placement. Each equity unit had a price of \$0.325 and consisted of one common share and one common share purchase warrant. The warrants have an exercise price of \$0.425 and expire on December 30, 2021. Proceeds of \$169,000, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of \$2,600 being allocated to the warrant carrying value.
- [e] In March 2020, the Company issued 561,538 equity units via a private placement. Each equity unit had a price of \$0.325 and consisted of one common share and one common share purchase warrant. The warrants have an exercise price of \$0.425 and expire on March 12, 2022. Proceeds of \$180,837, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of \$13.911 being allocated to the warrant carrying value.

#### **14. SHARE-BASED COMPENSATION**

The Company's stock option plan allows for the issuance of options, in aggregate, to acquire up to twenty percent (20%) of the number of common shares issued and outstanding on the effective date of the plan. The aggregate number of shares reserved for issuance under the terms of the Company's stock option plan is 7,424,866.

The Company's stock option plan provides that the exercise price of options that may be granted cannot be less than the market price of the Company's common shares at the time the option is granted. Options granted may be exercised during a period not exceeding five years. The vesting period of plan options granted is at the discretion of the Company's Board of Directors at the time of grant. Stock options have been granted as follows:

- [a] 25,000 options with an exercise price of \$0.28 granted on June 11, 2018 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.
- [b] 100,000 options with an exercise price of \$0.235 granted on February 13, 2019 to directors with one third vesting upon grant, one third vesting on February 13, 2020 and one third vesting on February 13, 2021.
- [c] 1,085,000 stock options with an exercise price of \$0.31 granted on May 23, 2019 to certain of its directors, officers and employees, with one third vesting on May 23, 2019, one third vesting on May 23, 2020 and the final third vesting on May 23, 2021.
- [d] 200,000 stock options with an exercise price of \$0.325 granted on May 30, 2019 to a consulting firm and vesting on the date of grant.

In October 2019, 616,883 employee stock options with an exercise price of \$0.185 were exercised. In April 2020, 100,000 stock options issued to a consultant with an exercise price of \$0.13 were exercised.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

The details of the changes in the number of stock options outstanding as at April 30, 2020 and 2019 are as follows:

|                                | <b>2020</b>                  | <b>Weighted<br/>Average<br/>Exercise<br/>Price<br/>\$</b> | <b>2019</b>                  | <b>Weighted<br/>Average<br/>Exercise<br/>Price<br/>\$</b> |
|--------------------------------|------------------------------|-----------------------------------------------------------|------------------------------|-----------------------------------------------------------|
|                                | <b>Number of<br/>Options</b> |                                                           | <b>Number of<br/>Options</b> |                                                           |
| Outstanding, beginning of year | 5,213,908                    | 0.20                                                      | 5,113,908                    | 0.19                                                      |
| Granted                        | 1,285,000                    | 0.31                                                      | 125,000                      | 0.24                                                      |
| Exercised                      | (716,883)                    | 0.18                                                      | -                            | -                                                         |
| Expired/forfeited              | (26,667)                     | 0.185                                                     | (25,000)                     | 0.28                                                      |
| Outstanding, end of year       | 5,755,358                    | 0.22                                                      | 5,213,908                    | 0.20                                                      |
| Exercisable, end of year       | 4,948,027                    | 0.21                                                      | 4,169,577                    | 0.19                                                      |

The following table summarizes information about stock options outstanding and exercisable as at April 30, 2020:

| Exercise<br>Prices<br>\$ | Options<br>Outstanding<br># | Options<br>Exercisable<br># | Remaining<br>Contractual<br>Life<br>Years |
|--------------------------|-----------------------------|-----------------------------|-------------------------------------------|
| 0.325                    | 200,000                     | 200,000                     | 4.1                                       |
| 0.31                     | 1,085,000                   | 361,669                     | 4.1                                       |
| 0.235                    | 100,000                     | 66,000                      | 3.8                                       |
| 0.22                     | 100,000                     | 50,000                      | 2.7                                       |
| 0.205                    | 2,785,000                   | 2,785,000                   | 2.2                                       |
| 0.21                     | 100,000                     | 100,000                     | 2.2                                       |
| 0.34                     | 17,500                      | 17,500                      | 1.7                                       |
| 0.20                     | 958,333                     | 958,333                     | 1.1                                       |
| 0.125                    | 409,525                     | 409,525                     | 0.1                                       |
|                          | 5,755,358                   | 4,948,027                   |                                           |

The fair values of options granted in the years ended April 30, 2020 and April 30, 2019, estimated at the date of grant using the Black-Scholes option pricing model, used the following assumptions:

|                               | May 2019 | May 2019 | February 2019 |
|-------------------------------|----------|----------|---------------|
| Weighted average assumptions: |          |          |               |
| Risk free interest rate       | 1.5%     | 1.5%     | 1.8%          |
| Dividend yield                | 0%       | 0%       | 0%            |
| Volatility                    | 179%     | 180%     | 189%          |
| Expected option life          | 5 years  | 5 years  | 5 years       |
| Resulting fair value:         | \$0.31   | \$0.30   | \$0.235       |

During the year ended April 30, 2020, the Company recognized a share-based compensation expense in the amount of \$285,652 (2019 - \$152,156). Share-based compensation expense is included in selling, general and administrative expenses.

During the year ended April 30, 2020, options relating to consulting services were issued and the Company recognized a related expense in the amount of \$62,145 at the estimated value of the services received.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

**15. GOVERNMENT ASSISTANCE**

During the year ended April 30, 2020, the Company received grant proceeds under the Government of Canada's Steel and Aluminum Initiative as administered by the Federal Economic Development Agency for Southern Ontario. This non-repayable grant supported the Company's development of a new type of aluminum foam through the reimbursement of 45% of expenditures eligible under the program. The total amount received/receivable under the federal government's Steel and Aluminum Initiative for the year under this grant was \$156,844. Proceeds were recognized as a reduction to the carrying amount of property, plant and equipment (\$28,789) a reduction to plant operating expenses (\$17,557), a reduction to research and material testing expenses (\$71,558) and a reduction to selling, general and administrative expenses (\$38,940).

In April, 2020, the Government of Canada passed legislation creating the Canada Emergency Wage Subsidy ("CEWS") as part of its response to the COVID-19 pandemic. The CEWS entitled eligible employers to receive a 75% wage reimbursement for eligible employees up to a maximum of \$847 per employee per week commencing on March 15, 2020. For the year ended April 30, 2020, Cymat has a receivable in the amount of \$70,360 under the CEWS program. Proceeds were recognized as a reduction to plant operating expenses (\$27,144) and to selling, general and administrative expenses (\$43,216).

**16. EXPENSES BY NATURE**

| Expenses incurred by nature are as follows:  | 2020             | 2019             |
|----------------------------------------------|------------------|------------------|
|                                              | \$               | \$               |
| Raw materials, consumables and maintenance   | 540,981          | 796,502          |
| Changes in inventories – raw materials       | 26,846           | 59,321           |
| Changes in inventories – finished goods      | (15,375)         | 182,891          |
| Employee salaries and benefits               | 1,408,144        | 1,385,797        |
| Shipping and freight                         | 89,364           | 140,365          |
| Facilities                                   | 195,783          | 366,168          |
| Depreciation and amortization                | 181,630          | 61,659           |
| Research and development                     | 141,345          | 193,630          |
| Insurance                                    | 70,226           | 70,706           |
| Professional and consulting fees             | 247,437          | 242,923          |
| Shareholder and corporate communications     | 279,441          | 142,241          |
| Telecommunication and information technology | 33,942           | 39,813           |
| Marketing, sales and travel                  | 158,711          | 128,113          |
| Other                                        | 22,422           | 22,512           |
|                                              | <b>3,380,897</b> | <b>3,832,641</b> |

**17. EMPLOYEE COMPENSATION AND BENEFITS**

Employee compensation and benefits include the following expenses:

|                               | 2020             | 2019             |
|-------------------------------|------------------|------------------|
|                               | \$               | \$               |
| Salary and wages              | 947,520          | 1,062,688        |
| Stock-based compensation      | 285,652          | 152,156          |
| Medical, dental and insurance | 102,104          | 96,287           |
| Other                         | 72,868           | 74,666           |
|                               | <b>1,408,144</b> | <b>1,385,797</b> |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

**18. INCOME TAXES**

The provision for income taxes is summarized as follows:

|                                                                  | <b>2020</b>      | 2019      |
|------------------------------------------------------------------|------------------|-----------|
|                                                                  | <b>\$</b>        | <b>\$</b> |
| Income tax expense (recovery) at statutory rate (25.0%)          | <b>(453,744)</b> | (339,851) |
| Stock-based compensation not deductible for tax                  | <b>71,413</b>    | 38,039    |
| Interest expense not deductible for tax                          | -                | 5,196     |
| Recovery of interest not subject to tax                          | <b>(16,184)</b>  | -         |
| Property, plant and equipment amortization temporary differences | <b>27,828</b>    | 15,415    |
| Other                                                            | <b>731</b>       | 2,450     |
| Benefit of tax losses not recognized                             | <b>369,956</b>   | 278,751   |
|                                                                  | <b>-</b>         | -         |

The tax benefit of the following unused tax losses and deductible temporary differences has not been recognized in the consolidated financial statements due to the unpredictability of future earnings.

|                                                               | <b>2020</b>      | 2019      |
|---------------------------------------------------------------|------------------|-----------|
|                                                               | <b>\$</b>        | <b>\$</b> |
| Non-capital losses carried forward                            | <b>5,128,980</b> | 4,759,024 |
| Scientific research and experimental development expenditures | <b>60,268</b>    | 60,268    |
| Investment tax credits                                        | <b>70,720</b>    | 70,720    |
| Share issue costs                                             | <b>2,222</b>     | 325       |
| Property, plant and equipment                                 | <b>(47,781)</b>  | 176,857   |
| Licenses and technology rights                                | <b>2,750,000</b> | 2,750,000 |
|                                                               | <b>7,964,409</b> | 7,817,194 |

The Company has available scientific research and experimental development expenditures for income tax purposes, which may be carried forward indefinitely to reduce future years' taxable income. The total of such tax credits accumulated to April 30, 2020 is approximately \$241,000 (2019 - \$241,000).

At April 30, 2020, the Company has tax losses for Canadian tax purposes of approximately \$20,516,000 (2019 - \$19,036,000). The Company also has unclaimed Canadian scientific research investment tax credits of approximately \$71,000 (2019 - \$71,000) which can be used to offset future years' Canadian federal taxes payable. Expiry dates for tax losses and tax credits are as follows:

|             | Tax Losses | ITCs      |
|-------------|------------|-----------|
|             | <b>\$</b>  | <b>\$</b> |
| Fiscal 2027 | 1,700,000  | 34,000    |
| Fiscal 2028 | 1,666,000  | 14,000    |
| Fiscal 2029 | 2,440,000  | 14,000    |
| Fiscal 2030 | 3,165,000  | 9,000     |
| Fiscal 2031 | 1,984,000  | -         |
| Fiscal 2032 | 1,127,000  | -         |
| Fiscal 2033 | 1,621,000  | -         |
| Fiscal 2034 | 1,315,000  | -         |
| Fiscal 2035 | 880,000    | -         |
| Fiscal 2036 | 1,135,000  | -         |
| Fiscal 2037 | 492,000    | -         |
| Fiscal 2038 | 396,000    | -         |
| Fiscal 2039 | 1,115,000  | -         |
| Fiscal 2040 | 1,480,000  | -         |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended April 30, 2020 and April 30, 2019

**19. RELATED PARTY TRANSACTIONS**

Related party transactions regarding the accrued royalty are reported in Note 11.

**Key Management Compensation**

Key management includes the Company's board of directors and senior executives.

|                                      | 2020           | 2019           |
|--------------------------------------|----------------|----------------|
|                                      | \$             | \$             |
| Salary, fees and short-term benefits | 657,109        | 629,884        |
| Stock-based compensation             | 252,574        | 142,970        |
|                                      | <b>909,683</b> | <b>772,854</b> |

**20. CAPITAL DISCLOSURES**

The Company considers its capital to be its equity which consists of share capital, contributed surplus and warrants, net of the deficit. The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its manufacturing operations, research and development activities, sales and administration expenses, working capital and overall capital expenditures. The Company makes every effort to manage its liquidity to minimize dilution to its shareholders when possible. The Company has funded its activities through public offerings and private placements of common shares and warrants, convertible debentures, promissory notes, royalty offerings, and grant contributions. The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management did not change during the period ended

**21. FINANCIAL INSTRUMENTS**

The Company's consolidated financial instruments are classified into one of the following categories: financial assets at amortized cost, financial liabilities at amortized cost and financial liabilities at fair value through profit and loss. The carrying values of the Company's financial instruments are summarized as follows:

|                                                                 | 2020      | 2019    |
|-----------------------------------------------------------------|-----------|---------|
|                                                                 | \$        | \$      |
| Financial assets at amortized cost (1)                          | 469,550   | 304,678 |
| Financial liabilities at amortized cost (2)                     | 2,097,054 | 886,562 |
| Financial liabilities at fair value through profit and loss (3) | 591,769   | 656,506 |

(1) Includes cash and cash equivalents, restricted cash, and trade and other receivables.

(2) Includes trade and other payables and the lease liability.

(3) Includes accrued royalty.

The reported value is a reasonable approximation of fair value for financial instruments recorded as financial assets at amortized cost and financial liabilities at amortized cost as underlying assumptions have not varied significantly from the date of initial recognition to year end.

Financial risks

The main risks arising from the Company's consolidated financial instruments are liquidity risk, foreign currency risk, commodity price risk (market risks), interest rate risk and credit risk. The Board of Directors reviews and approves the policies for managing these risks and they are summarized as follows:

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has sustained annual losses and negative annual cash flows from operations since its inception. The Company's objective for liquidity risk management is to maintain sufficient liquid financial resources to meet financial obligations and commitments in the most cost-effective manner possible. The Company manages its liquidity risk by continually forecasting cash flows from operations and anticipated investing and financing activities. As of April 30, 2020, the Company was holding cash and cash equivalents of \$265,685 (2019 - \$196,749) and trade and other receivables of \$203,865 (2019 - \$107,929).

There are uncertainties regarding the Company's liquidity conditions. See Note 1 regarding the Company's ability to continue as a going concern.

The following table presents the expected payment timing for the Company's financial liabilities on an undiscounted basis.

| Fiscal Years             | 2021    | 2022    | 2023    | 2024    | 2025    |
|--------------------------|---------|---------|---------|---------|---------|
|                          | \$      | \$      | \$      | \$      | \$      |
| Trade and other payables | 923,405 | -       | -       | -       | 111,702 |
| Lease liability          | 175,279 | 181,832 | 183,470 | 45,868  | -       |
| Accrued royalties        | 177,724 | 183,056 | 188,547 | 194,204 | 200,030 |

*Foreign currency risk*

The Company is primarily exposed to the fluctuation of the European Euro and United States (US) dollar relative to the Canadian dollar in as much as certain sales and raw material and consumable purchases are denominated in those currencies. Revenue and expenses are translated into Canadian dollars at the time of the transaction. The Company typically extends regular credit terms to its customers and recognizes foreign exchange translation gains or losses on a monthly basis through foreign currency translation of foreign currency receivables and payables using the temporal method.

At present, the Company does not use derivative instruments to reduce its exposure to foreign currency risk. In some cases, the Company does have the ability to mitigate foreign currency risk by adjusting prices charged to non-Canadian customers.

For the year ended April 30, 2020, the Company had a net operating foreign exchange loss of \$807 (2019 – loss of \$16,434), which is included in the statement of operations, comprehensive income (loss) and deficit and is classified separately.

As at April 30, 2020, the Company's financial instruments exposed to foreign currency risk consist of cash, restricted cash, accounts receivable and accounts payable.

Increases in the value of the Canadian dollar can reduce revenue, with a partially off-setting reduction in the cost of material inputs. Declines in the comparative value of the Canadian dollar can result in increased revenue with a partially off-setting increase in the cost of material inputs.

A ten percent (10%) change in the Canadian dollar compared to key foreign currencies would, everything else being equal, have had the following effect on the Company's reported net loss for the year ended April 30, 2020:

|                      | Year ended April 30, 2020<br>average exchange rate<br>(Value of \$1 CAD) | Favourable (Unfavourable) Change in Net Loss<br>Relative Value of \$1 CAD |                 |
|----------------------|--------------------------------------------------------------------------|---------------------------------------------------------------------------|-----------------|
|                      |                                                                          | Increase By 10%                                                           | Decrease by 10% |
| United States Dollar | 0.75                                                                     | \$22,307                                                                  | (\$27,152)      |
| European Euro        | 0.68                                                                     | (\$10,343)                                                                | \$12,641        |
| Hungarian Forint     | 225.29                                                                   | \$89                                                                      | (\$109)         |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

The table below presents the percentages of the Company's trade and other receivables and trade and other payables that are denominated in US dollars and European Euros:

|                             | As at April 30, 2020 |            | As at April 30, 2019 |            |
|-----------------------------|----------------------|------------|----------------------|------------|
|                             | US\$<br>%            | Euro€<br>% | US\$<br>%            | Euro€<br>% |
| Trade and other receivables | 5                    | 4          | 9                    | 8          |
| Trade and other payables    | 33                   | 1          | 20                   | 2          |

During the years ended April 30, 2020 and 2019, the following percentages of the revenue and expenses were earned or incurred in US dollars and European Euros:

|          | Year ended April 30, 2020 |            | Year ended April 30, 2019 |            |
|----------|---------------------------|------------|---------------------------|------------|
|          | US\$<br>%                 | Euro€<br>% | US\$<br>%                 | Euro€<br>% |
| Revenue  | 12                        | 7          | 33                        | 4          |
| Expenses | 13                        | -          | 13                        | -          |

*Commodity price risk*

At present, the Company is exposed to commodity price risk through its purchasing of raw materials as it uses aluminum as its primary raw material.

Metal prices and international commodity quotations are external variables over which the Company has no significant influence or control. This potentially exposes the Company to price volatilities that could significantly impact its future operating cash flows. As part of its routine activities, management is closely monitoring the trend in international metal prices. The Company does have the ability to mitigate commodity price risk by adjusting prices charged customers.

At present, the Company does not use derivative instruments to reduce its exposure to commodity price risk.

*Credit risk*

Credit risk arises from the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge the obligation. The Company is exposed to credit risk from customers. For the year ended April 30, 2020, the Company's largest customer accounted for 38% of total annual sales; no other individual customer accounted for more than 9% of total annual sales. For the year ended April 30, 2019, the Company's largest customer accounted for 34% of total annual sales; no other individual customer accounted for more than 9% of total annual sales. The Company's maximum exposure to credit risk is \$22,811 (2019 - \$41,678). Accounts receivable that are outstanding greater than 3 months but for which no allowance for doubtful accounts has been taken total \$22,080 (2019 - \$20,176).

Management seeks to minimize credit risk through customer review. Payment terms typically require the receipt of order payment prior to shipment. In some cases payment terms, generally between 30 and 60 days after shipment, are granted to customers. When deemed appropriate by management, letters of credit are also employed to secure payment on product orders. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

Accounts receivable are reviewed by management at each balance sheet reporting date on an account-by-account basis to determine their collectability. The review considers such factors as customer payment history, the current financial conditions of the customers and the general economic environment. A provision for bad debts of \$Nil was recorded during year ended April 30, 2020 (2019 - \$Nil).

As at April 30, 2020, the largest amount due from one customer amounted to 45% (2019 – 47%) of the Company's trade accounts receivable which total \$22,811 (2019 - \$41,678).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended April 30, 2020 and April 30, 2019**

*Fair value measurements*

IFRS require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the reporting date based on relevant market information and information about the financial instrument.

Financial assets and liabilities recorded at fair value in the Company's consolidated statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The hierarchical levels, defined by IFRS 13 and which are directly related to the amount of subjectivity associated with inputs to fair valuation of these financial assets and liabilities, are as follows:

Level 1 – Quoted prices are available in active markets for identical financial assets or liabilities for which the Company has the ability to access at the measurement date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable for the financial asset or liability as of the measurement date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – One or more significant pricing inputs are unobservable for the financial asset or liability and include situations where there is little, if any, market activity for the financial asset or liability.

The inputs into the determination of fair value require significant management judgment or estimation.

The accrued royalty liability is valued using level 3 inputs. Additional disclosure regarding the valuation methods is included in Note 11.

There were no significant transfers between levels 1, 2 or 3 during fiscal 2020, nor fiscal 2019.

## **22. CORONAVIRUS (“COVID-19”) IMPACT**

COVID-19, which is a respiratory illness caused by a new virus, was declared a world-wide pandemic by the World Health Organization in March 2020. COVID-19, and the related measures taken to slow the spread of the virus, has had a significant impact on global economies. The Company has considered the impact of COVID-19 and the related market volatility in preparing its financial statements. While the specific areas of judgement as noted above did not change, the impact of COVID-19 resulted in the application of further judgement within those identified areas. Given the dynamic and evolving nature of COVID-19 and the limited recent experience of the economic and financial impacts of such a pandemic, changes to the estimates that have been applied in the measurement of the Company's assets and liabilities may arise in the future. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

Key elements of the financial statements and related disclosures that have been impacted by COVID-19 include:

- Going Concern Uncertainty (Note 1): The disclosure made in the going concern uncertainty note considers the uncertainty that the pandemic adds in the Company's endeavours to sell its SAF, ability to achieve profitable production and ability to raise additional financing.
- Revenue: A number of orders that were expected from Asian customers were not realized in the reporting period as a result of COVID-19 supply chain disruptions. Some of these orders were realized in the first quarter of fiscal 2021. In certain cases, the size of the order was not as large as had been anticipated prior to year-end.
- Inventory (Note 8): Net realizable value for inventory was calculated using estimated selling prices and selling expenses in the context of the pandemic.
- Property, Plant and Equipment (Note 9): In assessing impairment of regarding the non-financial assets of property, plant and equipment, the recoverable amount of each asset or cash generating unit was based on estimates of asset fair value less costs of disposal using management's best estimates of such amounts in the context of the COVID-19 pandemic.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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- Accrued Royalties (Note 11): Future cash flow estimates used in the valuation of the accrued royalty liability incorporated management's best estimates of anticipated amounts and timing of future sales incorporating management's expectations for the impact of COVID-19 on global SAF sales. The discount rate used in calculating the fair value of the royalty liability incorporated management's assessment of the additional risk presented by the COVID-19 pandemic.

**23. POST-REPORTING DATE EVENTS**

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.