



*Cymat Technologies Ltd.*  
*Management's Discussion and Analysis (“MD&A”)*  
*As at April 30, 2021*

August 25, 2021

The following discussion and analysis of Cymat Technologies Ltd. [“Cymat” or the “Company”] financial condition and results of operations should be read in conjunction with the audited comparative consolidated financial statements of the Company for the year ended April 30, 2021, and the associated notes to the consolidated financial statements.

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

This MD&A is dated August 25, 2021 and all amounts herein are denominated in Canadian dollars, unless otherwise stated. This MD&A reflects the accounts of Cymat and its wholly-owned subsidiary, ALU-MMC Hungary, Zrt.

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

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

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

Cymat develops innovative materials for industry. The Company has worldwide rights, through patents and licenses, to produce Stabilized Aluminum Foam (“SAF”). This ultra-light metallic foam is produced using a proprietary, versatile process in which gas is bubbled into molten-alloyed aluminum containing a dispersion of fine ceramic particles to create foam that is then cast into either flat panels or near-net shapes. The result is a material, which is recyclable, with a wide array of features including very low density, mechanical energy absorption, thermal and acoustic insulation, time and temperature insensitivity and has a relatively low cost of production. The technology is focused on producing products for 4 major markets: automotive, architecture, defense and general industrial markets seeking energy management systems.

Cymat markets architectural material under the trademark, “Alusion™” and energy management products under the “SmartMetal™” trademark.

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

The COVID-19 pandemic continues to be highly disruptive to the global economy and has the potential to negatively impact all of the markets for Cymat’s SAF. In addition to the effects of the pandemic on this discussion of the market and industry environment, its impact is also reflected in the below discussions of results of operations (Sections 3 and 6), the use of estimates and judgements (Section 9), risks and uncertainties (Section 12) and the discussion of the Company’s outlook (Section 15).

### **Architecture**

The market for architectural and construction materials is characterized by a highly competitive environment with numerous solutions competing for high profile projects. COVID-19 as well as escalating international trade tensions, such as those between the United States and China, has created an environment of global trade uncertainty. Such volatility can have unfavourable effects upon the timing and budgets for large architectural projects. While Cymat’s architectural line of products is not among the lowest cost cladding options, its light weight can lead to significant construction savings as it may require less robust, hence less expensive, hanging systems. The Far East continues to demonstrate a robust demand for Cymat’s architectural line of products and Europe remains a key market for Alusion™. Additionally, a number of high-profile orders are expected for the United States in the current fiscal year.

### **Defense and Law Enforcement**

Lightweight, high-energy absorption materials such as SmartMetal™ are elements being used by military and police forces and OEM manufacturers to counter asymmetrical threats such as Improvised Explosive Devices (“IEDs”). SmartMetal™ energy absorption capabilities, its high strength to weight ratio and its ability to maintain its physical properties over time and over a wide temperature range, make it an attractive solution for blast mitigation applications. Test results have confirmed that the use of SmartMetal™, in conjunction with other materials, offers a lower weight solution that significantly reduces mortality and serious injury for the vehicle occupants. While threats from these types of attacks continue, the sales cycle associated with these types of customers is a lengthy one. Often the process that commences with vehicle system design, progresses through system validation and testing, the competitive bidding and contract awarding process and finally arrives at budget allocation and purchase approval can span several years. A recent trend in the US military to postpone the adoption of next generation vehicles in favour of retrofitting new vehicles, may enhance SmartMetal™’s appeal as SmartMetal™ systems can be added onto existing vehicles without the need to significantly modify existing vehicle structures. COVID-19 relief efforts have placed significant pressure on government budgets; accordingly military and police budgets may be challenged. On the other hand, government adoption of infrastructure stimulus to combat the economic effects of COVID-19 may have potential to positively impact large defense equipment orders.

## **Automotive**

Vehicle electrification continues to represent a major disruption to the automotive industry. Most major automotive OEM's have publically announced bold initiatives to convert vehicle powertrains from internal combustion engines to electric power, and a significant number of electric vehicle start-ups have been recently created. In order to maximize electric vehicle range, light-weighting is a key element in the successful execution of green vehicle design. OEM's have become increasingly receptive to the exploration of the use of new materials – such as SAF - in the achievement of light-weighting objectives. As a result of this environment, Cymat's management believes that the business development ecosystem for its SmartMetal™ material is especially favourable for the pursuit of automotive contracts.

Additionally, crash performance standards for automotives continue to be strengthened. In order to meet these toughened safety standards, automotive OEM's continue to seek out innovative energy absorption design solutions. Cymat has partnered with Tesseract Structural Innovations Inc. ("Tesseract"), an engineering firm that has patented, tested and proven crash mitigation systems that employ SmartMetal™'s energy absorption profile to full advantage.

### **3. Operating Highlights and Year in Review**

#### ***Income from Operations***

For the first time in the Company's history, Cymat achieved a positive annual income from operations. The \$62,000 income from operations was the result of a record level of Alusion™ sales and also benefited from the receipt of various forms of government assistance.

#### ***Architecture***

Sales of Alusion™ for fiscal 2021 were approximately \$4.0 million compared to Alusion™ sales of \$1.6 million for fiscal 2020. A rebound in sales impacted by the COVID-19 pandemic, and the strength of the architectural sales pipeline were the primary drivers behind the increased Alusion™ revenue.

#### ***Blast Mitigation and Energy Absorption***

SmartMetal™ sales for fiscal 2021 were approximately \$169,000 compared to sales of \$94,000 for fiscal 2020. Business development initiatives regarding blast protection kits for military personnel transport vehicles, transportation of explosives and the development of SmartMetal™ for use in multi-threat construction panels were ongoing during fiscal 2021.

#### ***Automotive***

Although not significantly represented in annual sales, Cymat continued its efforts to develop a market for SmartMetal™ within the automotive industry. Significant developments included signing a co-operation agreement with Tesseract Structural Innovations Inc. ("Tesseract"). Tesseract brings proven product design, engineering and testing capabilities to the value proposition offered by SmartMetal™ targeting the automotive sector. Cymat also added a senior auto industry executive, Blair Alton, to its business development team.

#### ***Other Highlights***

At the end of the fiscal year, Cymat commenced an equity private placement, culminating in a financing that completed in the first week of May 2021 and raised gross proceeds of \$5M. Common shares in the amount of 7,719,725 and common share purchase warrants in the amount of 3,859,862 were issued as the result of this financing.

During fiscal 2021 Cymat received proceeds from various government assistance programs including a \$40,000 loan from the Canada Emergency Business Account and an \$180,000 loan from the Federal Economic Development Agency for Southern Ontario under their Regional Relief and Recovery Fund.

#### 4. Selected Financial Information

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

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

	2021	2020	2019
Revenue	4,152	1,687	2,644
Income (loss) from operations	62	(1,694)	(1,189)
Cash flow provided by (used in) operations	433	(1,333)	(471)
Net Loss	(543)	(1,815)	(1,359)
Net Loss per Share, basic and diluted	(0.01)	(0.04)	(0.04)
Total Assets	6,583	1,862	735
Non-current Financial Liabilities	1,748	1,392	489

The following tables present selected quarterly financial information for the eight most recent quarters for the period ended April 30, 2021.

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

Three months ended,	Apr 30, 2021	Jan 31, 2021	Oct 31, 2020	Jul 31, 2020	Apr 30, 2020	Jan 31, 2020	Oct 31, 2019	Jul 31, 2019
Revenue	1,655	1,126	606	765	357	212	466	652
Plant operating expenses	708	657	292	372	277	274	419	344
Research and material testing expenses	32	31	34	34	52	21	36	34
SG&A expenses	860	432	341	296	428	419	426	650
Net Loss	(371)	(70)	(109)	7	(376)	(536)	(465)	(438)
Net Loss per Share	(0.01)	-	-	-	(0.01)	(0.01)	(0.01)	(0.01)
Operating cash flow	416	(280)	89	208	(172)	(393)	(409)	(359)

As at:	Apr 30, 2021	Jan 31, 2021	Oct 31, 2020	Jul 31, 2020	Apr 30, 2020	Jan 31, 2020	Oct 31, 2019	Jul 31, 2019
Cash & cash equivalents	5,018	226	553	485	252	89	111	461
Restricted cash	15	14	14	14	14	15	15	15
Working capital	3,511	(781)	(677)	(608)	(747)	(663)	(618)	(334)

## 5. Financial Condition

The following table presents significant changes in the Company's financial position from April 30, 2020 to April 30, 2021.

As at April 30 (Thousands of Dollars)	2021	2020	Increase (Decrease)	
	\$	\$	\$	%
Cash and cash equivalents	5,018	252	4,766	1,891
Restricted cash	15	14	1	7
Trade and other receivables	165	204	(39)	(19)
Inventory	263	130	133	102
Prepaid expenses	10	12	(2)	(17)
Other assets	28	28	-	-
Property, plant and equipment, net	1,085	1,222	(137)	(11)
Trade and other payables	1,499	1,035	464	45
Deferred revenue	182	63	119	189
Lease liability	978	1,062	(84)	(8)
Loans payable	120	-	120	n/a
Accrued royalties	928	592	336	57
Share capital	73,524	72,928	596	1
Subscription receipts	3,711	-	3,711	n/a
Contributed surplus	7,861	7,846	15	0
Warrants	19	33	(14)	(42)

Cash and cash equivalents increase of \$4,766,000: See Liquidity and Capital Resources section for an explanation of the change in cash and cash equivalents for fiscal 2021.

Restricted cash increase of \$1,000: Restricted cash is comprised of cash held in a Hungarian financial institution as the result of the incorporation of ALU-MMC Hungary Zrt. The increase is a result of a VAT refund, partially offset by the payment of administrative expenses.

Trade and other receivables decrease of \$39,000: The decrease in receivables was primarily the result of the receipt of government grant/subsidy receivables of \$121,000 from the end of fiscal 2020, partially offset by increased trade receivables and an increased HST receivable.

Inventory increase of \$133,000: The increase in inventory is the result of increases in raw material inventory (\$122,000) and work in process/finished goods inventory (\$11,000).

Property, plant and equipment decrease of \$137,000: The decrease is a result of depreciation expense of \$168,000, partially offset by production equipment purchases of \$31,000.

Payables increase of \$464,000: The increase in payables was primarily the result of an increase in unpaid royalties and an increase in sales bonuses payable.

Deferred revenue increase of \$119,000: Deferred revenue increased as a result of the relatively higher volume of order activity at the end of the fiscal 2021 year end.

Lease liability decrease of \$84,000. The decrease was the result of principal repayment.

Loans payable increase of \$120,000: Loans payable is the result of repayable proceeds from the Canada Emergency Business Account loan of \$30,000 and loan proceeds of \$180,000 from the Federal Economic Development Agency for Southern Ontario, less a fair value adjustment to account for the interest-free nature of the loan.

Accrued royalties increase of \$336,000: The increase was the result of a fair value adjustment recorded to reflect the present value of the estimated future royalty stream. The use of a lower discount rate and an increase in forecasted revenue produced the increase in the liability.

Share capital increase of \$596,000: Share capital increased as the result of the exercise of warrants (\$465,000) and the exercise of stock options (\$131,000).

Contributed surplus increase of \$15,000: Contributed surplus increased as the result of stock-based compensation and consultant options (\$80,000), partially offset by the exercise of options (\$65,000).

Warrants decrease of \$14,000: Warrants decreased as the result of the exercise of warrants.

## **6. Results of Operations**

### **Fourth Quarter and Year Ended April 30, 2020 Compared to the Fourth Quarter and Year Ended April 30, 2019**

#### **Revenue**

In December 2019, the first cases of COVID-19 were reported in Wuhan, China and the virus soon began to spread quickly throughout Asia and the rest of the world resulting in the declaration of a pandemic by the World Health Organization in March 2020. Revenue for the final quarter of fiscal 2020 and for fiscal 2020 overall was significantly curtailed by the disruption of orders expected for Asia during that timeframe. Skipping forward a year, COVID-19 is still causing material disruption to the global economy even as vaccines are becoming increasingly available. In the latter half of the 2021 fiscal year, Cymat, however, experienced a significant rebound in sales levels, as some projects delayed due to the pandemic came back online and architectural sales capitalized upon the increased growth in its underlying pipeline of projects.

Revenue for the last quarter of fiscal 2021 in the amount of \$1,655,000 contrasted strongly with revenue from the last quarter of fiscal 2020 of \$357,000, representing an increase of \$1,298,000, or 364%. Revenue for the current quarter included sales of Alusion™ in the amount of \$1,605,000 compared to sales of Alusion™ in the amount of \$323,000 in the fourth quarter of fiscal 2020. The fourth quarter of 2021 included SmartMetal™ sales of \$50,000 compared to SmartMetal™ sales of \$34,000 for the last quarter of fiscal 2020.

Revenue for the year ended April 30, 2021 was approximately \$4,152,000, an increase of \$2,465,000, or 146%, from the previous fiscal year of \$1,687,000. Alusion™ sales for fiscal 2021 were \$3,983,000 compared to \$1,593,000 for the same period of last fiscal year. Revenue from SmartMetal™ for the 2021 fiscal year was approximately \$169,000, compared to SmartMetal™ revenue of \$94,000 for the prior fiscal year.

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

## **Plant Operating Expenses**

Plant operating expenses for the quarter ended April 30, 2021 were approximately \$708,000, an increase of \$431,000, or 156%, as compared to expenses of \$277,000 for the quarter ended April 30, 2020. Plant operating expenses for the fiscal 2021 year were approximately \$2,029,000, an increase of \$715,000, or 54%, as compared to expenses of \$1,314,000 for the prior fiscal year. Expenses for the fourth quarter of fiscal 2021, as well as for the entire 2021 fiscal year were reduced by \$91,000 as the result of a fair value adjustment to the Regional Relief and Recovery Fund (“RRRF”) loan received from the Federal Economic Development Agency for Southern Ontario. This interest-free loan was provided in support of fixed operating costs.

Plant operating expenses include the direct operating expenses of labour, material, consumables, maintenance, freight and changes in inventory as well as manufacturing overhead costs. These direct operating expenses were approximately \$706,000 for the fourth quarter of fiscal 2021 (excluding the effect of the RRRF loan benefit), as compared to \$196,000 for the fourth quarter of last fiscal year. The increased operating expenses were in keeping with the increase in quarter-over-quarter revenue.

Direct operating expenses were approximately \$1,756,000 for fiscal 2021(excluding the effect of the RRRF loan benefit), an increase of \$786,000, or 81%, over the same expenses of \$970,000 for fiscal 2020. The increased sales volume for fiscal 2021 was the primary driver of the decline in direct operating expenses. Direct operating expenses for the current year also benefited from government assistance in the form of the Canada Emergency Wage Subsidy (“CEWS”) in the amount of \$88,000, compared to a CEWS benefit of \$27,000 in the preceding year.

Plant operating expenses also includes factory overhead costs such as facility costs and utilities. These expenses totalled approximately \$57,000 (excluding the effect of the RRRF loan benefit) for the fourth quarter of fiscal 2021 as compared to \$43,000 for the same quarter of fiscal 2020. Higher electricity costs as the result of higher production levels accounted for the quarter-over-quarter increase in expenses. Factory overhead expenses totalled approximately \$228,000 (excluding the effect of the RRRF loan benefit) for fiscal 2021 as compared to similar expenses of \$196,000 for fiscal 2020, with higher energy costs from elevated production levels creating the primary difference.

Plant operating expenses also include depreciation expense of approximately \$36,000 for the three months ended April 30, 2021 and \$38,000 for the same period ended April 30, 2020. Plant operating expenses include depreciation expense of approximately \$136,000 for fiscal 2021 and \$148,000 for fiscal 2020.

## **Research and Material Testing Expenses**

Research and material testing expenses for the final quarter of fiscal 2021 included net costs in the amount of \$32,000 (Fiscal 2020 - \$52,000) related to the development of a new aluminum foam in support of the Company’s sandwich panel venture, and development of a new architectural aluminum foam. The previous quarter’s expense is reported net of grant funds receivable from the Federal Economic Development Agency for Southern Ontario (“FedDev”) under the federal government’s Steel and Aluminum Initiative. Research and material testing expenses also included depreciation expenses regarding lab and testing equipment of approximately \$1,000 in each of the fourth quarters of fiscal 2021 and fiscal 2020.

Research and material testing expenses for fiscal 2021 included net costs in the amount of \$129,000 (Fiscal 2020 - \$143,000) related to the development of a new aluminum foam in support of the Company's sandwich panel venture, and development of a new architectural aluminum foam. The previous year's expense is reported net of \$72,000 in FedDev grant funds. Research and material testing expenses also included depreciation expenses regarding lab and testing equipment of approximately \$2,000 in each of fiscal 2021 and fiscal 2020.

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

SG&A expenses for the quarter ended April 30, 2021 were approximately \$861,000, as compared to an expense of 427,000 for the same quarter ended April 30, 2020. The expense increase included bonus accruals (\$243,000), increased commission expenses (\$97,000), increased employee headcount and salary levels (\$67,000) and increased investor relations consulting fees (\$30,000).

SG&A expenses for fiscal 2021 were approximately \$1,929,000, as compared to expenses of \$1,924,000 for fiscal 2020. The most significant expense increases included bonus accruals (\$243,000), higher commission expenses (\$139,000) and increased employee headcount and salary levels (\$44,000). Offsetting expense decreases included lesser stock-option-based employee compensation expenses (\$223,000), reduced investor relations and shareholder maintenance expenses (\$99,000) and the increased benefit from the CEWS (\$96,000).

SG&A expenses also include depreciation of \$8,000 for each of the fourth quarters of fiscal 2021 and fiscal 2020. Annual SG&A expenses include depreciation of \$31,000 for each of fiscal 2021 and fiscal 2020.

### **Foreign Exchange Gain**

For the last quarter of fiscal 2021, there was a foreign exchange gain of \$12,000 as compared to a negligible foreign exchange loss the last quarter of 2020.

For fiscal 2021, there was a foreign exchange gain of \$21,000 as compared to a loss of \$1,000 for fiscal 2020. The exchange gain for the current year, as well as the loss for the previous year, was largely the result of changing \$US exchange rates on \$US denominated payables.

### **Interest and Financing Expense**

Interest and financing expense for the three months ended April 30, 2021, of \$436,000 (2020 -\$23,000), includes cash-based amounts of \$90,000 in royalty-based financing fees (2020 - \$18,000) - including \$35,000 payable to a related party (2020 - \$7,000). The expense for the current quarter also includes a non-cash-based expense of \$336,000 (2020 - expense recovery of \$65,000) - including a \$129,000 expense pertaining to a related party (2020 - \$25,000 expense recovery) - which arose from a change in the present value of the estimated future royalty payments. The expense for the current quarter also includes \$19,000 of interest regarding the lease liability (2020 - \$24,000).

Interest and financing expense for the year ended April 30, 2021, of \$627,000 (2020 -\$121,000), includes cash-based amounts of \$213,000 in royalty-based financing fees (2020 - \$87,000) - including \$82,000 payable to a related party (2020 - \$33,000). The expense for the current year also includes a non-cash-based expense of \$336,000 (2020 - expense recovery of \$65,000) - including a \$129,000 expense pertaining to a related party (2020 - \$25,000 expense recovery) - which arose from a change in the present value of the estimated future royalty payments. Also included in the expense for the current year is \$86,000 of interest (2020 - \$98,000) regarding the lease liability, net of the allocation of Canada Emergency Rent Subsidy of \$5,000 (2020 - \$Nil).

## **Net Loss**

The last quarter of fiscal 2021 experienced a net loss of \$371,000 based on income from operations of \$54,000 before a foreign exchange gain and interest expense compared to a net loss of \$376,000 for the last quarter of 2020 based on a loss from operations of \$399,000 before a foreign exchange loss and interest expense. The net loss for the fourth quarter of fiscal 2020 includes the non-cash items of depreciation of approximately \$44,000 (fiscal 2020 – \$41,000), a share-based compensation expense of approximately \$13,000 (fiscal 2020 – \$43,000), an expense arising from the change in the accrual for future royalty payments of \$336,000 (2020 – \$65,000 expense recovery) and a benefit of \$91,000 regarding the valuation of the RRRF loan (2020 - \$Nil).

The net loss for fiscal 2021 of \$543,000 (fiscal 2020 - \$1,815,000) is based on income from operations of \$62,000 (2020 – loss from operations of \$1,694,000) before a foreign exchange gain (2020 – foreign exchange loss) and interest expense. The net loss for the year includes the non-cash items of depreciation and amortization of approximately \$168,000 (fiscal 2020 – \$182,000), a share-based compensation expense of approximately \$63,000 (fiscal 2020 – \$286,000), share-based consulting fees of \$17,000 (fiscal 2020 - \$62,000), an expense arising from the change in the accrual for future royalty payments of \$336,000 (2020 – \$65,000 expense recovery) and a benefit of \$91,000 regarding the valuation of the RRRF loan (2020 - \$Nil).

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

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

As at April 30, 2021, the Company had approximately \$5,018,000 of cash and cash equivalents on hand. For fiscal 2021, the cash flow provided by operating activities was approximately \$433,000 (fiscal 2020 – used \$1,333,000). For the current year, cash utilized by operating activities was the result of a net loss adjusted for items not involving cash of approximately \$59,000 (fiscal 2020 – \$1,350,000) and cash provided by changes in non-cash working capital balances of \$492,000 (fiscal 2020 –\$17,000 provided by changes in non-cash working capital).

For fiscal 2021, cash used in investing activities was \$31,000, primarily the result of the capital refurbishment of the production furnaces and electrical equipment. For fiscal, 2020, cash used in investing activities was \$48,000, primarily the result of improvements to the production line associated with the new aluminum foam development, net of a FedDev grant.

For fiscal 2021, cash provided by financing activities in the amount of \$4,365,000 was the result of receipts regarding an equity private placement that was completed subsequent to year-end (\$3,711,000), the exercise of warrants (\$451,000), proceeds from government loans (\$220,000) and the exercise of employee stock options (\$66,000), partially offset by building lease payments (\$84,000). For fiscal 2020, cash provided by financing was the product of proceeds from three equity private placements (\$1,394,000) and the exercise of employee and consultant stock options (\$127,000), partially offset by payments on the building lease (\$70,000).

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

In fiscal 2021, the Company incurred \$31,000 (2020 – \$48,000) of capital expenditure for production equipment. Management maintains its capital expenditure with the goal of meeting expected production demands and to support research and development initiatives.

## Licenses and technology rights

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

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

The scope of patent protection provides Cymat with important cost advantages in the production of aluminum foams.

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

## 8. Investments and Capitalization

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

The Company considers its capital to be its equity which consists of share capital, subscription receipts, 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 year ended April 30, 2021.

The table below sets out the number of issued and outstanding common shares as well as the number of common shares associated with issued and outstanding convertible securities as at August 25, 2021. The table reflects transactions occurring subsequent to year end including the issuance of common shares as the result of the equity private placement, the issuance of advisory options, the granting and exercising of employee stock options and the exercising of warrants.

	Number of Securities
Common Shares	52,066,628
Employee Stock Options	7,397,500
Advisory Options/Warrants	1,155,000
Warrants	<u>7,107,338</u>
Total Diluted Shares Outstanding	<u>67,726,466</u>

## Share Capital

The Company is authorized to issue an unlimited number of common shares. At April 30, 2021, issued and outstanding common shares totalled approximately 44,346,903 shares.

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.

In October 2019, the Company issued 616,883 common shares as the result of the exercise of employee stock options.

In December 2019, the Company issued 1,209,860 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.

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.

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.

In April 2020, the Company issued 100,000 common shares as a result of the exercise of stock options by a consultant.

In June 2020, the Company issued 351,192 common shares as a result of the exercise of employee stock options.

In April 2021, the Company issued 986,844 common shares as a result of the exercise of warrants.

In April 2021, the Company issued 108,333 common shares as a result of the exercise of employee stock options.

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

### **Subscription Receipts**

In April 2021, the Company initiated a private placement of equity units. Each equity unit was priced at \$0.65 per unit, with a unit consisting of one Cymat common share and one half (1/2) of a common share purchase warrant. Each whole warrant will entitle the holder to purchase one Cymat common share at a price of \$0.90 for a twenty-four (24) month period. The private placement was completed in May 2021, subsequent to the fiscal year end.

In April 2021, the Company received gross proceeds in the aggregate amount of \$3,711,430 representing the subscriptions for 5,709,893 equity units.

## **Stock Options**

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

On May 23, 2019, the Company granted 1,085,000 stock options with an exercise price of \$0.31 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.

On May 30, 2019, the Company granted 200,000 stock options with an exercise price of \$0.325 to a consulting firm with vesting on the date of grant.

In October 2019, 616,883 employee stock options with an exercise price of \$0.185 per share were exercised.

In April 2020, 100,000 stock options issued to a consultant with an exercise price of \$0.13 per share were exercised.

On July 16, 2020, the Company granted 100,000 stock options with an exercise price of \$0.25 to a consulting firm with vesting on the date of grant.

In July 2020, 315,192 employee stock options with an exercise price of \$0.20 per share were exercised.

In April 2021, 108,333 employee stock options with an exercise price of \$0.20 per share were exercised.

## **Warrants**

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.

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.

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.

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.

In April 2021, 317,460 warrants with an exercise price of \$0.525 per share and 669,384 warrants with an exercise price of \$0.425 per share were exercised.

## **9. Critical Accounting Policies and Estimates**

### **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.

### **Accrued royalties**

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

### **Use of estimates**

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

- the measurement of the cost of finished goods inventory, including the allocation of costs of conversion and manufacturing overhead,
- allowance for doubtful accounts,
- the determination of the useful lives of long lived assets,
- the determination of the appropriate amount, if any, of the writedown in the carrying value of long term assets, including the estimation of the asset's fair value and the cost of disposal,
- the valuation of the accrued royalties on the promissory notes, including the forecasted revenues and the appropriate discount rate to apply in the determination of present value,
- the determination of whether a contract contains a lease, and if so, the determination of the appropriate discount rate and term of the lease to use in the measurement of the lease liability, and
- the measurement of the fair value of share-based compensation, including the volatility and risk free rates used in the option valuation models and the estimation of number of options expected to vest.

The Company's assessment of the recoverable amount of property, plant and equipment, and intangible assets is based on management's assessment of potential indicators of impairment and best estimates of likely courses of action by the Company. This assessment is subject to significant measurement uncertainty. Material write-downs of these assets could occur if actual results differed from the estimates and assumptions used.

## **Judgements**

In the process of applying the Company's accounting policies, management has made judgements in assessing the primary economic environment underlying its determination that the functional currency of the consolidated entity is the Canadian dollar.

## **Impact of COVID-19**

The Company has considered the impact of COVID-19 and the related market volatility in preparing its financial statements. While the specific areas of estimates and 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:

- **Revenue:** A number of orders that were expected from Asian customers at the end of the preceding fiscal year were not realized in that reporting period as a result of COVID-19 supply chain disruptions. Some of these orders were realized in the current fiscal year. However, in certain cases, the size of the order was not as large as had been originally. Timing of some anticipated orders continues to be affected by increased uncertainty as a result of the pandemic.
- **Inventory:** Net realizable value for inventory was calculated using estimated selling prices and selling expenses in the context of the pandemic.
- **Property, Plant and Equipment:** 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.
- **Accrued Royalties:** 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.

## **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 costs 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.

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

At the date of approval of the 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.

## **11. Related Party Transactions**

Interest and financing expense for fiscal 2021 includes cash-based royalties in the amount of \$82,000 (2020 – \$33,000) and an increase to accrued royalties of based on future sales of \$129,000 (2019 – decrease of \$25,000) regarding a related party.

## **12. Risks and Uncertainties**

### **Outbreak of Disease**

A global outbreak of disease or similar public health threat could have a material adverse effect on the operations of Cymat. In March of 2020, the World Health Organization (“WHO”) declared COVID-19 to constitute a “Public Health Emergency of International Concern” and has categorized the outbreak as a pandemic. COVID-19 has been, and continues to be, highly disruptive to the global economy and has the potential to negatively impact Company sales, supply chains, labour force, manufacturing capabilities and ability to raise additional financing.

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

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

### **Dependence on Key Personnel**

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

## **Proprietary Technology Protection**

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

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

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

## **Other Risks**

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

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

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

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

There were no changes in the internal controls over financial reporting during the year ended April 30, 2021, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting

#### **14. Post-Reporting Date Event**

In May 2021, the Company completed a private placement of 7,719,725 equity units, including the 5,709,893 units subscribed for prior to year end (See Note 12). Each equity unit was priced at \$0.65 per unit, with a unit consisting of one Cymat common share and one half (1/2) of a common share purchase warrant. Each whole warrant will entitle the holder to purchase one Cymat common share at a price of \$0.90 for a twenty-four (24) month period. The Company received total gross proceeds in the aggregate amount of \$5,017,821, including the \$3,711,430 associated with subscriptions received prior to year end.

In compensation for related advisory services, the Company issued 770,000 compensation options. Each option entitles the holder to purchase an equity unit as described above, for an eighteen month period.

#### **15. Outlook**

The fight against the Covid-19 virus is currently characterized by the race to distribute vaccines as widely as possible and the emergence of the more transmissible Delta variant. Accordingly, Covid-19 is expected to continue to disrupt the global economy in the near term. To date, Cymat's production facility has not been interrupted by the pandemic. Cymat continues to employ modified production procedures and has adopted protocols to ensure the continued health and safety of our employees, customers and suppliers as well as the community at large.

As a result of the recently completed \$5M financing, Cymat is in the process of deploying additional resources with the goal of increasing sales beyond the record level achieved in fiscal 2021. To add further robustness to the sales pipeline for Alusion™ - Cymat is in the process of on-boarding a European architectural sales agency and adding a full-time senior sales person with a focus on new business development in North America. Alusion™ is expected to continue to provide the majority of revenue for the current fiscal year.

Newly raised funds are also being deployed in manufacturing operations for capital improvements and equipment purchases with the intent to improve productivity and expand capacity. In concert with its automotive engineering partner, Tesseract, and our newly added senior automotive executive, Cymat continues to focus a significant portion of its business development efforts on promoting the utility of SmartMetal™ to the automotive sector as a solution to achieve vehicle light-weighting and energy absorption objectives. The planned asset acquisitions are expected to be beneficial to these efforts as the ability to demonstrate high volume manufacturing readiness to automotive OEMs and Tier 1 suppliers is a key factor in winning long-term serial production contracts.

Other ongoing SmartMetal™ development initiatives include Defence industry applications for blast mitigation, light-weighting, use in multi-threat composite panel systems and use in the manufacture of non-lethal projectiles as an alternative to rubber bullets. Although the expected revenue impact for fiscal 2022 arising from these SmartMetal™ initiatives remains modest, the potential remains for significant positive recurring future revenue streams.

Cymat continues to advance the development of brazed, metallurgically-bonded sandwich panels in collaboration with our European-based CTO and our specialty aluminum supplier, Rio Tinto. The Delta variant of the COVID-19 virus has significantly impacted the population of Spain. We anticipate that when the business environment improves, the final trials at Alucoil will recommence, resulting in panel testing and certification with select Alucoil clients.