



Cymat Technologies Ltd.
Management's Discussion and Analysis (“MD&A”)
As at April 30, 2022

August 29, 2022

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, 2022, 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 29, 2022, 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 14, 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™”. Energy management and engineering-focused products are marketed 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. There are numerous products competing for selection in high profile projects as well as every day, small-scale applications. The global business environment includes uncertainties arising from COVID-19’s continuing impact, the geo-political effects of the war in Europe, international trade tensions, and escalating inflation rates. These elements of uncertainty have the potential to produce unfavourable effects upon timing and budgets, especially for large architectural projects. Among the multitude of architectural products, Alusion™ does not represent the lowest cost cladding material. However, due to its lightness in weight, Alusion™ can lead to significant installation savings as it may require less robust - less expensive - hanging systems.

The Far East continues to demonstrate a healthy demand for Cymat’s architectural line of products. Inroads continue to be made into the important United States cladding market with a number of high-profile installations expected for the upcoming year. In conjunction with the efforts of its European sales representation agency, Cymat expects Europe to remain a key market for Alusion™.

Defense and Law Enforcement

Lightweight, high-energy absorption materials such as SmartMetal™ are among the elements being used by military and police forces and OEM manufacturers in personnel and equipment transportation vehicles to provide protection from the energy released by explosions. 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™ significantly reduces mortality and serious injury for the vehicle occupants. SmartMetal™ offers the flexibility of providing an element of the vehicle original equipment design as well as a solution that can be retrofitted onto existing vehicles without the need to materially modify the existing vehicle structure. SmartMetal™ can also provide a key layer in a composite panel system designed to protect against multiple threats including blast, ballistic, blunt impact, wind, sound, and electro-magnetic energies. Such composite panels have application for stationary structures as well mobile vehicles.

In light of the conflict in Europe and increasing nationalistic rhetoric from international military powers, defense budgets have experienced recent increases. The potential demand for defense solutions such as those offered by SmartMetal™ is elevated under this current environment. However, the sales cycle associated with these types of customers is often a lengthy one. A process that commences with vehicle/structure design and 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.

Automotive

Vehicle electrification continues to represent a significant focus for the automotive industry. Most major traditional automotive OEM's have publically announced bold initiatives to convert vehicle powertrains from internal combustion engines to electric power, and there is increasing competition from a significant number of electric vehicle start-ups. 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.

Additionally, crash performance standards for automotives continue to evolve. In order to meet strengthening safety standards, automotive OEM's continue to seek out innovative energy absorption design solutions.

To assist in its automotive initiatives, Cymat has partnered with, and invested in, Tesseract Structural Innovations Inc (“Tesseract”). Tesseract is an automotive-focused engineering and design firm that has patented, tested and proven crash mitigation systems that employ SmartMetal™'s energy absorption profile. Tesseract's learned expertise in the deployment of SAF make it an ideally suited partner for the tandem pursuit of automotive opportunities.

Furthermore, Cymat has begun to develop a new, high-density SAF, dubbed SmartMetalHD™, that shares certain characteristics of a solid metal while possessing the relatively light weight of a foam. The Company is investigating this new foam's potential for automotive opportunities.

As a result of this environment, Cymat's management is convinced that the business development ecosystem for its SAF material is especially favourable for the pursuit of automotive supply contracts.

3. Operating Highlights and Year in Review

Loss from Operations

The loss from operations of \$4.3 Million (2021 – income of \$62,000) was impacted significantly by new management and engineering department hirings, non-cash compensation expenses and hiring of production staff for a second shift as management made a concerted effort towards automotive industry business development initiatives.

Architecture

Sales of Alusion™ for fiscal 2022 were approximately \$2.8 million compared to approximately \$4.0 million for fiscal 2021. Panels for additional sales orders totalling approximately \$600,000 were either in transit to the customer or awaiting pickup at the current year end, and accordingly did not meet the Company's revenue recognition criteria for inclusion in this year's revenue. These delivery delays were the result of pandemic-related slowdowns experienced by customers.

Blast Mitigation and Energy Absorption

SmartMetal™ sales for fiscal 2022 were approximately \$323,000 compared to sales of approximately \$169,000 for fiscal 2021. SmartMetal™ sales for the current year included protective panels for the transportation of explosives and fail-safe energy absorption for the nuclear energy industry.

Automotive

Cymat made significant enhancements to its business development efforts targeting the automotive sector. The Company hired two senior executives, both veterans of the automotive supply industry, to the key roles of Chief Operations Officer and Chief Commercial Officer. Cymat also contracted an additional auto industry executive with contacts at non-traditional automotive OEMs to join its business development team. Additionally, Cymat strengthened its partnership with the engineering and design firm, Tesseract Structural Innovations Inc. (“Tesseract”), through an investment in the form of a note receivable. Tesseract provides proven product design, engineering and testing expertise in concert with the benefits that SmartMetal™ offers to the automotive industry.

Other Highlights

At the beginning of the fiscal year, Cymat completed an equity private placement, raising aggregate 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.

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

	2022	2021	2020
Revenue	3,124	4,152	1,687
Income (loss) from operations	(4,338)	62	(1,694)
Cash flow provided by (used in) operations	(4,318)	433	(1,333)
Net Loss	(4,747)	(543)	(1,815)
Net Loss per Share, basic and diluted	(0.09)	(0.01)	(0.04)
Total Assets	6,172	6,583	1,862
Non-current Financial Liabilities	1,678	1,748	1,392

The following tables present selected quarterly financial information for the eight most recent quarters for the period ended April 30, 2022.

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

Three months ended,	Apr 30, 2022	Jan 31, 2022	Oct 31, 2021	Jul 31, 2021	Apr 30, 2021	Jan 31, 2021	Oct 31, 2020	Jul 31, 2020
Revenue	1,324	468	386	946	1,655	1,126	606	765
Plant operating expenses	1,051	295	426	556	708	657	292	372
Research and material testing expenses	32	33	85	31	32	31	34	34
SG&A expenses	1,415	1,291	837	1,409	860	432	341	296
Net Loss	(1,375)	(1,195)	(1,042)	(1,134)	(371)	(70)	(109)	7
Net Loss per Share	(0.02)	(0.02)	(0.02)	(0.02)	(0.01)	-	-	-
Operating cash flow	(1,201)	(713)	(1,096)	(1,308)	416	(280)	89	208

As at:	Apr 30, 2022	Jan 31, 2022	Oct 31, 2021	Jul 31, 2021	Apr 30, 2021	Jan 31, 2021	Oct 31, 2020	Jul 31, 2020
Cash & cash equivalents	2,466	3,586	4,047	5,232	5,018	226	553	485
Restricted cash	21	22	22	15	15	14	14	14
Working capital	2,599	3,528	3,979	4,819	3,511	(781)	(677)	(608)

5. Financial Condition

The following table presents significant changes in the Company's financial position from April 30, 2021 to April 30, 2022.

As at April 30 (Thousands of Dollars)	2022 \$	2021 \$	Increase (Decrease) \$ %	
Cash and cash equivalents	2,466	5,018	(2,552)	(51)
Restricted cash	21	15	6	40
Trade and other receivables	838	165	673	408
Inventory	1,180	263	917	349
Prepaid expenses	246	10	236	2,360
Note receivable	312	-	312	n/a
Other assets	28	28	-	-
Property, plant and equipment, net	1,081	1,085	(4)	0
Trade and other payables	1,416	1,499	(83)	(6)
Deferred revenue	391	182	209	115
Lease liability	880	978	(98)	(10)
Loans payable	136	120	16	13
Accrued royalties	1,007	928	79	9
Share capital	79,884	73,524	6,360	9
Subscription receipts	-	3,711	(3,711)	(100)
Contributed surplus	9,326	7,861	1,465	19
Advisory options/warrants	92	-	92	n/a
Warrants	27	19	8	42

Cash and cash equivalents decrease of \$2,552,000: See Liquidity and Capital Resources section for an explanation of the change in cash and cash equivalents for fiscal 2022.

Restricted cash increase of \$6,000: 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 additional funding by Cymat, partially offset by the payment of administrative expenses.

Trade and other receivables increase of \$673,000: The increase in receivables was the result of an increase in outstanding HST receivables of \$343,000 and an increase in trade receivables of \$330,000. An export letter of credit secured one of the trade receivables in the amount of \$332,000.

Inventory increase of \$917,000: The increase in inventory is the result of increases in raw material inventory (\$315,000) held to mitigate supply chain interruptions and work in process/finished goods inventory (\$602,000) that included goods in transit at year end.

Prepaid expenses increase of \$236,000: The increase is the result of deposits on the purchase of new production equipment (\$150,000), prepayment for production supplies (\$45,000), the switch of insurance to lumpsum payments from monthly installments (\$24,000) and prepaid software licenses (\$16,000)

Note receivable increase of \$312,000: The increase in note receivable resulted from the fair value of Cymat's convertible loan to Tesseract Structural Innovations, Inc.

Property, plant and equipment decrease of \$4,000: The decrease is a result of depreciation expense of \$178,000 and equipment disposals of \$41,000, partially offset by production equipment purchases of \$215,000.

Payables decrease of \$83,000: The decrease in payables was primarily the result of the payment of previously unpaid royalties.

Deferred revenue increase of \$209,000: Deferred revenue increased as a payments related to shipments in transit at the end of fiscal 2022.

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

Loans payable increase of \$16,000. The increase in loans payable is imputed interest on the interest-free loan from the Federal Economic Development Agency for Southern Ontario.

Accrued royalties increase of \$79,000: The increase was the result of a fair value adjustment recorded to reflect the present value of the estimated future royalty stream. The effect of the use of a higher discount rate was offset by an increase in forecasted revenue produced the increase in the liability.

Share capital increase of \$6,360,000: Share capital increased as the result of a private placement of equity units of \$4,881,000 concluding at the beginning of fiscal 2022 that included the conversion of subscription receipts held at the end of fiscal 2021 in the amount of \$3,711,000. The exercise of warrants (\$799,000) and the exercise of stock options (\$700,000) also contributed to the increase in share capital.

Contributed surplus increase of \$1,465,000: Contributed surplus increased as the result of the vesting stock-based compensation and consultant options (\$1,813,000), partially offset by the exercise of options (\$348,000).

Advisory options/warrants increase of \$92,000. Advisory options were issued contemporaneously with the equity private placement.

Warrants increase of \$8,000: Warrants increased as the result of the private equity placement that occurred at the beginning of the year, partially offset by the exercise of warrants.

6. Results of Operations

Fourth Quarter and Year Ended April 30, 2022 Compared to the Fourth Quarter and Year Ended April 30, 2021

Revenue

Leading up to the middle of last fiscal year, Cymat's sales levels had been depressed by the COVID-19 pandemic. In the latter half of the 2021 fiscal year, as vaccines became increasingly available and economic sentiment ticked upwards, Cymat 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. The 2022 fourth quarter revenue total does not include amounts relating to completed panels with an aggregate sales value of approximately \$569,000 that were either in transit to customers or packed and awaiting pickup.

Revenue for the last quarter of fiscal 2022 was \$1,324,000, representing a \$331,000, or 20% decrease compared to revenue of \$1,655,000 for the last quarter of fiscal 2021. Revenue for the year ended April 30, 2022 was approximately \$3,124,000, a decrease of \$1,028,000, or 25%, from the previous fiscal year of \$4,152,000.

Revenue for the current quarter included sales of Alusion™ in the amount of \$1,311,000 compared to sales of Alusion™ in the amount of \$1,605,000 in the fourth quarter of fiscal 2021. The fourth quarter of 2022 included SmartMetal™ sales of \$13,000 compared to SmartMetal™ sales of \$50,000 for the last quarter of fiscal 2021.

Alusion™ sales for fiscal 2022 were \$2,801,000 compared to \$3,983,000 for the same period of last fiscal year. Revenue from SmartMetal™ for the 2022 fiscal year was approximately \$323,000, compared to SmartMetal™ revenue of \$169,000 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, 2022 were approximately \$1,051,000, an increase of \$343,000, or 48%, as compared to expenses of \$708,000 for the quarter ended April 30, 2021. Plant operating expenses for the fiscal 2022 year were approximately \$2,328,000, an increase of \$299,000, or 15%, as compared to expenses of \$2,029,000 for the prior fiscal year. Expenses for the comparative fourth quarter and comparative 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 \$915,000 as compared to \$694,000 for the fourth quarter of fiscal 2021 (excluding the effect of the RRRF loan benefit). The increased direct operating expenses resulted primarily from higher maintenance costs, higher shipping costs, higher labour costs due to the adding of a second production shift and price increases for raw material and consumables.

Direct operating expenses were approximately \$1,874,000 for fiscal 2022, an increase of \$86,000, or 5%, over the same expenses of \$1,788,000 (excluding the effect of the RRRF loan benefit) for fiscal 2021. Direct operating expenses for the prior year benefited from government assistance in the form of the Canada Emergency Wage Subsidy (“CEWS”) in the amount of \$88,000, whereas no CEWS benefit applied to the current year. Increased direct operating expenses also resulted from higher maintenance costs, higher shipping costs, higher labour costs due to the adding of a second production shift and price increases for raw material and consumables

Plant operating expenses also includes factory overhead costs such as facility costs and utilities. These expenses totalled approximately \$98,000 for the fourth quarter of fiscal 2022 as compared to \$70,000 for the same quarter of fiscal 2021. Higher facility costs in the form of increased common area maintenance fees accounted for most of the quarter-over-quarter increase in expenses. Factory overhead expenses totalled approximately \$310,000 for fiscal 2022 as compared to similar expenses of \$284,000 for fiscal 2021, with higher common area charges from Cymat’s landlord creating the primary difference.

Plant operating expenses also include depreciation expense of approximately \$39,000 for the three months ended April 30, 2022 and \$36,000 for the same period ended April 30, 2021. Plant operating expenses include depreciation expense of approximately \$145,000 for fiscal 2022 and \$136,000 for fiscal 2021.

Research and Material Testing Expenses

Research and material testing expenses for the final quarter of fiscal 2022 included costs in the amount of \$33,000 (Fiscal 2021 - \$32,000) related to manufacturing process improvements, with prior quarter costs associated with the development of a new aluminum foam in support of the Company’s sandwich panel venture, and development of a new architectural aluminum foam.

Research and material testing expenses for fiscal 2022 included costs in the amount of \$181,000 (Fiscal 2021 - \$131,000) related to the development of a new aluminum foam in support of the Company’s sandwich panel venture, development of a new architectural aluminum foam and manufacturing process improvements. Research and material testing expenses also included depreciation expenses regarding lab and testing equipment of approximately \$1,000 in fiscal 2022 and \$2,000 in fiscal 2021.

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

SG&A expenses for the quarter ended April 30, 2022 were approximately \$1,414,000, as compared to an expense of 861,000 for the same quarter ended April 30, 2021. The expense increase included increased stock-based compensation (\$274,000), increased employee headcount and salary levels (\$123,000) and increased consulting fees (\$108,000).

SG&A expenses for fiscal 2022 were approximately \$4,952,000, as compared to expenses of \$1,929,000 for fiscal 2021. The most significant expense increases included higher stock-based compensation for employees (\$1,533,000) and consultants (\$200,000), increased employee headcount and salary levels (\$509,000) that benefited in the previous year from CEWS funding of \$139,000, higher consulting expenditures (\$487,000), higher profession fees, including recruiting services (\$88,000), increased marketing expenses (\$87,000) and increased investor relations spending (\$83,000). and increased employee headcount and salary levels (\$44,000).

SG&A expenses also include depreciation of \$9,000 for the fourth quarter of fiscal 2022 and \$8,000 for the fourth quarter of fiscal 2021. Annual SG&A expenses include depreciation of \$32,000 for fiscal 2022 and \$31,000 for fiscal 2021.

Foreign Exchange Gain

For the last quarter of fiscal 2022, there was a foreign exchange loss of \$13,000 (2021 - gain of \$12,000).

For fiscal 2022, there was a foreign exchange loss of \$23,000 (2021 - gain of \$21,000). The exchange loss for the current year was largely the result of changing \$US exchange rates on \$US denominated payables and changing Euro exchange rates on Euro denominated receivables. The exchange gain 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, 2022, of \$174,000 (2021 -\$436,000), includes cash-based amounts of \$71,000 in royalty-based financing fees (2021 - \$90,000) - including \$27,000 payable to a related party (2021 - \$35,000). The expense for the current quarter also includes a non-cash-based expense of \$79,000 (2021 - expense of \$336,000) - including a \$30,000 expense pertaining to a related party (2021 - \$129,000 expense) - 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 (2021 - \$19,000). Interest for the quarter also includes \$4,000 regarding the accretion of interest on the loan received through the federal government's Regional Relief and Recovery Fund (2021 - \$1,000).

Interest and financing expense for the year ended April 30, 2022, of \$337,000 (2021 -\$627,000), includes cash-based amounts of \$159,000 in royalty-based financing fees (2021 - \$213,000) - including \$61,000 payable to a related party (2021 - \$82,000). The expense for the current year also includes a non-cash-based expense of \$79,000 (2021 - expense of \$336,000) - including a \$30,000 expense pertaining to a related party (2021 - \$129,000 expense) - 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 \$83,000 of lease-related interest (2021 - \$86,000, net of Canada Emergency Rent Subsidy benefit). Interest for the current year also includes \$16,000 regarding the accretion of interest on the loan received through the federal government's Regional Relief and Recovery Fund (2021 - \$1,000).

Net Loss

The last quarter of fiscal 2022 experienced a net loss of \$1,375,000 based on a loss from operations of \$1,176,000 before a foreign exchange loss, unrealized loss from the note receivable and interest expense compared to a net loss of \$371,000 for the last quarter of 2021 based on income from operations of \$54,000 before a foreign exchange loss and interest expense. The net loss for the fourth quarter of fiscal 2021 includes the non-cash items of depreciation of approximately \$48,000 (fiscal 2021 – \$44,000), a share-based compensation expense of approximately \$287,000 (fiscal 2021 – \$13,000), an unrealized loss of \$8,000 from the valuation of the note receivable, an expense arising from the change in the accrual for future royalty payments of \$79,000 (2021 – \$336,000), an expense of \$16,000 (2021 - \$1,000) regarding the accretion of interest on the RRRF loan and a benefit of \$Nil regarding the valuation of the RRRF loan (2021 - \$91,000).

The net loss for fiscal 2022 of \$4,747,000 (fiscal 2021 - \$543,000) is based on a loss from operations of \$4,338,000 (2021 – income from operations of \$62,000) before a foreign exchange gain (2021 – foreign exchange gain), an unrealized loss on the note receivable, a loss on retirement of property, plant and equipment and interest expense. The net loss for the year includes the non-cash items of depreciation and amortization of approximately \$178,000 (fiscal 2021 – \$168,000), a share-based compensation expense of approximately \$1,596,000 (fiscal 2021 – \$63,000), share-based consulting fees of \$217,000 (fiscal 2021 - \$17,000), an unrealized loss of \$8,000 from the valuation of the note receivable, an expense arising from the change in the accrual for future royalty payments of \$79,000 (2021 – \$336,000) and a benefit of \$Nil regarding the valuation of the RRRF loan (2021 - \$91,000).

7. Liquidity and Capital Resources

Sources and Uses of Cash

As at April 30, 2022, the Company had approximately \$2,466,000 of cash and cash equivalents on hand. For fiscal 2022, the cash flow used by operating activities was approximately \$4,318,000 (fiscal 2021 – \$433,000 provided by operations). For the current year, cash utilized by operating activities was the result of a net loss adjusted for items not involving cash of approximately \$2,612,000 (fiscal 2021 – \$59,000) and used by changes in non-cash working capital balances of \$1,706,000 (fiscal 2021 –\$492,000 provided by changes in non-cash working capital).

For fiscal 2022, cash used in investing activities of \$535,000 was the result of the Tesseract note receivable investment of \$320,000 and the purchase of property, plant and equipment consisting primarily of production equipment purchases and leasehold improvement upgrades. 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 2022, cash provided by financing activities in the amount of \$2,301,000 was the result of conclusion of an equity private placement that was commenced in the prior year (\$1,281,000), the exercise of warrants (\$768,000), and the exercise of stock options (\$351,000), partially offset by building lease payments (\$99,000). 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).

Investments in Property, Plant and Equipment

In fiscal 2022, the Company incurred \$215,000 (2021 – \$31,000) of capital expenditure for production equipment and leasehold improvements. 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, 2022.

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 29, 2022. 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	59,085,612
Employee Stock Options	9,150,000
Advisory Options/Warrants	1,155,000
Warrants	<u>3,859,862</u>
Total Diluted Shares Outstanding	<u>73,250,474</u>

Share Capital

The Company is authorized to issue an unlimited number of common shares. At April 30, 2022, issued and outstanding common shares totalled approximately 55,488,612 shares.

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 the result of the exercise of warrants.

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

In May 2021, the Company completed a private equity placement that had been initiated in the previous month, issuing a total of 7,719,725 equity units. The 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 entitles the holder to purchase one Cymat common share at a price of \$0.90 for a twenty-four (24) month period. In May 2021, the Company received gross proceeds in the aggregate amount of \$1,306,386 associated with the issuance of 2,009,832 equity units. Additionally, 5,709,893 equity units were issued related to the subscription receipts representing proceeds of \$3,711,430 received in the preceding month. In total, 7,719,725 common shares were issued as a result of this private placement. As compensation for services related to the private placement, the Company issued 770,000 advisory options/warrants as described in the below Note 16. The net proceeds were allocated between common shares and warrants using the residual valuation method, resulting in \$4,811,469 of net proceeds allocated to common shares.

In May 2021, the Company issued 150,000 common shares as the result of the exercise of warrants.

In May and June of 2021, the Company issued 925,000 common shares as the result of the exercise of employee stock options.

In September 2021, the Company issued 175,000 common shares as the result of the exercise of employee stock options.

In December 2021, the Company issued 1,521,984 common shares as the result of the exercise of warrants.

In January 2022, the Company issued 100,000 common shares as the result of the exercise of employee stock options.

In February 2022, the Company issued 350,000 common shares as the result of the exercise of employee stock options.

In March 2022, the Company issued 100,000 common shares as the result of the exercise of warrants.

In April 2022, the Company issued 100,000 common shares as the 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.

Stock Options

Under the terms of the stock option plan approved at the Annual General Meeting on January 13, 2022, the aggregate number of common shares reserved for the issuance of stock options is 10,967,722.

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.

In May 2021, 200,000 employee stock options with an exercise price of \$0.20 were exercised and 75,000 employee stock options with an exercise price of \$0.205 were exercised.

In June 2021, 650,000 employee stock options with an exercise price of \$0.20 were exercised.

In September 2021, 75,000 employee stock options with an exercise price of \$0.205, 50,000 employee stock options with an exercise price of \$0.235 and 50,000 employee stock options with an exercise price of \$0.31 were exercised.

In January 2022, 100,000 employee stock options with an exercise price of \$0.205 were exercised.

In February 2022, 250,000 employee stock options with an exercise price of \$0.205 and 100,000 employee stock options with an exercise price of \$0.31 were exercised.

In April 2022, 100,000 employee stock options with an exercise price of \$0.205 were exercised.

Warrants

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.

In May 2021, the Company completed a private equity placement that had been initiated in the previous month, issuing a total of 7,719,725 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 entitles the holder to purchase one Cymat common share at a price of \$0.90 for a twenty-four (24) month period. The net proceeds were allocated between common shares and warrants using the residual valuation method, resulting in \$18,847 of net proceeds allocated to the 3,859,862 warrants issued under this private placement.

In May 2021, 150,000 warrants with an exercise price of \$0.525 per share were exercised.

In December 2021, 1,521,984 warrants with an exercise price of \$0.425 per share were exercised.

In March 2022, 100,000 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 appropriate discount rate for valuation of the expected cash flows associated with the note receivable, assumptions about the valuation of the conversion element and assumptions about the likelihood of conversion,
- 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: Timing of some anticipated orders continues to be affected by the increased uncertainty resulting from pandemic-related supply chain interruptions.
- 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 2022 includes cash-based royalties in the amount of \$61,000 (2021 – \$82,000) and an increase to accrued royalties of based on future sales of \$30,000 (2021 – \$129,000) regarding a related party.

12. Risks and Uncertainties

Interruption of Raw Material Supply

Interruption of key raw materials and manufacturing supplies could significantly impact operations and our financial position. Interruption of supply could arise from conflict-related or health-crisis-related market shortages. Cymat attempts to purchase key raw materials and supplies well in advance of their anticipated use and, where possible, seeks multiple sources for such supplies.

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, 2022, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting

14. Post-Reporting Date Events

On July 11, 2022, the Company entered into a lease extension agreement regarding its Mississauga, Ontario facilities. The lease extension is effective for the period commencing August 1, 2023, through to July 31, 2028. Lease payments for the first year of the lease extension will be \$491,438 for the year and will escalate by four percent per annum thereafter.

In July 2022, the Company issued 1,462,000 common shares for proceeds totalling \$767,550 as a result of the exercise of share purchase warrants with an exercise price of \$0.525 each. An additional 163,492 share purchase warrants expired without being exercised.

15. Outlook

The Covid-19 pandemic remains as an influence of the global economy remains as vaccine distribution efforts work to counteract the prevalence of the more transmissible Omicron variant. Most local Covid-19 related restrictions have been lifted. Cymat has accordingly adjusted its modified production procedures and adopted protocols in a manner that prioritizes the continued health and safety of our employees, customers and suppliers as well as the community at large. In response to ongoing supply chain risks, management continues to employ enhanced inventory and supply chain management strategies to mitigate potential risks, including holding higher levels of inventory for raw materials and key production consumables.

Cymat's architectural aluminum foam, Alusion™, will continue to be the primary source of revenue for Cymat's current fiscal year ending April 30, 2023. Pandemic related delays, resulted in sales orders in the approximate aggregate amount of \$569,000 that were ready for shipment in the final quarter of fiscal 2022, slipping to the first quarter of fiscal 2023. Although the risk of similar installation postponements remains, the pipeline of major Alusion™ construction projects continues to be robust. For fiscal 2023, the United States is a key market targeted by our business development efforts as we look to expand our regional agent network and expect to install some high-profile facades in urban centres.

The automotive industry continues to be a main focus of Cymat business development efforts. As recently announced, Cymat is operating under a component development agreement with a global automotive manufacturer to optimize an element of a battery enclosure system for an existing electric vehicle ("EV") platform. In consultation with its design partner, Tesseract, Cymat intends to deliver a solution deploying SmartMetal™ in a part that reduces weight, enhances crash protection, simplifies part complexity and produces cost savings for the OEM. The Company, working with its design partner, Tesseract, is in the process of completing its conceptual design and performing validation through computer simulation. It is anticipated that successful completion of this first phase of the development agreement will lead to production of physical prototypes for OEM validation, with Cymat's ultimate goal being the winning of a serial part production contract. Cymat is also working with the OEM to identify additional areas of the vehicle architecture where the use of SmartMetal™ could be beneficial. In parallel, Cymat is continuing to upgrade its production line and manufacturing infrastructure, including the recent extension of its facilities lease, to exhibit its high-volume manufacturing readiness to automotive OEMs and Tier 1 suppliers.

Cymat's cooperation with Rio Tinto and the National Research Council of Canada on refinement of the process to manufacture brazed aluminum foam sandwich panels is on going. –One expected outcome of this collaboration is the near-term restart of the final trials at Alucoil leading to panel testing and certification with select Alucoil clients.

SmartMetal™ development initiatives that involve defence industry applications for blast mitigation, light-weighting and use in multi-threat composite panel systems are ongoing. Updates on a production schedule for a SmartMetal™ under-body blast mitigation system for an Asian military vehicle OEM are expected within the upcoming months. SmartMetal™ initiatives are expected to bring more meaningful levels of revenue for the 2023 fiscal year.