



Cymat Technologies Ltd.
Management's Discussion and Analysis (“MD&A”)
As at April 30, 2023

August 25, 2023

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, 2023, 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, 2023, 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

In May of 2023, the World Health Organization (“WHO”) declared that COVID-19 no longer constitutes a “Public Health Emergency of International Concern.” While the spread of COVID-19 is no longer classified as a pandemic, some of the negative economic impacts of the pandemic still linger, including supply chain uncertainties.

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 everyday, small-scale applications.

The current surge in overall inflation rates and central banks’ efforts to curb inflation through steadily increasing interest rates have the potential to unfavourably impact the timing and budget of architectural projects, especially for sizable construction developments. 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 geo-political effects of the war in Europe and international trade tensions add to the unfavourable conditions within architectural markets. The healthy demand for Alusion™ from markets in China that Cymat has been experiencing is under pressure due to worsening economic conditions in China and trade tensions between it and the West. Cymat expects to continue to build on its increased level of sales in the important United States cladding market. Cymat expects Europe to remain a key market for Alusion™, with regional sales efforts supported by its European sales representation agency.

Defense and Law Enforcement

The conflict in Europe and increasing nationalistic rhetoric from international military powers, has many countries reviewing their defense budgets with the eye to increasing spending levels to address possible vulnerabilities. The conflict in the Ukraine has particularly increased the demand for ground-based military assets.

Lightweight, high-energy absorption materials such as SmartMetal™ are among the elements being used by military, security 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 highly customized solutions that can easily be incorporated into the design of new equipment design. This flexibility also creates a product that can be simply 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.

The potential demand for defense solutions such as those offered by SmartMetal™ is elevated under this current environment, with the potential to reduce order lead times. However, the typical 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. Governments have recognized the benefits that the EV manufacturing industry can bring to national economies and the achievement of carbon reduction goals. The Canadian government (federal and provincial) have recently announced significant subsidies for new manufacturing facilities related to EV battery production.

In order to maximize electric vehicle range, light-weighting is a key element in the successful execution of green vehicle design. Electric vehicle weight is also coming under increasing public scrutiny as EV's substantially higher mass compared to ICE vehicles has the potential to negatively affect transportation infrastructure. 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, including the ability to accurately model the behaviour of SAF in computer simulations of solution prototypes, make it an ideally suited partner for the tandem pursuit of 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 \$5.6 Million (2022 – loss of \$4.3 Million) reflects a full year of elevated expenditures on business development efforts and staffing levels that are targeted towards sales opportunities in the automotive industry, especially regarding electric vehicles. Non-cash charges, such as stock-based compensation expenses and a write-down of a note receivable, in aggregate accounted for \$2.3 Million of the current year's loss.

Architecture

Sales of Alusion™ for fiscal 2023 were approximately \$2.7 million compared to approximately \$2.8 million for fiscal 2022. Asia continued to be a strong market for Alusion™ sales, representing approximately 44% of architectural orders, with Europe and the United States splitting the bulk of the remaining Alusion™ sales.

Blast Mitigation and Energy Absorption

SmartMetal™ sales for fiscal 2023 were approximately \$313,000 compared to sales of approximately \$323,000 for fiscal 2022. SmartMetal™ sales for the current year included low rate initial production for a personnel carrier blast protection system and fail-safe energy absorption for the nuclear energy industry.

Automotive

During the year, Cymat engaged with certain automotive OEM's in multiple projects exploring the use of SmartMetal™ for a number of electric automotive solution applications. Projects include light-weighting and simplification of battery box design, protection of the underside of the battery box and protection of the battery and electrical drive components from side impacts. New SAF product innovations resulting from these business development efforts include ultra-thin SmartMetal™ in thickness between 4mm and 8mm. Cymat's design partner, Tesseract, continues to provide product design, engineering and testing expertise in concert with the pursuit of these automotive opportunities.

Other Highlights

During the year, Cymat raised gross proceeds of approximately \$915,000 from the exercise of warrants and \$460,000 from the exercise of employee/consultant stock options.

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

	2023	2022	2021
Revenue	3,053	3,124	4,152
Income (loss) from operations	(5,559)	(4,338)	62
Cash flow provided by (used in) operations	(2,462)	(4,318)	433
Net Loss	(6,048)	(4,747)	(543)
Net Loss per Share, basic and diluted	(0.10)	(0.09)	(0.01)
Total Assets	4,156	6,172	6,583
Non-current Financial Liabilities	2,560	1,678	1,748

The following tables present selected quarterly financial information for the eight most recent quarters for the period ended April 30, 2023.

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

Three months ended:	Apr 30, 2023	Jan 31, 2023	Oct 31, 2022	Jul 31, 2022	Apr 30, 2022	Jan 31, 2022	Oct 31, 2021	Jul 31, 2021
Revenue	653	248	1,049	1,103	1,324	468	386	946
Plant operating expenses	647	530	1,035	1,112	1,051	295	426	556
Research and material testing expenses	33	35	39	77	32	33	85	31
SG&A expenses	1,059	1,170	1,276	1,600	1,415	1,291	837	1,409
Net Loss	(1,260)	(1,546)	(1,461)	(1,781)	(1,375)	(1,195)	(1,042)	(1,134)
Net Loss per Share	(0.02)	(0.03)	(0.02)	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)
Operating cash flow	103	(796)	(910)	(859)	(1,201)	(713)	(1,096)	(1,308)

As at:	Apr 30, 2023	Jan 31, 2023	Oct 31, 2022	Jul 31, 2022	Apr 30, 2022	Jan 31, 2022	Oct 31, 2021	Jul 31, 2021
Cash & cash equivalents	324	146	1,183	2,213	2,466	3,586	4,047	5,232
Restricted cash	21	21	21	21	21	22	22	15
Working capital	(935)	118	1,538	2,396	2,599	3,528	3,979	4,819

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)	2023	2022	Increase (Decrease)	
	\$	\$	\$	%
Cash and cash equivalents	324	2,466	(2,142)	(87)
Restricted cash	21	21	-	-
Trade and other receivables	59	838	(779)	(93)
Inventory	701	1,180	(479)	(41)
Prepaid expenses	168	246	(78)	(32)
Note receivable	-	312	(312)	(100)
Other assets	28	28	-	-
Property, plant and equipment, net	2,854	1,081	1,773	164
Trade and other payables	1,481	1,416	65	5
Deferred revenue	240	391	(151)	(39)
Lease liability	2,132	880	1,252	142
Loans payable	143	136	7	5
Accrued royalties	772	1,007	(235)	(23)
Share capital	81,579	79,884	1,695	2
Subscription receipts	149	-	149	n/a
Contributed surplus	10,642	9,326	1,316	14
Advisory options/warrants	-	92	(92)	(100)
Warrants	51	27	24	89

Cash and cash equivalents decrease of \$2,142,000: See Liquidity and Capital Resources section for an explanation of the change in cash and cash equivalents for fiscal 2023.

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

Trade and other receivables decrease of \$779,000: The decrease in receivables was the result of a decrease in outstanding HST receivables of \$423,000 and a decrease in trade receivables of \$355,000. An export letter of credit secured one of the 2022 trade receivables in the amount of \$332,000.

Inventory decrease of \$479,000: The decrease in inventory is the result of decreases in raw material inventory (\$296,000) as inventory levels were rebalanced to reflect the normalization of the supply chain and work in process/finished goods inventory (\$183,000) to reflect year-end sales activity.

Prepaid expenses decrease of \$78,000: The decrease is the result of the allocation deposits on the purchase of new production equipment (\$150,000) to PP&E, partially offset by deposit on software systems upgrades (\$55,000) and increased online marketing prepayments (\$19,000).

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

Property, plant and equipment increase of \$1,773,000: The increase was the result of an adjustment to right-of-use asset regarding the building resulting from a lease extension of \$1,267,000 and equipment purchases of \$1,028,000, partially offset by depreciation expense of \$507,000 and equipment disposals of \$15,000.

Payables increase of \$65,000: The increase in payables was primarily the result of the payment of previously unpaid royalties.

Deferred revenue decrease of \$151,000: Deferred revenue decreased as a result of a reduction of in shipments in transit at year end.

Lease liability increase of \$1,252,000. The increase was the result of a revised payment stream arising from the signing of an extension on the building lease.

Loans payable increase of \$7,000. The increase in loans payable results from imputed interest, net of repayments, on the interest-free loan from the Federal Economic Development Agency for Southern Ontario.

Accrued royalties decrease of \$235,000: The decrease was the result of a fair value adjustment recorded to reflect the present value of the estimated future royalty stream. The use of a higher discount rate and revision of the projected royalty stream produced the decrease in the liability.

Share capital increase of \$1,695,000: Share capital increased as the exercise of stock options (\$920,000) and the exercise of warrants (\$775,000).

Contributed surplus increase of \$1,316,000: Contributed surplus increased as the result of the vesting of stock-based compensation and consultant options (\$1,718,000) and the expiry of compensation options (\$92,000), partially offset by the exercise of options (\$460,000) and the fair value of incentive warrants (\$35,000).

Advisory options/warrants decrease of \$92,000. Advisory options expired during the fiscal year.

Warrants increase of \$27,000: Warrants increased as the result of the issuance of incentive warrants (\$35,000), partially offset by the exercise/expiry of warrants (\$8,000).

6. Results of Operations

Fourth Quarter and Year Ended April 30, 2023, Compared to the Fourth Quarter and Year Ended April 30, 2022

Revenue

Revenue for the last quarter of fiscal 2023 was \$653,000, representing a \$671,000, or 51% decrease compared to revenue of \$1,324,000 for the last quarter of fiscal 2022. Revenue in the last quarter of the preceding year benefited from a significant rebound in sales as some projects delayed due to the COVID-19 pandemic came back online with the increased availability of vaccines and uptick in positive economic sentiment.

Revenue for the year ended April 30, 2023, was approximately \$3,053,000, a slight decline of \$71,000, or 2%, from the previous fiscal year of \$3,124,000.

Revenue for the current quarter included sales of Alusion™ in the amount of \$563,000 compared to sales of Alusion™ in the amount of \$1,311,000 in the fourth quarter of fiscal 2022. The fourth quarter of 2023 included SmartMetal™ sales of \$90,000 compared to SmartMetal™ sales of \$13,000 for the last quarter of fiscal 2022.

Alusion™ sales for fiscal 2023 were \$2,740,000 compared to \$2,801,000 for the same period of last fiscal year. Revenue from SmartMetal™ for the 2023 fiscal year was approximately \$313,000, compared to SmartMetal™ revenue of \$323,000 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, 2023, were approximately \$647,000, a decrease of \$404,000, or 38%, as compared to expenses of \$1,051,000 for the quarter ended April 30, 2022. Plant operating expenses for the fiscal 2023 year were approximately \$3,324,000, an increase of \$996,000, or 43%, as compared to expenses of \$2,328,000 for the prior fiscal year.

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 \$458,000 as compared to \$915,000 for the fourth quarter of fiscal 2022. The lower direct operating expenses were inline with the lower sales activity.

Direct operating expenses were approximately \$2,608,000 for fiscal 2023, an increase of \$734,000, or 39%, over the same expenses of \$1,874,000 for fiscal 2022. Increased direct operating expenses were a result of the build up of finished goods inventory in the previous year which removed a higher portion of fixed manufacturing costs from the prior year's income statement combined with the effect of a full year of higher labour costs due to the adding of a second production shift and inflationary pressures on wages.

Plant operating expenses also includes factory overhead costs such as facility costs and utilities. These expenses totalled approximately \$52,000 for the fourth quarter of fiscal 2023 as compared to \$98,000 for the same quarter of fiscal 2022. Higher facility costs in the prior quarter resulting from increased common area maintenance fees accounted for most of the quarter-over-quarter decrease in expenses. Factory overhead expenses totalled approximately \$299,000 for fiscal 2023 as compared to similar expenses of \$310,000 for fiscal 2022, with the higher common area charges in the prior year creating the primary difference.

Plant operating expenses also include depreciation expense of approximately \$136,000 for the three months ended April 30, 2023, and \$39,000 for the same period ended April 30, 2022. Plant operating expenses include depreciation expense of approximately \$417,000 for fiscal 2023 and \$145,000 for fiscal 2022.

Research and Material Testing Expenses

Research and material testing expenses for the final quarter of fiscal 2023 included costs in the amount of \$33,000 with an equal amount of \$33,000 spent in the comparative quarter. Expenses related primarily to manufacturing process improvements and new product development.

Research and material testing expenses for fiscal 2023 included costs in the amount of \$184,000 related primarily to production process improvements and new product testing. Similar expenses of \$181,000 for fiscal 2022 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 \$3,000 in fiscal 2023 and \$1,000 in fiscal 2022.

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

SG&A expenses for the quarter ended April 30, 2023, were approximately \$1,059,000, as compared to an expense of \$1,415,000 for the same quarter ended April 30, 2022. The expense reduction included decreased employee headcount and compensation levels (\$248,000), lower sales commissions (\$97,000) and decreased stock-based compensation expense (\$39,000), partially offset by an increased depreciation expense (\$16,000).

SG&A expenses for fiscal 2023 were approximately \$5,105,000, as compared to expenses of \$4,952,000 for fiscal 2022. The most significant expense increases included higher expenditures on business development (\$214,000) increased information technology spending (\$77,000), higher travel expenditures (\$38,000) and increased insurance costs (\$16,000). Decreased expenses included a decline in investor relations/advisory services expenditures (\$90,000), lower recruiting fees (\$60,000) and decreased stock-based compensation for employees (\$49,000) and consultants (\$45,000).

SG&A expenses also include depreciation of \$24,000 for the fourth quarter of fiscal 2023 and \$9,000 for the fourth quarter of fiscal 2022. Annual SG&A expenses include depreciation of \$86,000 for fiscal 2023 and \$32,000 for fiscal 2022.

Foreign Exchange Gain

For the last quarter of fiscal 2023, there was a foreign exchange loss of \$12,000 (2022 - loss of \$13,000).

For fiscal 2023, there was a foreign exchange loss of \$53,000 (2022 - loss of \$23,000). The exchange loss for the current year was primarily the result of changing exchange rates on \$US denominated payables. The exchange loss for the prior year was largely the result of changing \$US exchange rates on \$US denominated payables and changing Euro exchange rates on Euro denominated receivables.

Interest and Financing Expense

Interest and financing expense for the three months ended April 30, 2023, reflects an expense recovery of \$151,000 (2022 -\$174,000), including cash-based amounts of \$31,000 in royalty-based financing fees (2022 - \$71,000) - including \$12,000 payable to a related party (2022 - \$27,000). The expense for the current quarter also includes a non-cash-based expense recovery of \$234,000 (2022 - expense of \$79,000) - including a \$90,000 expense recovery pertaining to a related party (2022 - \$30,000 expense) - which arose from a change in the present value of the estimated future royalty payments. The expense for the current quarter also includes \$47,000 of interest regarding the lease liability (2022 - \$19,000). Interest for the quarter also includes \$5,000 regarding the accretion of interest on the loan received through the federal government's Regional Relief and Recovery Fund (2022 - \$4,000).

Interest and financing expense for the year ended April 30, 2023, of \$108,000 (2022 - \$337,000), includes cash-based amounts of \$154,000 in royalty-based financing fees (2022 - \$159,000) - including \$59,000 payable to a related party (2022 - \$61,000). The expense for the current year also includes a non-cash-based expense recovery of \$234,000 (2022 - expense of \$79,000) - including a \$90,000 expense recovery pertaining to a related party (2022 - \$30,000 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 \$169,000 of lease-related interest (2022 - \$83,000). Interest for the current year also includes \$19,000 regarding the accretion of interest on the loan received through the federal government's Regional Relief and Recovery Fund (2022 - \$16,000).

Net Loss

The last quarter of fiscal 2023 experienced a net loss of \$1,259,000 based on a loss from operations of \$1,087,000 before a foreign exchange loss, unrealized loss from the note receivable and interest expense compared to a net loss of \$1,375,000 for the last quarter of 2022 based on a loss from operations of \$1,176,000 before a foreign exchange loss, unrealized loss from the note receivable and interest expense. The net loss for the fourth quarter of fiscal 2023 includes the non-cash items of depreciation of approximately \$162,000 (2022 - \$48,000), a share-based compensation expense of approximately \$248,000 (2022 - \$287,000), an unrealized loss of \$312,000 from the valuation of the note receivable (2022 - loss of \$8,000), an expense recovery arising from the change in the accrual for future royalty payments of \$234,000 (2022 - expense of \$79,000) and an expense of \$5,000 (2022 - \$16,000) regarding the accretion of interest on the RRRF loan.

The net loss for fiscal 2023 of \$6,048,000 (2022 - \$4,747,000) is based on a loss from operations of \$5,559,000 (2022 - loss of \$4,338,000) before a foreign exchange loss, 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 \$507,000 (2022 - \$178,000), a share-based compensation expense of approximately \$1,547,000 (2022 - \$1,596,000), share-based consulting fees of \$172,000 (2022 - \$217,000), an unrealized loss of \$312,000 (2022 - \$8,000) from the valuation of the note receivable, an expense recovery arising from the change in the accrual for future royalty payments of \$234,000 (2022 - expense of \$79,000) and an expense of \$19,000 (2022 - \$16,000) regarding the accretion of interest on the RRRF loan.

7. Liquidity and Capital Resources

Sources and Uses of Cash

As at April 30, 2023, the Company had approximately \$324,000 of cash and cash equivalents on hand. For fiscal 2023, the cash flow used by operating activities was approximately \$2,462,000 (2022 – \$4,318,000 used 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 \$3,710,000 (2022 – \$2,612,000) and cash provided by changes in non-cash working capital balances of \$1,248,000 (2022 –\$1,706,000 used by changes in non-cash working capital).

For fiscal 2023, cash used in investing activities of \$1,028,000 was the result of the purchase of production and testing equipment, leasehold improvements and computer equipment. 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 2023, cash provided by financing activities in the amount of \$1,348,000 was the result of the exercise of warrants (\$915,000), and the exercise of stock options (\$460,000), partially offset by building lease payments (\$15,000) and RRRF loan payments (\$12,000). For fiscal 2022, cash provided by financing activities in the amount of \$2,301,000 was the result of the 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).

Investments in Property, Plant and Equipment

In fiscal 2023, the Company incurred \$1,028,000 (2022 – \$215,000) of capital expenditure for production and testing equipment, leasehold improvements and computer equipment. The signing of an extension of the building lease in fiscal 2023 also resulted in the increase of the related right-of-use asset by \$1,267,000. 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.

Going Concern Uncertainty

To date, operational activities have not been sufficient, on their own, to finance the Company's requirements. Financings consisting primarily of equity offerings have been used to supplement revenue streams. The development of applications utilizing SAF as well as its production process involve significant financial risks, including the ability of the Company to develop and penetrate new markets, obtain additional financing as required, achieve profitable production and the ability for the Company to be able to successfully assert its intellectual property rights and protect against patent infringement. The Company has incurred significant operating losses and cash outflows from operations.

As at April 30, 2023, the anticipated level of cash flows from operating activities for the next twelve months is not assured to be sufficient to sustain operations. The ability of the Company to continue as a going concern is dependent upon achieving future profitable operations and may also be dependent upon raising additional financing through borrowings or equity issuance. The outcome of these matters is dependent on a number of items outside the Company's control. As a result, there are material uncertainties that may cast significant doubt as to whether the Company will have the ability to continue as a going concern.

The fiscal 2023 consolidated financial statements do not include any adjustments or disclosures that may result from the Company's inability to continue as a going concern. If the going concern assumption were not found to be appropriate for these consolidated financial statements, adjustments might be necessary in the carrying values of assets and liabilities, the statement of consolidated financial position classifications and the reported expenses. Such adjustments could be material.

8. Investments and Capitalization

Cymat is listed on the TSX – Venture Exchange, trading under the symbol CYM. Cymat is also listed on the OTCQB Exchange in the United States, trading under the symbol CYMHF.

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, 2023.

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, 2023. The table reflects transactions occurring subsequent to year end including the issuance of common shares as the result of the exercising of warrants and the issuance of incentive warrants.

	Number of Securities
Common Shares	60,933,485
Employee Stock Options	9,740,000
Warrants	<u>5,148,312</u>
Total Diluted Shares Outstanding	<u>75,821,797</u>

Share Capital

The Company is authorized to issue an unlimited number of common shares. At April 30, 2023, issued and outstanding common shares totalled approximately 59,185,612 shares.

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 for gross proceeds of \$78,750 as the result of the exercise of warrants with an exercise price of \$0.525.

In May and June of 2021, the Company issued 925,000 common shares for gross proceeds of \$185,375 as the result of the exercise of employee stock options with exercise prices of \$0.20 and \$0.205.

In September 2021, the Company issued 175,000 common shares for gross proceeds of \$42,625 as the result of the exercise of employee stock options with exercise prices of \$0.205, \$0.235 and \$0.31.

In December 2021, the Company issued 1,521,984 common shares for gross proceeds of \$646,843 as the result of the exercise of warrants with an exercise price of \$0.425.

In January 2022, the Company issued 100,000 common shares for gross proceeds of \$20,500 as the result of the exercise of employee stock options with an exercise price of \$0.205.

In February 2022, the Company issued 350,000 common shares for gross proceeds of \$82,250 as the result of the exercise of employee stock options with exercise prices of \$0.205 and \$0.31.

In March 2022, the Company issued 100,000 common shares for gross proceeds of \$42,500 as the result of the exercise of warrants with an exercise price of \$0.425.

In April 2022, the Company issued 100,000 common shares for gross proceeds of \$20,500 as the result of the exercise of employee stock options with an exercise price of \$0.205.

In July 2022, the Company issued 1,462,000 common shares for gross proceeds of \$767,550 as the result of the exercise of warrants with an exercise price of \$0.525.

In July 2022, the Company issued 2,135,000 common shares for gross proceeds of \$437,675 as the result of the exercise of employee stock options with an exercise price of \$0.205.

In January 2023, the Company issued 100,000 common shares for gross proceeds of \$22,000 as the result of the exercise of stock options issued to a consultant with an exercise price of \$0.22.

To date, 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.

In May 2022, 2,905,000 stock options with an exercise price of \$0.61 were granted to certain directors, officers and employees with one third of the options vesting on the date of grant and each of the remaining third of the options vesting on each of the subsequent two grant anniversary dates.

In May 2022, 250,000 stock options with an exercise price of \$0.61 were granted to a consulting firm with vesting on the date of grant.

In July 2022, 2,035,000 employee stock options with an exercise price of \$0.205 were exercised and 100,000 stock options issued to a consulting firm with an exercise price of \$0.21 were exercised.

In December 2022, 500,000 stock options with an exercise price of \$0.345 were granted to certain officers with one third of the options vesting on the date of grant and each of the remaining third of the options vesting on each of the subsequent two grant anniversary dates.

Warrants

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. 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.

In July 2022, 1,426,000 warrants with an exercise price of \$0.525 per share were exercised and 163,492 warrants expired unexercised.

In April 2023, the Company received approval from the TSX Venture Exchange (the “Exchange”) to reprice the 3,859,862 warrants issued in May 2021 from an original exercise price of \$0.90 per share to a new exercise price of \$0.32 per share. The expiry date of May 5, 2023, remained unchanged. In April 2023, 459,423 of these repriced warrants were exercised. The exercise proceeds for these warrants are reflected in the subscription receipts account.

In April 2023, the Company received approval from the Exchange to issue Incentive Warrants to encourage holders of the May 2021 warrants to exercise their repriced warrants early. The Incentive Warrants have an exercise price of \$0.50 per share and an expiry date of April 28, 2025. In April 2023, 459,423 of these Incentive Warrants were issued. The fair value of the warrants was measured using the Black-Scholes pricing model calculated using a risk-free interest rate of 3.65%, volatility of 82% and expected life of 2 years.

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 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.

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 have a significant impact on the Company's financial statements.

11. Related Party Transactions

Interest and financing expense for fiscal 2023 includes cash-based royalties in the amount of \$59,000 (2022 – \$61,000) and a decrease to accrued royalties of \$90,000 based on future sales (2022 – \$30,000 increase to accrued royalties) regarding a related party.

12. Risks and Uncertainties

Financial and Liquidity Risk

The Company has not yet attained sufficient sales levels to completely support its operations. As at April 30, 2023, the anticipated level of cash flow from operations for the next twelve months is not assured to be sufficient to sustain the business. In addition to being able to successfully execute its business plan, which includes increased sales, it may be necessary for the Company to raise additional financing through either borrowings or equity financing.

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 May of 2023, the World Health Organization ("WHO") declared that COVID-19 no longer constitutes a "Public Health Emergency of International Concern." However, COVID-19 still represents a global health threat. A pandemic has the potential 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, 2023, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

14. Post-Reporting Date Event

In April 2023, the Company received approval from the TSX Venture Exchange (the “Exchange”) to reprice the 3,859,862 warrants issued in May 2021 from an original exercise price of \$0.90 per share to a new exercise price of \$0.32 per share. The expiry date of May 5, 2023, remained unchanged. In April 2023, 459,423 of these repriced warrants were exercised with the proceeds allocated to subscription receipts. In May 2023, the 459,423 common shares relating to the subscription receipts were issued. Also in May 2023, a further 1,288,450 of these repriced warrants were exercised, resulting in the issuance of an equal number of common shares. The remaining 2,111,989 warrants expired unexercised.

In April 2023, the Company received approval from the Exchange to issue Incentive Warrants to encourage holders of the May 2021 warrants to exercise their repriced warrants early. The Incentive Warrants have an exercise price of \$0.50 per share and an expiry date of April 28, 2025. In April 2023, 459,423 of these Incentive Warrants were issued. In May 2023, a further 1,288,450 of these Incentive Warrants were issued.

15. Outlook

Management is forecasting meaningful growth in revenue from its Alusion™ and SmartMetal™ aluminum foam product lines for the upcoming fiscal year.

Alusion™ – Cymat’s architectural aluminum foam – is expected to continue to represent the Company’s primary source of revenue for the upcoming fiscal year. Cymat has a growing Alusion™ order pipeline that exceeds \$8 Million when extended beyond the 2024 fiscal year. Inflation and interest rate increases do present some headwinds for construction projects, however quoting activity for new projects remains healthy. Forecast revenue for fiscal 2024 is less reliant on a small number of large-scale projects and instead consists of a larger quantity of medium-sized orders, mitigating the risk to overall revenue targets that any one anticipated order carries.

SmartMetal™ defence and security development initiatives are focused on applications for blast mitigation, light-weighting and multi-threat composite panel systems. In the first quarter of the new fiscal year, Cymat continued to ship additional underbelly blast mitigation kits to an Asian military vehicle OEM, demonstrating the flexibility that SmartMetal™ provides for quickly adapting to design modifications necessary to accommodate multiple vehicle variants. The multi-year, serial production contract to supply this OEM with SmartMetal™ blast mitigation kits is in the final stages of negotiation. The OEM’s first customer for its redesigned personnel transport vehicle is an Asian military force that is anticipated to eventually deploy up to 700 vehicles equipped with SmartMetal™ blast protection. This OEM is expected to market this vehicle to other military forces that currently operate previous generations of the same personnel/supply transportation vehicles.

In the upcoming week, Cymat will host a visit from a French nuclear equipment supplier. Cymat is in the final stages of negotiating a contract to provide this customer with SmartMetal™ panels to be used as protection against seismic events and external threats for a nuclear energy facility located in France. This order would represent a new application for SmartMetal™ to the nuclear industry in addition to SmartMetal™ panels that are already deployed in failsafe systems for the transportation of radioactive materials.

The automotive industry continues to be a primary target of Cymat business development efforts and a main driver of expenditure levels. These initiatives are especially focused on electric vehicle (“EV”) platforms. The most mature of these initiatives involves a composite part with a core of SmartMetal™ acting to protect the underside of an electric vehicle’s battery enclosure from object impact. A report detailing the results of physical testing of the prototype is expected imminently. Successful results are expected to lead to contract negotiations for the provision of this part to a specific OEM. This report is also expected to form the basis for enhanced marketing efforts broadly targeting manufacturers of EVs and battery components. Other ongoing development initiatives include the use of SmartMetal™ for light-weighting and simplification of an EV battery enclosure and the protection of EV batteries from a side impact collision. Cymat expects to continue to invest in manufacturing, testing and information systems in demonstration of its capability meet the demands of high-volume automotive manufacturing environment.

Additionally, Cymat has component designs on the Automotive Parts Manufacturers Association’s (“APMA”) Project Arrow prototype EV. Appearances of the Arrow EV continue to garner attention at North American trade shows. Project Arrow is an all-Canadian designed and manufactured electric vehicle featuring innovative, production-ready Canadian EV technology.

Additional ongoing SmartMetal™ business opportunities include an anticipated repeat order for approximately 25,000 SmartMetal™ cylinders for use in the manufacture of non-lethal bullets. Also SmartMetal™ continues to be supplied to Cymat’s multi-threat panel customer that has targeted US military tenders for land-based infrastructure upgrades and construction.