



Cymat Technologies Ltd.
Management's Discussion and Analysis (“MD&A”)
As at April 30, 2024

August 28, 2024

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, 2024, 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 28, 2024, 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

Architecture

The market for architectural and construction materials is a highly competitive one. There are numerous products competing for selection in high profile projects as well as everyday, small-scale applications.

Last year’s surge in inflation rates and the concurrent rise in interest rates resulting from central banks’ efforts to rein in inflation had adverse effects for the construction industry, especially in the case of sizable construction developments. Rates have recently started to ease. Although the construction industry continues to face elevated costs, those costs appear to have generally stabilized. Among the multitude of architectural products, Alusion™ does not represent the lowest cost cladding material. However, the selection of Alusion™ can lead to significant installation savings as its light weight may permit less robust - less expensive - hanging systems.

The geo-political effects of the war in Europe, conflict in the Middle East and international trade tensions add to the unfavourable conditions within architectural markets. Cymat’s historically healthy demand for Alusion™ from markets in China, experienced a significant drop-off in the recently completed fiscal year. China’s construction industry experienced a significant downturn and trade tensions between China and the West have grown. Cymat expects to continue to build on its increased level of sales in the important United States cladding market. Cymat also expects Europe to remain a key market for Alusion™.

Defense and Law Enforcement

The conflicts in Europe and the Middle East, along with 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.

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

While several automotive OEM's have recently announced reductions in originally planned vehicle electrification investments, electrification still represents a significant focus for the automotive industry. Growth of battery electric vehicles ("BEV's") sales continues, albeit at a slower pace. Tougher vehicle emission regulations enacted in North America have strengthened the requirement for automotive OEMs to transition their fleets away from ICE vehicles. Many OEM's have announced an intention to boost their plug-in hybrid vehicle offerings as a means to meet fleet emission targets while reducing vehicle manufacturing costs, through the use of significantly smaller batteries, and addressing consumer concerns about range and recharging infrastructure. National governments, including those of Canada and North America, continue to demonstrate a willingness to subsidize vehicle manufacturer's electrification investments.

In order to maximize electric vehicle range, light-weighting continues as a key element in the successful green vehicle design. Additionally, crash performance standards for automotives continue to evolve, especially in light of the significantly increased mass of electric vehicles. Protection of the battery system from the forces of impact continues to be a significant safety element, regardless of battery size. In the context of this environment. SmartMetal™ has undergone testing that has demonstrated a close correlation of physical test results with our simulated computer design results, proving our ability to design systems and model SmartMetal™ behavior in specific automotive application.

Cymat's management is convinced that the business development ecosystem for its SAF material is especially favourable for the pursuit of automotive supply contracts.

Nuclear Energy

Nuclear energy is experiencing a resurgence as nations look at ways to replace fossil fuel derived energy production with less carbon-intensive sources of energy. France, Japan, the United States and Canada are among the countries that have announced plans to increase investment in nuclear generation of electricity.

Cymat has showcased Stabilized Aluminum Foam's unique protective benefits making it ideally suited for the nuclear industry. Those qualities combined with Cymat's demonstrated strength of SmartMetal™ testing and quality control regimen further underpins additional ongoing business development discussions with nuclear industry participants.

3. Operating Highlights and Year in Review

Loss from Operations

The loss from operations of \$3.9 Million (2023 – loss of \$5.6 Million) reflects a tailoring of business development resources and staffing levels to target sales opportunities with the highest potential. The focus of business development efforts continues the advancement of sales opportunities in the automotive industry, especially regarding electric vehicles, as well as the nuclear energy sector. Non-cash charges, such as stock-based compensation expenses and depreciation, in aggregate accounted for \$1.3 Million (2023 - \$2.5 Million) of the current year's loss.

Architecture

Sales of Alusion™ for fiscal 2024 were approximately \$1.5 million compared to approximately \$2.7 million for fiscal 2023. Fiscal 2024 sales were adversely affected by the timing of final customer delivery for two large Alusion™ panel orders. These two orders had a combined value of \$1.2 Million; while the manufacturing process was complete for these orders, they had not yet arrived at their final destination by April 30, 2024.

Blast Mitigation and Energy Absorption

SmartMetal™ sales for fiscal 2024 were approximately \$72,000 compared to sales of approximately \$313,000 for fiscal 2023. SmartMetal™ sales for the current year were predominately the final stage of the low-rate initial production for a personnel carrier blast protection system. Revenue for the previous year also included fail-safe energy absorption panels for the nuclear energy industry.

Automotive

During the year, Cymat continued to engage 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. 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 \$1.2 Million from the issuance of equity and \$0.8 Million from the issuance of promissory notes.

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

	2024	2023	2022
Revenue	1,620	3,053	3,124
Income (loss) from operations	(3,859)	(5,559)	(4,338)
Cash flow used in operations	(2,230)	(2,294)	(4,318)
Net Loss	(4,266)	(6,048)	(4,747)
Net Loss per Share, basic and diluted	(0.07)	(0.10)	(0.09)
Total Assets	3,962	4,156	6,172
Non-current Financial Liabilities	2,238	2,560	1,678

The following tables present selected quarterly financial information for the eight most recent quarters for the period ended April 30, 2024.

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

Three months ended,	Apr 30, 2024	Jan 31, 2024	Oct 31, 2023	Jul 31, 2023	Apr 30, 2023	Jan 31, 2023	Oct 31, 2022	Jul 31, 2022
Revenue	231	238	113	1,037	653	248	1,049	1,103
Plant operating expenses	167	334	485	1,046	647	530	1,035	1,112
Research and material testing expenses	42	41	33	53	33	35	39	77
SG&A expenses	750	793	761	973	1,059	1,170	1,276	1,600
Net Loss	(879)	(1,037)	(1,223)	(1,127)	(1,260)	(1,546)	(1,461)	(1,781)
Net Loss per Share	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	(0.03)	(0.02)	(0.03)
Operating cash flow	98	(772)	(886)	(670)	103	(796)	(910)	(859)
Cash & cash equivalents	56	235	209	44	324	146	1,183	2,213
Restricted cash	21	21	21	21	21	21	21	21
Working capital	(2,968)	(2,218)	(1,388)	(1,471)	(935)	118	1,538	2,396

5. Financial Condition

The following table presents significant changes in the Company's financial position from April 30, 2023 to April 30, 2024.

As at April 30 (Thousands of Dollars)	2024 \$	2023 \$	Increase (Decrease)	
			\$	%
Cash and cash equivalents	56	324	(268)	(83)
Restricted cash	21	21	-	-
Trade and other receivables	184	59	125	212
Inventory	1,219	701	518	74
Prepaid expenses	89	168	(79)	(47)
Other assets	28	28	-	-
Property, plant and equipment, net	2,364	2,854	(490)	(17)
Trade and other payables	2,052	1,481	571	39
Deferred revenue	989	240	749	312
Promissory notes payable	950	-	950	n/a
Lease liability	1,902	2,132	(230)	(11)
Loans payable	92	143	(51)	(36)
Royalties liability	790	772	18	2
Share capital	83,186	81,579	1,607	2
Subscription receipts	-	149	(149)	(100)
Contributed surplus	11,026	10,642	384	4
Warrants	274	51	223	437

Cash and cash equivalents decrease of \$268,000: See Liquidity and Capital Resources section for an explanation of the change in cash and cash equivalents for fiscal 2024.

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 increase of \$125,000: The increase in receivables was the result of an increase in outstanding HST receivables of \$132,000 and a decrease in trade receivables of \$7,000.

Inventory increase of \$518,000: The increase in inventory reflects higher work-in-process/finished goods inventory (\$473,000) including two fully completed orders for a combined \$563,000 that were not yet received by the customers. Raw material inventory also increased by \$45,000.

Prepaid expenses decrease of \$79,000: The decrease is primarily the result of the expensing of a deposit on software systems upgrades (\$55,000) and decreased prepaid insurance (\$16,000).

Property, plant and equipment decrease of \$490,000: The decrease was the result of equipment purchases of \$31,000, offset by depreciation expense of \$521,000.

Payables increase of \$571,000: The increase in payables was the result of the increases in trade payables (\$491,000) and unpaid royalties (\$80,000).

Deferred revenue increase of \$749,000: Deferred revenue increased as a result of greater production/sales activity at the end of fiscal 2024, resulting in a higher level of customer deposits, including deposits totalling \$566,000 regarding two completely produced orders not yet delivered to the customers at year end.

Promissory notes payable increase of \$950,000. During the year, the Company issued promissory notes in the principal amount of \$842,000. Accrued interest amounted to \$108,000 as calculated using the effective rate method.

Lease liability decrease of \$230,000. The decrease was the result of payments of \$414,000, partially offset by interest of \$184,000.

Loans payable decrease of \$51,000. During the year the Company repaid its \$30,000 CEBA loan. The remainder of the decrease was attributable to RRRF loan repayments (\$39,000), offset by imputed interest (\$18,000).

Royalties liability increase of \$18,000: The increase was the result of a fair value adjustment recorded to reflect the present value of the estimated future royalty stream. The use of a lower discount rate and the effect of a revised projected royalty stream combined to produce the increase in the liability.

Share capital increase of \$1,607,000: Share capital increased primarily as the result of the issuance of shares and warrants through a private placement which netted proceeds of \$1.2 Million and the exercise of warrants that produced proceeds of \$412,000.

Contributed surplus increase of \$384,000: Contributed surplus increased as the result of the vesting of stock-based compensation and consultant options (\$469,000) which is offset by the expiry of warrants (\$10,000) and by the fair value of incentive warrants issued (\$97,000).

Warrants increase of \$223,000: Warrants increased as the result of the issuance of incentive warrants (\$97,000), warrants issued as part of an equity private placement (\$142,000), partially offset by the exercise/expiry of warrants (\$16,000).

6. Results of Operations

Fourth Quarter and Year Ended April 30, 2024, Compared to the Fourth Quarter and Year Ended April 30, 2023

Revenue

Revenue for the last quarter of fiscal 2024 was \$231,000, representing a \$422,000, or 65% decrease compared to revenue of \$653,000 for the last quarter of fiscal 2023. Revenue in the last quarter of fiscal 2024, was adversely affected by the timing of revenue recognition for an Alusion™ order with a value of \$659,000 that was in transit at quarter-end to its Italian destination and an Alusion™ order with a value of \$586,000 that was packed and awaiting the delayed pick-up by the customer.

Revenue for the current quarter included sales of Alusion™ in the amount of \$213,000 compared to sales of Alusion™ in the amount of \$563,000 in the fourth quarter of fiscal 2023. The fourth quarter of 2024 included SmartMetal™ sales of \$18,000 compared to SmartMetal™ sales of \$90,000 for the last quarter of fiscal 2023.

Revenue for the year ended April 30, 2024, was approximately \$1,620,000, a decline of \$1,433,000, or 47%, from the previous fiscal year of \$3,053,000. As stated above, adverse timing of delivery for Alusion™ orders with an aggregate value of \$1,245,000 weighed on the reported revenue for fiscal 2024. Deposits regarding these orders in the aggregate amount of \$566,000 were included in deferred revenue at April 30, 2024, and were subsequently recognized into revenue in the first quarter of fiscal 2025.

Alusion™ sales for fiscal 2024 were \$1,548,000 compared to \$2,740,000 for the same period of last fiscal year. Revenue from SmartMetal™ for the 2024 fiscal year was approximately \$72,000, compared to SmartMetal™ revenue of \$313,000 for the prior fiscal year.

Revenue is measured based on the consideration promised in a contract with a customer. The Company recognizes revenue when it transfers control of a good or service to a 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, 2024, were approximately \$167,000, a decrease of \$480,000, or 74%, as compared to expenses of \$647,000 for the quarter ended April 30, 2023. Plant operating expenses for the fiscal 2024 year were approximately \$2,032,000, a decrease of \$1,292,000, or 39%, as compared to expenses of \$3,324,000 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 negligible for the last quarter of fiscal 2024 as the bulk of these expenses were charged to inventory in connection with completed production for orders delivered following the quarter end. Direct operating expenses for the fourth quarter of fiscal 2023 amounted to \$458,000.

Direct operating expenses were approximately \$1,292,000 for fiscal 2024, a decrease of \$1,316,000, or 50%, over the same expenses of \$2,608,000 for fiscal 2023. Decreased direct operating expenses were a function of the decreased sales level and reflected lower maintenance costs.

Plant operating expenses also includes factory overhead costs such as facility costs and utilities. These expenses totalled approximately \$87,000 for the fourth quarter of fiscal 2024 as compared to \$52,000 for the same quarter of fiscal 2023. A refund of common area maintenance fees in the prior year's fourth quarter was the primary driver for the quarter-over-quarter increase in expenses. Factory overhead expenses remained flat on an annual basis, totalling approximately \$299,000 for fiscal 2024 and fiscal 2023.

Plant operating expenses also include depreciation expense of approximately \$109,000 for the three months ended April 30, 2024, and \$136,000 for the same period ended April 30, 2023. Plant operating expenses include depreciation expense of approximately \$442,000 for fiscal 2024 and \$417,000 for fiscal 2023.

Research and Material Testing Expenses

Research and material testing expenses for the final quarter of fiscal 2024 included costs in the amount of \$42,000 with an amount of \$33,000 spent in the comparative quarter. Expenses related primarily to new product development.

Research and material testing expenses for fiscal 2024 included costs in the amount of \$169,000 related primarily to the development of thinner SAF panels and increased cell size homogeneity. Similar expenses of \$184,000 for fiscal 2023 related primarily to production process improvements and new product testing. Research and material testing expenses also included depreciation expenses regarding lab and testing equipment of approximately \$9,000 in fiscal 2024 and \$3,000 in fiscal 2023.

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

SG&A expenses for the quarter ended April 30, 2024, were approximately \$750,000, as compared to an expense of \$1,059,000 for the same quarter ended April 30, 2023. The expense reduction primarily resulted from decreased stock-based compensation expense (\$200,000) and reduced employee headcount and compensation levels (\$117,000).

SG&A expenses for fiscal 2024 were approximately \$3,277,000, as compared to expenses of \$5,105,000 for fiscal 2023. The most significant expense decreases included reduced employee and contractor compensation (\$1,543,000) resulting from a lower employee headcount and lower utilization of outside services, decreased stock-based compensation for employees (\$1,182,000) and lower shareholder and corporate communications expenses (\$139,000).

SG&A expenses also include depreciation of \$18,000 for the fourth quarter of fiscal 2024 and \$24,000 for the fourth quarter of fiscal 2023. Annual SG&A expenses include depreciation of \$70,000 for fiscal 2024 and \$86,000 for fiscal 2023.

Foreign Exchange Gain

For the last quarter of fiscal 2024, there was a foreign exchange gain of \$12,000 (2023 - loss of \$12,000).

For fiscal 2024, there was a nominal foreign exchange gain (2023 - loss of \$53,000). The exchange loss for the prior year was primarily the result of changing exchange rates on \$US denominated payables.

Interest and Financing Expense

Interest and financing expense for the three months ended April 30, 2024, reflects an expense of \$140,000 (2023 - \$151,000 expense recovery), including cash-based amounts of \$12,000 in royalty-based financing fees (2023 - \$31,000) - including \$5,000 payable to a related party (2023 - \$12,000). The expense for the current quarter also includes a non-cash-based expense of \$18,000 (2023 - expense recovery of \$234,000) - including a \$7,000 expense pertaining to a related party (2023 - \$90,000 expense recovery) - which arose from a change in the present value of the estimated future royalty payments. The expense for the current quarter also includes \$43,000 of interest regarding the lease liability (2023 - \$47,000). Interest expense for the current quarter also includes \$63,000 pertaining to the promissory notes payable. 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 (2023 - \$5,000).

Interest and financing expense for the year ended April 30, 2024, of \$408,000 (2023 - \$108,000), includes cash-based amounts of \$80,000 in royalty-based financing fees (2023 - \$154,000) - including \$31,000 payable to a related party (2023 - \$59,000). The expense for the current year also includes a non-cash-based expense of \$18,000 (2023 - expense recovery of \$234,000) - including a \$7,000 expense pertaining to a related party (2023 - \$90,000 expense recovery) - which arose from a change in the present value of the estimated future royalty payments. Also included in the expense for the current year is \$184,000 of lease-related interest (2023 - \$169,000). Interest expense for the current year also includes \$108,000 pertaining to the promissory notes payable. Interest for the current year also includes \$18,000 regarding the accretion of interest on the loan received through the federal government’s Regional Relief and Recovery Fund (2023 - \$19,000).

Net Loss

The last quarter of fiscal 2024 experienced a net loss of \$879,000 based on a loss from operations of \$751,000 before a foreign exchange gain and interest expense compared to a net loss of \$1,260,000 for the last quarter of 2023 based on a loss from operations of \$1,087,000 before a foreign exchange loss, unrealized loss from the note receivable and interest expense. The net loss for the fourth quarter of fiscal 2024 includes the non-cash items of depreciation of approximately \$129,000 (2023 – \$162,000), a share-based compensation expense of approximately \$48,000 (2023 – \$248,000), an unrealized loss of \$Nil from the valuation of the note receivable (2023 – loss of \$312,000), an expense arising from the change in the accrual for future royalty payments of \$18,000 (2023 – expense recovery of \$234,000), a reduction in interest expense of \$44,000 relating to the valuation of the promissory notes payable and an expense of \$4,000 (2023 - \$5,000) regarding the accretion of interest on the RRRF loan.

The net loss for fiscal 2024 of \$4,266,000 (2023 - \$6,048,000) is based on a loss from operations of \$3,859,000 (2023 – loss of \$5,559,000) before a foreign exchange gain and interest expense. The net loss for the year includes the non-cash items of depreciation and amortization of approximately \$522,000 (2023 – \$507,000), a share-based compensation expense of approximately \$364,000 (2023 – \$1,547,000), share-based consulting fees of \$106,000 (2023 - \$172,000), an unrealized loss of \$Nil (2023 - \$312,000) from the valuation of the note receivable, an expense arising from the change in the accrual for future royalty payments of \$18,000 (2023 – expense recovery of \$234,000), an reduction in interest expense of \$44,000 relating to the valuation of the promissory notes payable and an expense of \$18,000 (2023 - \$19,000) regarding the accretion of interest on the RRRF loan.

7. Liquidity and Capital Resources

Sources and Uses of Cash

As at April 30, 2024, the Company had approximately \$56,000 of cash and cash equivalents on hand. For fiscal 2024, the cash flow used by operating activities was approximately \$2,230,000 (2023 – \$2,294,000 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 \$2,946,000 (2023 – \$3,542,000) and cash provided by changes in non-cash working capital balances of \$716,000 (2023 –\$1,248,000 provided by changes in non-cash working capital).

For fiscal 2024, cash used in investing activities of \$31,000 was the result of the purchase of production equipment. 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 2024, cash provided by financing activities in the amount of \$1,994,000 was the result of the issuance of shares and warrants (\$1,181,000), the issuance of promissory notes payable (\$842,000) and the exercise of warrants (\$412,000), partially offset by building lease payments (\$373,000) and RRRF loan payments (\$69,000). For fiscal 2023, cash provided by financing activities in the amount of \$1,179,000 was the result of the exercise of warrants (\$915,000), and the exercise of stock options (\$460,000), partially offset by building lease payments (\$183,000) and RRRF loan payments (\$12,000).

Investments in Property, Plant and Equipment

In fiscal 2024, the Company incurred \$31,000 (2023 – \$1,028,000) of capital expenditure for production and equipment. In fiscal 2023, 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, 2024, the anticipated level of cash flows from operating activities for the next twelve months is not assured to be sufficient to sustain operations. The Company incurred a net loss of \$4,266,286 (2023 - \$6,047,793) and had a working capital deficiency of \$2,968,473 (2023 - \$934,639). 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 cast significant doubt as to whether the Company will have the ability to continue as a going concern.

The fiscal 2024 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, 2024.

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 28, 2024. 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	65,694,085
Employee Stock Options	8,345,000
Warrants	<u>4,128,173</u>
Total Diluted Shares Outstanding	<u>78,167,258</u>

Share Capital

The Company is authorized to issue an unlimited number of common shares. At April 30, 2024, issued and outstanding common shares totalled approximately 65,694,085 shares.

The following transactions regarding the Company's share capital occurred in the most recent two fiscal years:

- [a] 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.
- [b] In July 2022, the Company issued 2,135,000 common shares for gross proceeds of \$438,175 as the result of the exercise of employee stock options with an exercise price of \$0.205.
- [c] 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.
- [d] In May 2023, the Company issued 459,423 common shares as the result of the fulfillment of subscription receipts outstanding at the end of April 2023 arising from the exercise of warrants. Gross proceeds from the exercise of these warrants was \$147,015.
- [e] In May 2023, the Company issued 1,288,450 common shares for gross proceeds of \$412,314 as the result of the exercise of warrants with an exercise price that was adjusted to \$0.32.
- [f] In October 2023, the Company issued 4,175,000 common shares for gross proceeds of \$1,043,750 as the result of the private placement of equity units priced at \$0.25 per unit. Each equity unit consisted of one common share and one half of a common share purchase warrant.
- [g] In November 2023, the Company issued 100,000 common shares for gross proceeds of \$25,000 as the result of the private placement of equity units priced at \$0.25 per unit. Each equity unit consisted of one common share and one half of a common share purchase warrant.
- [h] In December 2023, the Company issued 485,600 common shares for gross proceeds of \$121,400 as the result of the private placement of equity units priced at \$0.25 per unit. Each equity unit consisted of one common share and one half of a common share purchase warrant.

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.

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

- [a] 2,905,000 stock options with an exercise price of \$0.61 granted on May 31, 2022 to certain directors and 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.
- [b] 250,000 stock options with an exercise price of \$0.61 granted on May 31, 2022 to a consulting firm and vesting on the date of grant.
- [c] 500,000 stock options with an exercise price of \$0.60 granted on August 17, 2022 to a consulting firm and vested on the date of grant.
- [d] 500,000 stock options with an exercise price of \$0.345 granted on December 21, 2022 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.
- [e] 250,000 stock options with an exercise price of \$0.27 granted on August 22, 2023 to a consultant and vested on the date of grant.
- [f] 500,000 stock options with an exercise price of \$0.19 granted on January 4, 2024 to a consultant and vested on the date of grant.

In the year ended April 30, 2023, the following stock options were exercised:

<u>Date of Exercise</u>	<u>Option Holder</u>	<u>Number Of Options</u>	<u>Exercise Price</u>
Jul 2022	Employee	2,035,000	\$0.205
Jul 2022	Consultant	100,000	\$0.21
Jan 2023	Consultant	100,000	\$0.22

Warrants

The following transactions regarding the Company's share purchase warrants occurred in the most recent two fiscal years:

- [a] In July 2022, 1,426,000 warrants with an exercise price of \$0.525 per share were exercised and 163,492 warrants expired unexercised.
- [b] 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.
- [c] 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.
- [d] In May 2023, 1,288,450 of the warrants adjusted to an exercise price of \$0.32 were exercised. The remaining 2,111,989 warrants expired unexercised.
- [e] In May 2023, 1,288,450 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.
- [f] In October 2023, the Company issued 2,137,500 warrants as the result of the private placement of equity units priced at \$0.25 per unit. The warrants have an exercise price of \$0.40 and an expiry date of October 19, 2025.
- [g] In November 2023, the Company issued 50,000 warrants as the result of the private placement of equity units priced at \$0.25 per unit. The warrants have an exercise price of \$0.40 and an expiry date of October 19, 2025.
- [h] In December 2023, the Company issued 242,800 warrants as the result of the private placement of equity units priced at \$0.25 per unit. The warrants have an exercise price of \$0.40 and an expiry date of October 19, 2025.

9. Critical Accounting Policies and Estimates

Revenue recognition

Revenue is measured based on the consideration promised in a contract with a customer. The Company recognizes revenue when it transfers control of a good or service to a 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.

Royalties Liability

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 expected amount of additional financing fees and the determination of the appropriate discount rate used in the valuation of the promissory notes payable,
- the valuation of the royalties liability, 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 Effective

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2024. Many are not applicable or do not have a significant impact to the Company and have been excluded. The Company is currently assessing the impact of these standards on the consolidated financial statements.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or non-current is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2024. In the current circumstances, the Company does not expect any of these to have a material impact on the consolidated financial statements.

11. Related Party Transactions

Interest and financing expense for fiscal 2024 includes cash-based royalties in the amount of \$31,000 (2023 – \$59,000) and an increase to the royalties liability of \$7,000 based on future sales (2023 – \$90,000 decrease to the royalties liability) 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, 2024, 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, or from changed business conditions at significant suppliers. 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, 2024, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

14. Subsequent Date Events

In May 2024, 860,000 stock options with an exercise price of \$0.31 and 200,000 stock options with an exercise price of \$0.325 expired, unexercised.

In August 2024, the Company issued promissory notes payable for an aggregate principal of \$393,465. The promissory notes have a maturity date of December 20, 2024. Interest is payable on the principal at a rate of one percent (1%) per month. Additionally, for every \$100,000 of principal, the notes earn a further financing fee equal to one percent (1%) of SAF sales that are received or receivable for the duration of the notes. Interest and the additional financing fees accrue and are payable at the notes' maturity.

15. Outlook

The recently completed Cymat fiscal year reflected an unprecedented pause in Alusion™ and SmartMetal™ orders. Fortunately, that pause appears to be over as indicated by shipments made and orders received at the beginning of this new fiscal year.

In the first three months of fiscal 2025, Cymat delivered \$1.8M of Alusion™ panels – Cymat’s architectural aluminum foam. These orders included panels that represent an important design element for a water park located in the Sindalah district of the NEOM development in the Kingdom of Saudi Arabia, panels for the exterior cladding of for an Italian energy company’s facilities and panels destined for China that mark the return of previously halted purchase activity from this geographic region. Quoting activity for new Alusion™ projects remains healthy and Cymat has strengthened expectations for Alusion™ sales through the rest of the fiscal year.

SmartMetal™ defense and security development initiatives are focused on applications for blast mitigation, light-weighting and multi-threat composite panel systems. Cymat recently announced a first serial production order to provide SmartMetal™ underbelly kits to an Asian military vehicle manufacturer. This initial order is comprised of 24 kits for an expected 350 kit order over 3 years. These kits are destined for the customer’s national military fleet which totals approximately 700 vehicles. While this order is still on a quoted-price basis, Cymat expects to transition imminently to a definitive 3-year supply contract. The full value of the contract is anticipated to be in the \$4M - \$5M range. Variants of this vehicle are deployed by several other major militaries around the world. OEM marketing efforts are expected to extend to this broader customer base, enhancing the possibilities for additional SmartMetal™ kit orders.

Cymat recently announced the receipt of a major order for SmartMetal™ panels from NUVIA, a global specialist in nuclear technology based in France. As the result of Cymat’s close collaboration with NUVIA, NUVIA will incorporate the SmartMetal™ panels into their NuFoam™ solution system to be installed in protection of sensitive nuclear power generation equipment from external threats. These panels represent the first \$1M phase of a total \$2.7M order. France’s ongoing life extension programs for their nuclear power generating facilities is expected to result in a future stream of similar orders.

The automotive industry continues to be a high priority target of Cymat business development efforts with a focus on electrified vehicle platforms. Recent media reports have highlighted the challenges that automotive OEMs are facing regarding the expense of manufacturing BEVs and softening consumer demand. A number of vehicle OEM’s have recently made announcements that they are scaling back originally planned investment levels in BEV platforms and increasing resources applied to production of plug-in hybrid models. Cost reduction is clearly a key element necessary for OEMs to succeed in their journey to vehicle electrification. In the most advanced of its several automotive development initiatives Cymat completed dynamic physical impact testing on a composite part with a core of SmartMetal™ designed to protect the underside of an electric vehicle’s battery enclosure from object impact. The testing proved the prototype SmartMetal™ component’s ability to provide a reduced component weight, increased energy absorption and reduced post-crash deflection. Importantly, this system can also contribute to cost reduction and system simplification goals. Communication of enhanced SmartMetal™ marketing material featuring the independent testing report from this prototype continues to drive discussions with a number of automotive OEMs and Tier One suppliers. For fiscal 2025, 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.