

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CYMAT TECHNOLOGIES LTD.

Three and Six Months Ended October 31, 2019 and October 31, 2018

CYMAT TECHNOLOGIES LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Three and Six Months ended October 31, 2019 and October 31, 2018

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INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

As at:	October 31, 2019 \$	April 30, 2019 \$
ASSETS		
Current assets		
Cash and cash equivalents	110,507	181,665
Restricted cash [Note 5]	15,084	15,084
Trade and other receivables [Note 6]	159,437	107,929
Inventory [Note 7]	137,546	166,110
Prepaid expenses	7,004	13,250
Total current assets	429,578	484,038
Other assets	27,930	27,930
Property, plant and equipment, net [Note 8]	1,304,665	223,373
Licenses and technology rights	-	-
Total assets	1,762,173	735,341
LIABILITIES		
Current liabilities		
Trade and other payables	730,871	886,562
Deferred revenue	89,755	135,414
Current portion of lease liability [Note 9]	76,667	-
Current portion of accrued royalties [Note 10]	150,696	167,396
Total current liabilities	1,047,989	1,189,372
Non-current liabilities		
Lease liability [Note 9]	1,022,192	-
Accrued royalties [Note 10]	505,810	489,110
Total liabilities	2,575,991	1,678,482
(DEFICIENCY) EQUITY		
Share capital [Note 11]	72,185,231	71,314,148
Contributed surplus	7,774,535	7,624,005
Warrants [Note 12]	10,384	-
Deficit	(80,783,968)	(79,881,294)
Total (deficiency) equity	(813,818)	(943,141)
Total liabilities and (deficiency) equity	1,762,173	735,341

See accompanying Notes

On behalf of the Board:

Michael Liik
Director

Jon Gill
Director

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

(Unaudited)

	Three Months Ended		Six Months Ended	
	October 31	October 31	October 31	October 31
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenues	465,744	1,030,169	1,117,406	1,421,586
Plant operating expenses	419,087	692,878	763,541	1,077,921
Research and material testing expenses	35,997	53,177	70,406	118,629
Selling, general and administrative expenses	426,095	367,987	1,076,393	767,621
	881,179	1,114,042	1,910,340	1,964,171
Loss from operations	(415,435)	(83,873)	(792,934)	(542,585)
Foreign exchange loss	(2,092)	(2,929)	(1,962)	(13,209)
Interest income	-	-	75	75
Interest and financing expense [Notes 9 and 10]	(47,414)	(49,616)	(107,853)	(69,951)
	(49,506)	(52,545)	(109,740)	(83,085)
Net loss and comprehensive loss for the period	(464,941)	(136,418)	(902,674)	(625,670)
Deficit, beginning of the period	(80,319,027)	(79,011,143)	(79,881,294)	(78,521,891)
Net loss	(464,941)	(136,418)	(902,674)	(625,670)
Deficit, end of the period	(80,783,968)	(79,147,561)	(80,783,968)	(79,147,561)
Basic and diluted net loss per share	(0.01)	-	(0.02)	(0.02)
Weighted average number of shares:				
Basic and diluted	39,961,451	37,297,157	39,130,625	37,210,744

See accompanying Notes

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN (DEFICIENCY) EQUITY

(Unaudited)

	Common Shares		Contributed			Total
	#	\$	Surplus	Warrants	Deficit	Shareholders' (Deficiency) Equity
			\$	\$	\$	\$
May 1, 2018	37,124,331	71,064,924	7,410,749	141,574	(78,521,891)	95,356
Stock-based compensation	-	-	94,886	-	-	94,886
Exercise of warrants	675,000	249,224	-	(80,474)	-	168,750
Net loss for the period	-	-	-	-	(625,670)	(625,670)
October 31, 2018	37,799,331	71,314,148	7,505,635	61,100	(79,147,561)	(266,678)
Stock-based compensation	-	-	57,270	-	-	57,270
Expiration of warrants	-	-	61,100	(61,100)	-	-
Net loss for the period	-	-	-	-	(733,733)	(733,733)
April 30, 2019	37,799,331	71,314,148	7,624,005	-	(79,881,294)	(943,141)
Equity private placement	2,092,952	643,824	-	10,384	-	654,208
Exercise of options	616,883	227,259	(113,136)	-	-	114,123
Stock-based compensation	-	-	201,521	-	-	201,521
Stock-based consulting fee	-	-	62,145	-	-	62,145
Net loss for the period	-	-	-	-	(902,674)	(902,674)
October 31, 2019	40,509,166	72,185,231	7,774,535	10,384	(80,783,968)	(813,818)

See accompanying Notes

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended		Six Months Ended	
	October 31	October 31	October 31	October 31
	2019	2018	2019	2018
	\$	\$	\$	\$
Cash and cash equivalents provided by (used in):				
OPERATING ACTIVITIES				
Net loss for the period	(464,941)	(136,418)	(902,674)	(625,670)
Add items not involving cash				
Depreciation and amortization	44,695	15,939	89,073	29,520
Stock-based compensation expense [Note 13]	43,333	24,530	201,521	94,886
Stock-based consulting fees [Note 13]	-	-	62,145	-
	(376,913)	(95,949)	(549,935)	(501,264)
Changes in non-cash working capital				
balances related to operations:				
Trade and other receivables	(61,603)	(44,431)	(51,508)	311,292
Inventory	101,298	223,985	28,564	180,169
Prepaid expenses	28,724	27,532	6,246	16,040
Trade and other payables	6,066	(103,439)	(155,691)	(118,759)
Deferred revenue	(106,792)	(160,049)	(45,659)	(260,039)
Deferred rent liability	-	-	-	(2,200)
Cash used in operating activities	(409,220)	(152,351)	(767,983)	(374,761)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(38,098)	(4,896)	(38,098)	(31,646)
Cash used in investing activities	(38,098)	(4,896)	(38,098)	(31,646)
FINANCING ACTIVITIES				
Proceeds from issuance of common shares and warrants [Note 11]	-	-	654,208	-
Proceeds from exercise of options	114,123	-	114,123	-
Proceeds from exercise of warrants	-	168,750	-	168,750
Repayment of lease liability [Note 9]	(17,576)	-	(33,408)	-
Cash provided by financing activities	96,547	168,750	734,923	168,750
Net increase (decrease) in cash and cash equivalents during the period	(350,771)	11,503	(71,158)	(237,657)
Cash and cash equivalents, beginning of period	461,278	275,172	181,665	524,332
Cash and cash equivalents, end of period	110,507	286,675	110,507	286,675
Supplemental cash flow information				
Interest and financing expenses paid	107,067	47,496	132,189	64,442

See accompanying Notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the Three and Six Months Ended October 31, 2019 and October 31, 2018

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Nature of Operations

Cymat Technologies Ltd. ["Cymat" or the "Company"] is a manufacturing company, which holds licenses and related patents to make, use and sell Stabilized Aluminum Foam ["SAF"]. SAF is produced utilizing a proprietary process in which gas is bubbled into molten alloyed aluminum containing a dispersion of fine ceramic particles to create foam, which is then cast into strong, lightweight panels and shapes. The Company is manufacturing SAF for use in architectural, blast mitigation and energy absorption applications. Cymat continues to develop applications for use in the automotive and industrial markets.

The Company was incorporated under the Business Corporations Act (Ontario) on June 14, 2006. The Company's registered office is located at 6320-2 Danville Road, Mississauga, Ontario, L5T 2L7. Prior to June 14, 2006, the operations of the company were carried out under Cymat Corp., a company that was formed by articles of amalgamation under the Business Corporations Act (Ontario) on June 30, 1998.

Going Concern Uncertainty

To date, the Company has financed its operations primarily through share and convertible debt issuances, investment tax credits, interest income, and collaborative co-development agreements. 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 October 31, 2019, the anticipated level of cash flows from operating activities for the next twelve months is not assured to be sufficient to sustain operations. The ability of the Company to continue as a going concern is dependent upon achieving future profitable operations and may also be dependent upon raising additional financing through borrowings or equity issuance. The outcome of these matters is dependent on a number of items outside the Company's control. As a result, there are material uncertainties that may cast significant doubt as to whether the Company will have the ability to continue as a going concern.

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

2. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements for the six months ended October 31, 2019 have been prepared in accordance with IAS 34, Interim Financial Reporting. The disclosures contained in these unaudited interim financial statements do not include all of the requirements of International Financial Reporting Standards ["IFRS"] for annual financial statements. The accounting policies used in the preparation of these unaudited interim financial statements are consistent with those used in the audited annual financial statements for the year ended April 30, 2019, which were prepared in accordance with IFRS as issued by the International Accounting Standards Board ["IASB"] and interpretations of the International Financial Reporting Interpretations Committee ["IFRIC"]. These unaudited interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended April 30, 2019.

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

These consolidated financial statements have been prepared on the basis of IFRS in effect as of October 31, 2019. The Company's Board of Directors approved these consolidated financial statements on December 19, 2019.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
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3. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

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

Accounting policy applicable from May 1, 2019

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

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

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As a lessee

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

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

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

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

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

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

On the balance sheet, right-of-use assets have been included in property, plant and equipment.

4. SIGNIFICANT ACCOUNTING POLICIES

Outlined below are those policies considered particularly significant:

Use of estimates

The preparation of these consolidated financial statements in accordance with IFRS requires management to make critical judgements, estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Management critical judgements

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

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

Management estimates and assumptions

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

- **Inventory:** Inventory is valued at the lower of cost and net realizable value. The cost of finished goods inventory,

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includes cost of purchases, costs of conversion, the allocation of manufacturing overhead and other costs incurred in bringing the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completions. Provisions are made in profit or loss of the current period for any difference between book value and realizable value.

- Impairment of non-financial assets and intangibles: In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses a discount rate to determine an estimated present value. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.
- Property, plant and equipment: The Company records depreciation expense on property, plant and equipment at rates designed to amortize the cost of individual items and material components over their estimated useful lives. Management makes estimates of future useful life based on patterns of benefit consumption and of impairments based on past experience and market conditions. Impairment losses and depreciation expenses are presented in profit or loss of the current period.
- Accrued royalties: When funding that involves a royalty agreement is received, the Company is required to recognize a liability for the future royalty obligation at its fair value. To estimate this fair value, the Company estimates future cash flows and applies a discount rate that is appropriate to the Company's prevailing market conditions. Management updates the associated estimated future cash flows and market conditions at each reporting date to assess whether the value of the obligation should be adjusted. The effects of any change in the fair value of the obligation are recognized in profit or loss in the current period. (See Note 10.)
- Share-based payments: The fair value of share-based payments is determined using the Black-Scholes option pricing model based on estimated values at the date of grant. This model utilizes subjective assumptions such as expected price volatility and expected life of the award. Changes in these assumptions can significantly affect the fair value estimate. (See Note 14.)

Revenue recognition

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

Cash and cash equivalents

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

Inventory

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

Property, plant and equipment

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

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

Office equipment	20% declining balance
Computer equipment	30% declining balance
Machinery and equipment	20% declining balance and straight line over 2 years
Leasehold improvements	straight-line over the term of the lease

Construction-in-progress assets are not depreciated until such time that they are available for use. Depreciation ceases at the earlier of the date the asset is classified as held-for-sale and the date the asset is derecognized.

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

Impairment of non-financial assets

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

Foreign currency transactions

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

Government assistance

Government assistance may be available to the Company through income tax investment and innovation tax credits. 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.

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.

Convertible debentures

The convertible debentures are accounted for as a compound financial instrument that contains both a liability component, represented by the loan, and equity components, represented by the share purchase warrants and conversion feature. The Company has allocated the total proceeds of the issuance between the debt and equity components of the convertible debenture using the residual method. First the fair value of the debt component was calculated as the present value of the

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related cash flows using an appropriate discount rate. The remaining proceeds were allocated to the equity components of the convertible debt with this amount divided between the warrants and the conversion feature based on their relative fair values as calculated using the Black-Scholes option pricing model. The fair value of the debt portion is accreted to its face value through the recording of interest expense, calculated using the effective rate method, over the term of the convertible debentures.

Share-based compensation

The Company has a share-based compensation plan, which is described further in Note 13.

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

Share capital

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

Warrants

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

Net income (loss) per share

Basic net loss per share is calculated based on the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is calculated using the weighted average number of common shares outstanding for the period for basic net income (loss) per share plus the weighted average number of potential dilutive shares that would have been outstanding during the period had all potential common shares been issued at the beginning of the period or when the underlying options or warrants were granted, if later, unless they were anti-dilutive. The treasury stock method is used to determine the incremental number of shares that would have been outstanding had the Company used proceeds from the exercise of stock options and warrants to acquire common shares. The if-converted method is used in assessing the dilution impact of convertible debentures. The if-converted method assumes that all convertible debentures have been converted in determining diluted net income (loss) per share if they are in-the-money except where such conversion would be anti-dilutive.

5. RESTRICTED CASH

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

6. TRADE AND OTHER RECEIVABLES

	October 31, 2019	April 30, 2019
	\$	\$
Trade accounts receivable	26,942	41,678
Other receivables	132,495	66,251
	159,437	107,924

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7. INVENTORY

	October 31, 2019	April 30, 2019
	\$	\$
Raw materials and consumables	52,806	73,432
Work-in-process and finished goods	84,740	68,152
Research and development materials	-	24,526
	137,546	166,110

During the three months ended October 31, 2019, the Company recorded a charge of \$nil (fiscal 2019 - \$nil) to reduce the carrying values of inventory to net realizable values.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

Cost	Office Equipment \$	Computer Equipment \$	Manufacturing Equipment \$	Building \$	Leasehold Improvements \$	Total \$
April 30, 2019	260,462	276,431	3,019,035	-	1,036,442	4,592,370
Adjustment on transition to IFRS 16	-	-	-	1,132,267	-	1,132,267
Additions	-	-	38,098	-	-	38,098
October 31, 2019	260,462	276,431	3,057,133	1,132,267	1,036,442	5,762,735
Accumulated Depreciation						
April 30, 2019	255,138	269,685	2,807,732	-	1,036,442	4,368,997
Additions	532	1,012	26,325	61,204	-	89,073
October 31, 2019	255,670	270,697	2,834,057	61,204	1,036,442	4,458,070
Carrying Amount						
April 30, 2019	5,324	6,746	211,303	-	-	233,373
October 31, 2019	4,792	5,734	223,076	1,071,063	-	1,304,665

Included in the net carrying amount of property plant and equipment at October 31, 2019, is a right-of-use asset relating to buildings in the amount of \$1,071,063.

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9. LEASE LIABILITY

The Company has a lease for the building that houses its manufacturing facility, office space and warehouse. The lease has been discounted using an interest rate of 9.43%. A summary of the items impacting the value of the lease liability is as follows:

	\$
Balance at May 1, 2019	1,132,267
Additions	-
Lease payments	(83,544)
Interest expense	50,136
Balance at October 31, 2019	1,098,859
Less: Current portion	(76,667)
	1,022,192

Future minimum lease payments at October 31, 2019 are as follows:

	Within One Year \$	One to Five Years \$	More than Five Years \$	Total \$
Lease payments	172,003	728,966	688,012	1,588,981
Finance charges	(95,336)	(292,805)	(101,981)	(490,122)
Net present values	76,667	436,161	586,031	1,098,859

Interest expenses relating to the lease liability in the amounts of \$25,014 and \$50,136, respectively, have been recognized in the three and six months ended October 31, 2019.

10. ACCRUED ROYALTIES

	October 31, 2019 \$	April 30, 2019 \$
Accrued royalties	656,506	656,506
Less: accrued royalties relating to fiscal 2020	150,696	167,396
	505,810	489,110

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

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

Royalties payable based on sales pertaining to the period ended October 31, 2019, in the amount of \$57,717 (April 30, 2019 - \$82,052) are included in trade and other payables.

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

Interest and financing expense for the six months ended October 31, 2019 includes cash-based royalties in the amount of \$57,717 (October 31, 2018 - \$69,951), including royalties of \$22,175 (October 31, 2018 - \$26,875) paid or payable to a related party.

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11. SHARE CAPITAL

- [a] The Company is authorised to issue an unlimited number of common shares.
- [b] In October 2018, the Company issued 675,000 common shares as the result of the exercise of warrants.
- [c] In July 2019, the Company issued 2,092,952 equity units via a private placement. Each equity unit had a price of \$0.315 and consisted of one common share and one common share purchase warrant. Gross proceeds of \$654,208 were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of \$643,824 being allocated to the common shares carrying value.
- [d] In October 2019, the Company issued 616,883 common shares as the result of the exercise of employee stock options.
- [e] To date, the Company has not paid dividends on its common shares.

12. WARRANTS

	October 31, 2019		April 30, 2019	
	Number	\$	Number	\$
Warrants, beginning balance	-	-	1,187,500	141,574
Issued during the period	2,092,952	10,384	-	-
Exercised during the period	-	-	(675,000)	(80,474)
Expired during the period	-	-	(512,500)	(61,100)
Warrants, ending balance	2,092,952	10,384	-	-

- [a] In October 2018, 675,000 warrants with an exercise price of \$0.25 each, were exercised resulting in aggregate gross proceeds of \$168,750. Also in October, the remaining 512,500 warrants expired unexercised.
- [b] In July 2019, the Company issued 2,092,952 equity units via a private placement. Each equity unit had a price of \$0.315 and consisted of one common share and one common share purchase warrant. The warrants have an exercise price of \$0.525 and expire on July 9, 2022. The warrants have an accelerated expiry clause that may be exercised by the Company should the 10-day weighted price of the common shares be equal to or greater than \$1.05. Gross proceeds of \$654,208 were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of \$10,384 being allocated to the common shares carrying value.

13. SHARE-BASED COMPENSATION

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

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

- [a] 25,000 options with an exercise price of \$0.28 granted on June 11, 2018 to an employee with one third vesting upon grant, one third vesting on June 11, 2019 and one third vesting on June 11, 2020. These options expired on January 18, 2019.
- [b] 100,000 options with an exercise price of \$0.235 granted on February 13, 2019 to directors with one third vesting upon grant, one third vesting on February 13, 2020 and one third vesting on February 13, 2021.

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

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

During the six months ended October 31, 2019, the Company recognized a share-based compensation expense in the amount of \$201,521 (October 31, 2019 - \$94,886). Share-based compensation expense is included in selling, general and administrative expenses.

During the six months ended October 31, 2019, options relating to consulting services were issued and the Company recognized a related expense in the amount of \$62,145 at the estimated value of the services received.

14. FINANCIAL INSTRUMENTS

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

	October 31, 2019	April 30, 2019
	\$	\$
Financial assets at amortized cost (1)	285,027	304,678
Financial liabilities at amortized cost (2)	1,829,730	886,562
Financial liabilities at fair value through profit and loss (3)	656,506	656,506

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

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

(3) Includes accrued royalty.

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

Financial risks

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has sustained annual losses and negative annual cash flows from operations since its inception. The Company's objective for liquidity risk management is to maintain sufficient liquid financial resources to meet financial obligations and commitments in the most cost-effective manner possible. The Company manages its liquidity risk by continually forecasting cash flows from operations and anticipated investing and financing activities. As of October 31, 2019, the Company was holding cash and cash equivalents of \$125,591 (April 30, 2019 - \$196,749) and trade and other receivables of \$159,437 (April 30, 2019 - \$107,929).

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

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

Fiscal Years	2020	2021	2022	2023	2024
	\$	\$	\$	\$	\$
Trade and other payables	730,871	-	-	-	-
Accrued royalties	150,696	177,333	182,653	188,132	193,776

Foreign currency risk

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

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

For the six months ended July 31, 2019, the Company had a net operating foreign exchange loss of \$1,962 (October 31, 2018 – loss of \$13,209), which is included in the statement of operations, comprehensive income (loss) and deficit and is classified separately.

As at October 31, 2019, the Company's financial instruments exposed to foreign currency risk consist of cash, restricted cash, accounts receivable and accounts payable.

Commodity price risk

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

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

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

Credit risk

Credit risk arises from the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge the obligation. The Company is exposed to credit risk from customers. The Company's maximum exposure to credit risk is \$26,942 (April 30, 2019 - \$41,678). Accounts receivable that are outstanding greater than 3 months but for which no allowance for doubtful accounts has been taken total \$19,544 (April 30, 2019 - \$20,176).

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

Accounts receivable are reviewed by management at each balance sheet reporting date on an account-by-account basis

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to determine their collectability. The review considers such factors as customer payment history, the current financial conditions of the customers and the general economic environment. The provision for bad debts of \$Nil was recorded during the six months ended October 31, 2019 (October 31, 2018 - \$Nil).

Fair value measurements

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

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

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

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

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

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

The accrued royalty liability is valued using level 3 inputs. Additional disclosure regarding the valuation methods is included in Note 10.

There were no significant transfers between levels 1, 2 or 3 during the three months ended October 31, 2019, nor in the fiscal year ended April 30, 2019.

15. SUBSEQUENT EVENT

In December 2019, the Company closed a private placement equity financing of 1,729,830 units at a price of \$0.325 per unit for gross proceeds of \$562,195. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.425 for up to two years.