Cymat Technologies Ltd.
Management's Discussion and Analysis (“MD&A”)
As at January 31, 2020

April 30, 2020

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, 2019, and the associated notes to the consolidated financial statements.

The Company prepares its unaudited interim consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board [“IASB”]. All financial information contained in this MD&A and in the unaudited consolidated interim financial statements has been prepared in accordance with IAS 34, Interim Financial Reporting.

This MD&A is dated April 30, 2020 and all amounts herein are denominated in Canadian dollars, unless otherwise stated. This MD&A reflects the accounts of Cymat and its wholly-owned subsidiary, ALU-MMC Hungary, Zrt.

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

1. Company Overview and Business of Company

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

Cymat develops innovative materials for industry. The Company has worldwide rights, through patents and licenses, to produce Stabilized Aluminum Foam (“SAF”). This ultra-light metallic foam is produced using a proprietary, versatile process in which gas is bubbled into molten-alloyed aluminum containing a dispersion of fine ceramic particles to create foam that is then cast into either flat panels or near-net shapes. The result is a material, which is recyclable, with a wide array of features including very low density, mechanical energy absorption, thermal and acoustic insulation, time and temperature insensitivity and has a relatively low cost of production. The technology is focused on producing products for 3 major markets: automotive, architecture and blast mitigation industries. Cymat markets architectural material under the trademark, “Alusion™” and automotive and blast mitigation products under the “SmartMetal™” trademark.

2. Selected Financial Information

Selected financial information for the three and nine month periods ended January 31, 2020 and January 31, 2019:

	Three Months Ended January 31		Nine Months Ended January 31	
	2020 ($)	2019 ($)	**2020 ($)**	2019 ($)
Interim Statements of Operations				
Revenue	**212,457**	604,264	**1,329,863**	2,025,850
Plant operating expenses	**273,792**	533,318	**1,037,333**	1,611,239
Research and material testing expense	**21,010**	41,648	**91,416**	160,277
Selling, general and administrative expenses	**419,460**	382,395	**1,495,854**	1,150,016
Loss from operations	**(501,805)**	(353,097)	**(1,294,740)**	(895,682)
Net loss	**(536,309)**	(382,874)	**(1,438,983)**	(1,008,544)
Interim Statements of Cash Flows				
Cash used in operating activities	**(393,244)**	(157,868)	**(1,161,227)**	(532,629)

3. Results of Operations

Comparison of the Three Months Ended January 31, 2020 and January 31, 2019

Revenue

In December 2019, a novel strain of coronavirus (“Covid-19”) was reported in Wuhan, China. Spread of this virus has been declared to constitute a pandemic by the World Health Organization (“WHO”). Covid-19 has caused significant disruption to the global economy, with the impact first being experienced by Cymat in the quarter ended January 31, 2020.

Revenue for the third quarter of fiscal 2020 was approximately $212,000, a decrease of $392,000, or 65%, below revenue from the comparable quarter of the prior fiscal year in the amount of $604,000.

Revenue for the current quarter included sales of Alusion™ in the amount of $206,000 compared to sales of Alusion™ in the amount of $588,000 in the third quarter of fiscal 2019. Orders for a large façade project in South Korea and for a substantial project in China were expected to be received in the third quarter of 2020. As the result of the Covid-19 pandemic, these orders did not materialize in this quarter. Sales for the comparative quarter of fiscal 2019 included an aggregate of $539,000 from four larger-sized architectural projects.

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

Plant Operating Expenses

Plant operating expenses for the quarter ended January 31, 2020 were approximately $274,000, a decrease of $259,000, as compared to expenses of $533,000 for the quarter ended January 31, 2019.

Plant operating expenses include the direct operating expenses of labour, material, consumables, maintenance, freight and changes in inventory as well as manufacturing overhead costs. These direct operating expenses were approximately $181,000 for the third quarter of fiscal 2020, as compared to $425,000 for the third of last fiscal year. The reduced operating expenses were in keeping with the decline in quarter-over-quarter revenue.

Plant operating expenses also includes factory overhead costs such as facility costs and utilities. These expenses totalled approximately $54,000 for the third quarter of fiscal 2020 as compared to $94,000 for the same quarter of fiscal 2019. As a result in the change in accounting policy for leases, the current period does not reflect a rent expense, while the comparative period includes a rent expense of $41,000.

Plant operating expenses also include depreciation expense of approximately $38,000 for the three months ended January 31, 2020 and $14,000 for the same period ended January 31, 2019. As the result of the change in the lease accounting policy, the current quarter's depreciation includes $24,000 regarding the building right-to-use asset. The comparative quarter contains no similar depreciation item.

Research and Material Testing Expenses

Research and material testing expenses for the second quarter of fiscal 2020 included net costs in the amount of $21,000 (Fiscal 2019 - $42,000) related to the development of a new aluminum foam in support of the Company's sandwich panel venture, and development of a new architectural aluminum foam. The current quarter's expense is reported net of grant funds receivable from the Federal Economic Development Agency for Southern Ontario ("FedDev") under the federal government's Steel and Aluminum Initiative. Research and material testing expenses also included depreciation expenses regarding lab and testing equipment of approximately $1,000 in each of the third quarters of fiscal 2020 and fiscal 2019.

Selling, General and Administrative Expenses ("SG&A")

SG&A expenses for the quarter ended January 31, 2020 were approximately $419,000, as compared to an expense of $382,000 for the same quarter ended January 31, 2019. The increase in expenses was primarily the result of higher shareholder services expenses ($33,000) related to the December 2019 Annual General Meeting and higher stock-based employee compensation ($19,000), with a partial offset from lower sales commission expenses ($17,000).

SG&A expenses also include depreciation of $8,000 for the third quarter of fiscal 2020 and $1,000 for the same quarter of fiscal 2019. Depreciation for the current quarter includes an amount of $7,000 pertaining to the depreciation of the right-to-use building asset that arose from the change in the lease accounting policy.

Foreign Exchange Gain

For the quarter ended January 31, 2020, there was a foreign exchange gain of approximately $1,000 as compared to a similar foreign exchange gain of $1,000 for the quarter ended January 31, 2019.

Interest and Financing Expense

Interest and financing expense for the three months ended January 31, 2020, of $35,000 (January 31, 2019 -$30,000), includes $11,000 in royalty-based financing fees (January 31, 2019 - $30,000) - including $4,000 payable to a related party (January 31, 2019 - $12,000). The expense for the current quarter also includes $24,000 of interest regarding the lease liability.

Net Income (Loss)

A net loss of $465,000 was recorded for the second quarter of fiscal 2020, compared to a net loss of $136,000 for the same quarter of last year.

The net loss for the second quarter of fiscal 2020 includes the non-cash items of depreciation of approximately $45,000 (fiscal 2019 – $16,000) and a share-based compensation expense of approximately $43,000 (fiscal 2019 – $25,000).

Comparison of the Nine Months Ended January 31, 2020 and January 31, 2019

Revenue

Revenue for the nine months ended January 31, 2020 was approximately $1,330,000, a decrease of $696,000, or 34%, from revenue for the nine months ended January 31, 2019, of $2,026,000.

Alusion™ sales for the nine months of fiscal 2020 were $1,277,000 compared to $1,888,000 for the same period of last fiscal year. As the result of the Covid-19 pandemic, orders for a large façade project in South Korea and for a substantial project in China, which were expected to be received in the third quarter of 2020, have been delayed. These orders had an aggregate expected value in excess of $1M.

Revenue from SmartMetal™ for the nine months ended January 31, 2020 was approximately $52,000, compared to SmartMetal™ revenue of $138,000 for the first nine months of last fiscal year.

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

Plant Operating Expenses

Plant operating expenses for the nine months ended January 31, 2020 were approximately $1,037,000, a decrease of $574,000, or 35%, as compared to the same expenses of $1,611,000 for the nine months ended January 31, 2019.

Plant operating expenses include the direct operating expenses of labour, material, consumables, maintenance, freight and changes in inventory as well as manufacturing overhead costs. These direct operating expenses were approximately $774,000 for the first nine months of fiscal 2020, as compared to

$1,303,000 for the first nine months of fiscal 2019. Direct operating expenses were lower in the current period in accordance with the lower sales/production level.

Plant operating expenses also includes factory overhead costs such as rent and utilities. These expenses totalled approximately $153,000 for the first nine months of fiscal 2020 as compared to similar expenses of $268,000 for the same period of fiscal 2019. As a result in the change in accounting policy for leases, the current period does not reflect a rent expense, while the comparative period includes a rent expense of $117,000.

Plant operating expenses also include depreciation expense of approximately $110,000 for the nine months ended January 31, 2020 and $40,000 for the same period ended January 31, 2019. As the result of the change in the lease accounting policy, the current period's depreciation includes $71,000 regarding the building right-to-use asset. The comparative period contains no similar depreciation item.

Research and Material Testing Expenses

Research and material testing expenses for the first nine months of fiscal 2020 included net costs in the amount of $91,000 (Fiscal 2019 - $160,000) related to the development of a new aluminum foam in support of the Company's sandwich panel venture, and development of a new architectural aluminum foam. The current period's expense is reported net of grant funds receivable from FedDev under the federal government's Steel and Aluminum Initiative.

Research and material testing expenses also included depreciation expenses regarding lab and testing equipment of approximately $2,000 in each of the first nine months of fiscal 2020 and fiscal 2019.

Selling, General and Administrative Expenses ("SG&A")

SG&A expenses for the nine months ended January 31, 2020 were approximately $1,496,000, as compared to expenses of $1,150,000 for the same period ended January 31, 2019. The most significant expense increases included higher employee stock-based compensation expenses ($126,000), stock-option-based consulting expense ($62,000), sales commissions ($44,000) and higher investor relations expenses ($56,000), payroll expenses ($21,000) and travel expenses ($8,000).

SG&A expenses also include depreciation of $24,000 for the first nine months of fiscal 2020 and $3,000 for the first nine months of fiscal 2019. Depreciation for the current period includes an amount of $21,000 pertaining to the depreciation of the right-to-use building asset that arose from the change in the lease accounting policy.

Foreign Exchange Loss

For the nine months ended January 31, 2020, there was a foreign exchange loss of $1,000 as compared to a loss of $13,000 for the nine months ended January 31, 2019. The exchange loss for the current period was largely the result of changing $US exchange rates on $US denominated payables. The loss for the first nine months of fiscal 2019 was primarily the result of the exchange differentials on trade receivable balances denominated in Euros and payables denominated in $US.

Interest and Financing Expense

Interest and financing expense for the first nine months of fiscal 2020, of $143,000 includes $69,000 in royalty-based financing fees - including $26,000 payable to a related party. The expense for the current period also includes $74,000 of interest regarding the lease liability.

Interest and financing expense for the nine months ended January 31, 2019, was comprised of royalty-based financing fees of $100,000 (including $39,000 payable to a related party).

Net Income (Loss)

A net loss of $1,439,000 was recorded for the first nine months of fiscal 2020, compared to a net loss of $1,009,000 for the same period of last year.

The net loss for the first nine months of fiscal 2020 includes the non-cash items of depreciation and amortization of approximately $135,000 (fiscal 2019 – $45,000), a share-based compensation expense of approximately $245,000 (fiscal 2019 – $119,000) and share-based consulting fees of $62,000 (fiscal 2019 - $Nil).

4. Selected Financial Information

The following table presents selected quarterly financial information derived from the Company's unaudited statements of operations and cash flows for the eight most recent quarters ended January 31, 2020. The financial information for the current quarter reflects the impact of the change in accounting policy regarding leases. These operating results are not necessarily indicative of results to be achieved for any future period and should not be relied upon to predict future performance.

Three months ended,	Jan 31, 2020	Oct 31, 2019	Jul 31, 2019	Apr 30, 2019	Jan 31, 2019	Oct 31, 2018	Jul 31, 2018	Apr 30, 2018
Revenue	212	466	652	619	604	1,030	391	1,322
Plant operating expenses	274	419	344	411	533	693	385	819
Research and material testing expenses	21	36	34	36	42	53	65	52
SG&A expenses	419	426	650	464	382	368	400	457
Net Loss	(536)	(465)	(438)	(351)	(383)	(136)	(489)	(165)
Net Loss per Share	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.00)	(0.01)	(0.00)
Operating cash flow	(393)	(409)	(359)	61	(158)	(152)	(222)	231

5. Liquidity and Capital Resources

Sources and Uses of Cash

As at January 31, 2020, the Company had approximately $89,000 of cash and cash equivalents on hand. For the nine months of fiscal 2020, the cash flow used in operating activities was approximately $1,161,000 (fiscal 2019 – used $533,000). For the current period, cash utilized by operating activities was the result of a net loss adjusted for items not involving cash of approximately $997,000 (fiscal 2019 – $844,000) and cash used by changes in non-cash working capital balances of $164,000 (fiscal 2019 – $311,000 provided by changes in non-cash working capital).

For the nine-month period ended January 31, 2020, cash used in investing activities was $38,000, primarily the result of improvements to the production line associated with the new aluminum foam development. This amount is shown net of the FedDev grant. For the nine-month period ended January 31, 2019, cash used in investing activities was $35,000, primarily the result of the capital refurbishment of the production furnaces and the ventilation system.

For the nine months ended January 31, 2020 cash provided by financing was the product of proceeds from two equity private placements ($1,044,000) and the exercise of employee stock options ($114,000), partially offset by payments on the building lease ($51,000). For the nine months ended January 31, 2019, cash provided by financing activities in the amount of $169,000 was the result of warrant exercises.

Investments in Property, Plant and Equipment

In the first nine months of fiscal 2020, the Company incurred $38,000 (2019 – $35,000) of capital expenditure for production equipment, net of the FedDev grant. Management maintains its capital expenditure with the goal of meeting expected production demands.

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, the Company has financed its operations primarily through share and convertible debt issuances, investment tax credits, interest income, and collaborative co-development agreements. The Company has incurred significant operating losses and cash outflows from operations. As at January 31, 2020, 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 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 financial statements, adjustments might be necessary in the carrying values of assets and liabilities, the statement of financial position classifications and the reported expenses. Such adjustments could be material.

6. Investments and Capitalization

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

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 April 30, 2020. The table reflects the issuance of 1,081,538 common shares and the same number of warrants subsequent to the period end as described in the Subsequent Events note.

	Number of Securities
Common Shares	42,900,534
Stock Options	5,755,358
Warrants	4,384,320
Total Diluted Shares Outstanding	53,040,212

Share Capital

The Company is authorized to issue an unlimited number of common shares. At January 31, 2020, issued and outstanding common shares totalled approximately 41,718,996 shares.

In October 2018, the Company issued 675,000 common shares as the result of the exercise of warrants.

In July 2019, the Company issued 2,092,952 equity units via a private placement. Each equity unit had a price of $0.315 and consisted of one common share and one common share purchase warrant. 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.

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

In December 2019, the Company issued 1,209,860 equity units via a private placement. Each equity unit had a price of $0.325 and consisted of one common share and one common share purchase warrant. Gross proceeds of $393,195 were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of $387,146 being allocated to the common shares carrying value.

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 July 13, 2017, the aggregate number of common shares reserved for the issuance of stock options is 7,424,866.

On June 11, 2018, the Company granted 25,000 options with an exercise price of $0.28 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.

On February 13, 2019, the Company granted 100,000 options with an exercise price of $0.235 to certain directors with one third vesting upon grant, one third vesting on February 13, 2020 and one third vesting on February 13, 2021.

On May 23, 2019, the Company granted 1,085,000 stock options with an exercise price of $0.31 to certain of its directors, officers and employees, with one third vesting on May 23, 2019, one third vesting on May 23, 2020 and the final third vesting on May 23, 2021.

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

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

7. Change 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.

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.

8. Critical Accounting Policies and Estimates

Revenue recognition

Revenue from the sale of manufactured products is recognized when the rights and obligations associated with the products are transferred to the purchaser. Normally this transfer occurs upon the products' departure from the Company's warehouse; however based on the terms of the specific transaction, transfer can also occur upon the product arrival at a designated shipment location. Amounts received in advance of earned revenues are recorded as deferred revenue.

Accrued royalties

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

Use of estimates

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

- the measurement of the cost of finished goods inventory, including the allocation of costs of conversion and manufacturing overhead,
- allowance for doubtful accounts,
- the determination of the useful lives of long lived assets,
- the determination of the appropriate amount, if any, of the writedown in the carrying value of long term assets, including the estimation of the associated future cash flows and the appropriate discount rate used to estimate the recoverable amount,
- the valuation of the accrued royalties on the promissory notes, including the forecasted revenues and the appropriate discount rate to apply in the determination of present value,
- the valuation of the debt and equity components of the convertible debt, including the appropriate discount rate to apply in the determination of the fair value of the debt and the volatility and risk free rates used in the valuation of the warrants and conversion feature, and
- the measurement of the fair value of share-based compensation, including the volatility and risk free rates used in the option valuation models and the estimation of number of options expected to vest.

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

Judgments

In the process of applying the Company's accounting policies, management has made judgments regarding the determination of whether there has been impairment in the carrying value of long term assets which has the most significant effect on the amounts recognized in the financial statements. The

Company has also applied significant judgment in classifying the perpetual royalty related to promissory notes as a derivative liability.

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.

9. Related Party Transactions

Interest and financing expense for the nine months ended January 31, 2020 includes royalties in the amount of $26,000 (January 31, 2019 – $39,000) pertaining to a related party.

10. Risks and Uncertainties

Financial and Liquidity Risk

The Company has not yet attained sufficient sales levels to completely support its operations. As at January 31, 2020, 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.

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 December 2019, a novel strain of coronavirus ("Covid-19") was reported in Wuhan, China. The World Health Organization ("WHO") has since declared Covid-19 to constitute a "Public Health Emergency of International Concern" and has categorized the outbreak as a pandemic. Covid-19 has been, and continues to be, highly disruptive to the global economy and has the potential to negatively impact Company sales, supply chains, labour force, manufacturing capabilities and ability to raise additional financing.

International Trade Barriers and Tariffs

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

Dependence on Key Personnel

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

Proprietary Technology Protection

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

Government Regulation and Certification Requirements Imposed by Customers

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

Other Risks

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

11. 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 period ended January 31, 2020, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting

12. Outlook

Cymat began to experience the impact of the Covid-19 pandemic in the quarter ended January 31, 2020. Expected sales for that quarter primarily consisted of a large Alusion™ order for a highrise building in South Korea and a significant Chinese façade Alusion™ order. Due to the outbreak of Covid-19 in Asia and related supply chain interruptions, these orders were put on hold by our customers.

Recently, there have been indications that the Asian markets for Cymat's architectural aluminum foam are re-opening. This week Cymat shipped an Alusion™ order to China with a value of approximately $230,000. Furthermore, the South Korean highrise project is also recommencing and the Company has received an additional new request to quote a 3,000 m^2 aluminum foam order for shipment to Korea in June. Expectations for Alusion™ sales in the remainder of the world continue to be characterised by uncertainty. The newly developed premium version of architectural foam, Alusion™ Plus is anticipated to further augment Cymat's aluminum foam's appeal as an option for building facades. Alusion™ Plus features a number of enhanced attributes including increased ductility, lustre and corrosion resistance.

In March, Cymat shipped panels of its enhanced version of newly developed aluminum foam to our partner, Alucoil SA. in Spain. This new aluminum foam is specifically designed to support the rigours of a commercial-scale brazing process in the production of metallurgically-bonded sandwich panels. The new aluminum foam was manufactured with technical support from Cymat's raw material supplier – Rio Tinto Alcan – and financial assistance in the form of a grant through the Federal Economic Development Agency for Southern Ontario under the Canadian federal government's Steel and Aluminum Initiative. Successful completion of brazing trials incorporating this new foam is expected to lead to testing and certification with select Alucoil clients.

The Covid-19 crisis has injected additional uncertainty into Cymat SmartMetal™ development projects. However the Company continues to pursue a number of promising avenues for SmartMetal™ sales including:

- the use of SmartMetal™ cores for the manufacture of non-lethal projectiles as an alternative to rubber bullets,
- the use of SmartMetal™ in Defence industry applications including vehicle blast mitigation assemblies for several military OEMs and military vehicle light-weighting applications,
- the use of SmartMetal™ in energy absorption applications for the nuclear industry, and
- SmartMetal™ applications for passenger vehicle crash mitigation systems and light-weighting applications.

Since December 2019, the spread of Covid-19 has triggered extraordinary disruptions to businesses worldwide. To date, Cymat's production facility has remained operational. Cymat has modified production procedures and adopted protocols to ensure the continued health and safety of our employees, customers and suppliers as well as the community at large. In recognition of the significant challenges posed to the economy by the pandemic, the Canadian government has announced a number of relief measures targeted towards the business community. Cymat has applied to participate in the programs for which it is eligible including the Canada Emergency Business Account ("CEBA") and the Canada Emergency Wage Subsidy ("CEWS"). The Covid-19 crisis has created an unprecedented economic environment. Cymat management continues to closely monitor and assess the evolving situation and will respond accordingly.

13. SUBSEQUENT EVENTS

During February and March, the Company closed private placement equity financings of 1,081,538 units at a price of $0.325 per unit for gross proceeds of $351,500. 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.