Cymat Technologies Ltd.
Management's Discussion and Analysis (“MD&A”)
As at January 31, 2021

March 18, 2021

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, 2020, 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 March 18, 2021 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 4 major markets: automotive, architecture, defense and general industrial markets seeking energy management systems. Cymat markets architectural material under the trademark, “Alusion™” and energy management products under the “SmartMetal™” trademark.

2. Selected Financial Information

The following table presents selected financial information for the three and nine-month periods ended January 31, 2021 and January 31, 2020.

	Three Months Ended January 31		**Nine Months Ended January 31**	
	2021 ($)	2020 ($)	**2021 ($)**	2020 ($)
Interim Statements of Operations				
Revenue	**1,125,737**	212,457	**2,497,050**	1,329,863
Plant operating expenses	**657,497**	273,792	**1,321,446**	1,037,333
Research and material testing expense	**30,525**	21,010	**98,043**	91,416
Selling, general and administrative expenses	**432,391**	419,460	**1,068,721**	1,495,779
Income (loss) from operations	**5,324**	(501,805)	**8,840**	(1,294,665)
Net loss	**(69,950)**	(536,309)	**(172,413)**	(1,438,983)
Interim Statements of Cash Flows				
Cash provided by (used in) operating activities	**(280,244)**	(393,244)	**16,565**	(1,161,227)

3. Results of Operations

Comparison of the Three Months Ended January 31, 2021 and January 31, 2020

Revenue

Revenue for the third quarter of fiscal 2021 was approximately $1,126,000, an increase of $914,000, or 431%, above revenue from the third quarter of fiscal 2020 in the amount of $212,000. Revenue for the comparative quarter reflected the first impact on Cymat of the Covid-19 outbreak. Orders for a large façade project in South Korea and for a substantial project in China had been expected for the third quarter of 2020, but did not materialize as the result of the Covid-19 pandemic.

Revenue for the current quarter included sales of Alusion™ in the amount of $1,041,000 compared to sales of Alusion™ in the amount of $206,000 in the third quarter of the preceding fiscal year.

The current quarter included SmartMetal™ sales of $85,000 compared to SmartMetal™ sales of $6,000 for the comparable quarter of fiscal 2020.

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, 2021 were approximately $657,000, an increase of $383,000, or 140%, as compared to expenses of $274,000 for the quarter ended January 31, 2020.

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 $560,000 for the third quarter of fiscal 2021, as compared to $181,000 for the second quarter of last fiscal year. The jump in sales was the main driver of the increased quarter-over-quarter direct operating expenses.

Plant operating expenses also includes factory overhead costs such as facility costs and utilities. These expenses totalled approximately $65,000 for the third quarter of fiscal 2021 as compared to $54,000 for the same quarter of fiscal 2020. Increased electricity costs due to increased production usage created the expense increase for the current quarter.

Plant operating expenses also include depreciation expense of approximately $33,000 for the three months ended January 31, 2021 and $38,000 for the same period ended January 31, 2020.

Research and Material Testing Expenses

Research and material testing expenses for the second quarters of fiscal 2021 and 2020, of $31,000 and $21,000, respectively, related to the support of the Company's sandwich panel venture, and development of a new architectural aluminum foam. Expenses for the comparative quarter were 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.

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

SG&A expenses for the quarter ended January 31, 2021 were approximately $432,000, as compared to an expense of 419,000 for the same quarter ended January 31, 2020. Higher marketing and commission expenses ($66,000) were partially offset by lower employee stock-based compensation expenses ($29,000) and lower shareholder communication expenses ($36,000) relating to timing of the AGM. Salary expenses were also comparatively higher in the current quarter ($14,000) as they did not benefit from the FedDev grant that was in effect during the last year.

SG&A expenses also include depreciation of $8,000 for each of the quarters ended January 31, 2021 and January 31, 2020.

Foreign Exchange Gain

For the third quarter of fiscal 2021, there was a nominal foreign exchange loss (January 31, 2020 – loss of $1,000).

Interest and Financing Expense

Interest and financing expense for the three months ended January 31, 2021, of $75,000 (January 31, 2020 -$35,000), includes royalty-based financing fees of $52,000 (January 31, 2020 - $11,000) and $23,000 of interest regarding the lease liability (January 31, 2020 - $24,000).

Net Loss

The net loss for the three months ended January 31, 2021 of $70,000 (January 31, 2020 – net loss of $536,000) includes the non-cash items of depreciation and amortization of approximately $41,000 (January 31, 2020 – $46,000) and a share-based compensation expense of approximately $14,000 (January 31, 2020 – $43,000)

Comparison of the Nine Months Ended January 31, 2021 and January 31, 2020

Revenue

Revenue for the nine months ended January 31, 2021 was approximately $2,497,000, an increase of $1,167,000, or 88%, from revenue for the nine months ended January 31, 2020, of $1,330,000.

Alusion™ sales for the nine months of fiscal 2021 were $2,378,000 compared to $1,277,000 for the same period of last fiscal year. As stated above, Alusion™ sales experienced a significant impact from the outbreak of Covid-19 in the third quarter of last fiscal year.

Revenue from SmartMetal™ for the nine months ended January 31, 2021 was approximately $119,000, compared to SmartMetal™ revenue of $52,000 for the same period 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, 2021 were approximately $1,321,000, an increase of $284,000, or 27%, as compared to the same expenses of $1,037,000 for the nine months ended January 31, 2020.

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 $1,050,000 for the first nine months of fiscal 2021, as compared to $774,000 for the first nine months of fiscal 2020. Although sales increased significantly on a period-over-period basis, plant operating costs increased at a lower rate as the higher volume of orders in production at the end of the current period lead to a significant increase in the amount of fixed operating expenses that were transferred to inventory. Additionally, labour costs for the current year benefited from the CEWS in the amount of $84,000.

Plant operating expenses also includes factory overhead costs such as facility costs and utilities. These expenses totalled approximately $171,000 for the first nine months of fiscal 2021 as compared to similar expenses of $153,000 for the same period of fiscal 2020. Increased electricity costs due to increased production usage created the expense increase for the current period.

Plant operating expenses also include depreciation expense of approximately $100,000 for the nine months ended January 31, 2021 and $110,000 for the same period ended January 31, 2020.

Research and Material Testing Expenses

Research and material testing expenses for the first nine months of fiscal 2021 included expenses in the amount of $97,000 (Fiscal 2020 - $90,000) 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 prior 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 $1,000 in each of the nine-month periods of fiscal 2021 and fiscal 2020.

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

SG&A expenses for the nine months ended January 31, 2021 were approximately $1,069,000, as compared to expenses of $1,496,000 for the same period ended January 31, 2020. The most significant expense decreases included lower employee stock-based compensation expenses ($195,000), lower payroll expenses ($118,000) which are net of the CEWS, lower investor relations expenses ($130,000) including a lower stock-option-based consulting expense ($45,000) and lower travel expenses ($33,000).

SG&A expenses also include depreciation of $23,000 for the first nine months of fiscal 2021 and $24,000 for the first nine months of fiscal 2020.

Foreign Exchange Loss

For the nine months ended January 31, 2021, there was a foreign exchange gain of $10,000 as compared to a loss of $1,000 for the nine months ended January 31, 2020. The exchange differential in both periods was largely the result of changing $US exchange rates on $US denominated payables.

Interest and Financing Expense

Interest and financing expense for the nine months ended January 31, 2021, of $191,000 (January 31, 2020 -$143,000), includes royalty-based financing fees of $124,000 (January 31, 2020 - $69,000) and $69,000 of interest regarding the lease liability (January 31, 2020 - $74,000), less a portion of the Canada Emergency Rent Subsidy in the amount of $2,000.

Net Income (Loss)

A net loss of $172,000 was recorded for the first nine months of fiscal 2021, compared to a net loss of $1,439,000 for the same period of last year.

The net loss for the first nine months of fiscal 2021 includes the non-cash items of depreciation and amortization of approximately $124,000 (fiscal 2020 – $135,000), a share-based compensation expense of approximately $50,000 (fiscal 2020 – $245,000) and share-based consulting fees of $17,000 (fiscal 2020 - $62,000).

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, 2021. The financial information for the seven most recent quarters 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.

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

Three months ended,	Jan 31, 2021	Oct 31, 2020	Jul 31, 2020	Apr 30, 2020	Jan 31, 2020	Oct 31, 2019	Jul 31, 2019	Apr 30, 2019
Revenue	1,126	606	765	357	212	466	652	619
Plant operating expenses	657	292	372	277	274	419	344	411
Research and material testing expenses	31	34	34	52	21	36	34	36
SG&A expenses	432	341	296	428	419	426	650	464
Net Income (Loss)	(70)	(109)	7	(376)	(536)	(465)	(438)	(351)
Net Income (Loss) per Share	-	-	-	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)
Operating cash flow	(280)	89	208	(172)	(393)	(409)	(359)	61

5. Liquidity and Capital Resources

Sources and Uses of Cash

As at January 31, 2021, the Company had approximately $226,000 of cash and cash equivalents on hand. For the nine months ended January 31, 2021, the cash flow provided by operating activities was approximately $17,000 (January 31, 2020 – used $1,161,000). For the current period, cash provided by operating activities was the result of a net income adjusted for items not involving cash of approximately $19,000 (January 31, 2020 – cash used resulting from an adjusted net loss of $997,000) and cash used by changes in non-cash working capital balances of $2,000 (January 31, 2020 –$164,000 used by changes in non-cash working capital).

During fiscal 2021, expenditures of $25,000 on capital equipment maintenance were incurred. During the first nine months of the preceding fiscal year, $38,000 was spent on the purchase of property, plant and equipment.

For the first nine months of fiscal 2021, cash used by financing in the amount of $17,000 was the product of proceeds from the exercise of 315,192 employee stock options ($44,000), offset by repayment of building lease principle ($61,000). For the first nine months of the prior fiscal year, cash provided by financing activities in the amount of $1,107,000 was the result of proceeds from the private placement of 3,302,782 common shares and share purchase warrants ($1,044,000) and the exercise of employee stock options ($114,000), partially offset by repayment of building lease principle ($51,000).

Investments in Property, Plant and Equipment

Management maintains its capital expenditure with the goal of meeting expected production demands and to support research and development initiatives. In the current fiscal year, the Company has spent $25,000 on capital maintenance of production equipment. In fiscal 2020, the Company incurred $48,000 of capital expenditure for production equipment, net of grant funds receivable from the Federal Economic Development Agency for Southern Ontario ("FedDev") under the federal government's Steel and Aluminum Initiative.

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. 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 Company considers its capital to be its equity which consists of share capital, 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 period ended

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 March 18, 2021.

	Number of Securities
Common Shares	43,251,726
Stock Options	5,445,833
Warrants	4,384,320
Total Diluted Shares Outstanding	53,081,879

Share Capital

The Company is authorized to issue an unlimited number of common shares. At January 31, 2021, issued and outstanding common shares totalled approximately 43,251,726 shares.

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. Proceeds of $654,208, net of issuance fees, 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. Proceeds of $389,634, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of $383,640 being allocated to the common shares carrying value.

In February 2020, the Company issued 520,000 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. Proceeds of $169,000, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of $166,400 being allocated to the common shares carrying value.

In March 2020, the Company issued 561,538 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. Proceeds of $180,837, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of $166,926 being allocated to the common shares carrying value.

In April 2020, the Company issued 100,000 common shares as a result of the exercise of stock options by a consultant.

In July 2020, the Company issued 315,192 common shares as a result of the exercise of employee stock options.

The Company has not paid dividends on its common shares and has no expectations of paying dividends in the near future.

Stock Options

Under the terms of the stock option plan approved at the Annual General Meeting on July 13, 2017, the aggregate number of common shares reserved for the issuance of stock options is 7,424,866.

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.

On July 16, 2020, the Company granted 100,000 stock options with an exercise price of $0.25 to a consulting firm with vesting on the date of grant.

In July 2020, 315,192 employee stock options with an exercise price of $0.125 per share were exercised.

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. 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. Proceeds of $654,208, net of issuance fees, 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 warrant carrying value.

In December 2019, the Company issued 1,209,830 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. The warrants have an exercise price of $0.425 and expire on December 30, 2021. Proceeds of $389,634, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of $5.994 being allocated to the warrant carrying value.

In February 2020, the Company issued 520,000 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. The warrants have an exercise price of $0.425 and expire on December 30, 2021. Proceeds of $169,000, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of $2,600 being allocated to the warrant carrying value.

In March 2020, the Company issued 561,538 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. The warrants have an exercise price of $0.425 and expire on March 12, 2022. Proceeds of $180,837, net of issuance fees, were allocated between the carrying values of common shares and warrants using the residual valuation method, with an allocation of $13.911 being allocated to the warrant carrying value.

7. Critical Accounting Policies and Estimates

Revenue recognition

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

Leases

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.

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 consolidated statements of financial position, right-of-use assets have been included in property, plant and equipment.

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 asset's fair value and the cost of disposal,
- the valuation of the accrued royalties on the promissory notes, including the forecasted revenues and the appropriate discount rate to apply in the determination of present value,
- the 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.

Impact of COVID-19

The Company has considered the impact of COVID-19 and the related market volatility in preparing its financial statements. While the specific areas of estimates and judgement as noted above did not change, the impact of COVID-19 resulted in the application of further judgement within those identified areas. Given the dynamic and evolving nature of COVID-19 and the limited recent experience of the economic and financial impacts of such a pandemic, changes to the estimates that have been applied in the measurement of the Company's assets and liabilities may arise in the future. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.
Key elements of the financial statements and related disclosures that have been impacted by COVID-19 include:

- Going Concern Uncertainty: The disclosure made in the going concern uncertainty note considers the uncertainty that the pandemic adds to the Company's endeavours to sell its SAF, ability to achieve profitable production and ability to raise additional financing.
- Revenue: A number of orders that were expected from Asian customers at the end of the preceding fiscal year were not realized during that reporting period as a result of COVID-19 supply chain disruptions. Some of these orders were realized in the current fiscal year. However, in certain cases, the size of the order was not as large as had been originally anticipated.
- Inventory: Net realizable value for inventory was calculated using estimated selling prices and selling expenses in the context of the pandemic.
- Property, Plant and Equipment: In assessing impairment of regarding the non-financial assets of property, plant and equipment, the recoverable amount of each asset or cash generating unit was based on estimates of asset fair value less costs of disposal using management's best estimates of such amounts in the context of the COVID-19 pandemic.
- Accrued Royalties: Future cash flow estimates used in the valuation of the accrued royalty liability incorporated management's best estimates of anticipated amounts and timing of future sales incorporating management's expectations for the impact of COVID-19 on global SAF sales. The discount rate used in calculating the fair value of the royalty liability incorporated management's assessment of the additional risk presented by the COVID-19 pandemic.

Government assistance

Government assistance may be available to the Company through income tax investment and innovation tax credits, other programs providing innovation funding and relief programs associated with Covid-19. Funding is recognized when there is reasonable assurance that the Company has complied with the conditions attached to the funding arrangement and is recognized as the applicable costs are incurred. Research and product development funding is presented as a reduction in research and material testing costs expenses unless it is for reimbursement of an asset, in which case it is accounted for as a reduction in the carrying amount of the applicable asset. Where the Company receives government contributions that include terms for repayment, a financial liability is recognized and measured in accordance with the terms of IFRS 9.

8. Accounting Standards Issued But Not Yet Applied

At the date of approval of the financial statements, several new, but not yet effective, standards and amendments to existing standards, and interpretations have been published by the IASB. None of these standards or amendments to existing standards have been adopted early by the Company. Those standards and amendments are not expected to be relevant to the Company's financial statements.

9. Related Party Transactions

Interest and financing expense for the nine months ended January 31, 2021 includes cash-based royalties in the amount of $47,000 (2020 – $26,000).

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, 2021, 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 March of 2020, the World Health Organization ("WHO") declared COVID-19 to constitute a "Public Health Emergency of International Concern" and has categorized the outbreak as a pandemic. COVID-19 has been, and continues to be, highly disruptive to the global economy and has the potential to negatively impact Company sales, supply chains, labour force, manufacturing capabilities and ability to raise additional financing.

International Trade Barriers and Tariffs

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

Dependence on Key Personnel

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

Proprietary Technology Protection

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

Government Regulation and Certification Requirements Imposed by Customers

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

Other Risks

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

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 reporting period ended January 31, 2021, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting

12. Post-reporting Date Event

Subsequent to the quarter end, Cymat was approved for a loan of up to $180,000 from the Federal Economic Development Agency for Southern Ontario ("FedDev") under the Regional Relief and Recovery Fund ("RRRF"). The loan is intended to support "fixed operating costs incurred in Canada" which includes items such as payroll, utilities, building lease and related occupancy expenses. The RRRF loan is unsecured, interest-free and is repayable in monthly installments of $3,000 commencing in January 2023.

13. Outlook

Encouraging progress is being made in the distribution of vaccines in the fight against Covid-19. At the same time, the emergence of more transmissible variants of the Covid-19 virus indicates that the disruptions to the global economy are likely to continue in the near term. 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. The Canadian government continues to develop and re-assess relief measures enacted to ease the economic impact of the pandemic. The RRRF loan from FedDev as described above is an example of a government sponsored relief measure that Cymat has been able to access. Cymat management continues to closely monitor and assess the evolving situation and will respond accordingly.

We are seeing that architectural projects which were delayed as a result of the pandemic are beginning to come back online. The pipeline for Alusion™, Cymat's architectural aluminum foam, continues to demonstrate strength. For the second quarter in a row, Cymat is on track to ship in excess of $1 million in Alusion™ orders with the current quarter that concludes April 30, 2021.

Cymat's development of brazed, metallurgically-bonded sandwich panels continues utilizing the expertise of its European-based CTO and its specialty aluminum supplier, Rio Tinto in concert with the advisory services of Canmet. These efforts are intended to supplement ensuing trials at the facilities of Cymat's Spanish venture partner - Alucoil SA. Spain continues to experience significant impact from the Covid-19 pandemic. Upon Spain's return to a more favourable business environment, trials at Alucoil are anticipated to lead to testing and certification with select Alucoil clients.

Cymat, in concert with its automotive engineering partner, Tesseract Structural Innovations Inc ("Tesseract"), continues to advance the development of automotive applications that incorporate SmartMetal™. Tesseract has developed a patented Uniform Deceleration Unit ("UDU") that utilizes SmartMetal™ in combination with a high-strength aluminum skin as light-weight, low-cost, energy absorption system that mitigates small overlap crashes in passenger vehicles and light trucks. The same unit can also be adapted for use in electric vehicles in the protection of their batteries during crashes.

Acting on management's strong conviction of SmartMetal™'s utility for the automotive market, Cymat has added a senior auto industry professional to its business development team. This new team member will draw upon his extensive contacts in the automotive manufacturing community to promote SmartMetal™'s capabilities for the provision of cost-effective solutions for vehicle crash mitigation systems and light-weighting applications to the automotive industry.

Other SmartMetal™ development initiatives, such as Defence industry applications for blast mitigation, light-weighting and use in composite panel systems that offer protection from multiple threat vectors remain ongoing, as does the opportunity for SmartMetal™ use in the manufacture of non-lethal projectiles as an alternative to rubber bullets. Although the expected revenue impact for fiscal 2021 arising from these SmartMetal™ initiatives remains modest, the potential remains for significant positive recurring future revenue streams.